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Venture Capital Exits in India: Mechanisms, Trends, and Determinants of Liquidity in an Emerging Start-up Ecosystem

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Abstract
Exit realization is the mechanism through which venture capital (VC) investment generates distributable returns to limited partners and, in turn, sustains the fundraising cycle that underpins entrepreneurial finance. This study examines the evolution, scale, and composition of VC exits in India between 2021 and 2025, drawing on data published by Bain & Company, the Indian Venture and Alternate Capital Association (IVCA), Equirus Capital, Inc42, and the Silicon Valley Bank State of the Markets report. The analysis finds that aggregate private equity VC exit value in India peaked during the 2021 listing boom, softened through 2022–2023 as the global IPO window narrowed, rebounded to approximately US$ 20–27 billion in 2024 on the strength of a sevenfold surge in initial public offering (IPO) led liquidity, and then contracted sharply in 2025 to an estimated US$ 7–11 billion a four-year low even as primary investment inflows reached a three-year high of approximately US$26 billion. In this analysis, the seemingly contradictory situation of substantial capital investment occurring alongside limited liquidity realization is explored. This is done by examining valuation adjustments, the dominance of IPO-driven returns concentrated in a few large-cap listings such as Groww, Lenskart, Urban Company, Pine Labs, and Dr Agarwal's Health Care, and the increasing trend of discounted secondary sales for firms without a clear path to profitability. The study also delves into the regulatory and market structure factors influencing the availability of exit channels, including the Securities and Exchange Board of India (SEBI) listing regulations, the rise of GP-led continuation vehicles, and the growing frequency of mergers and acquisitions (M&A) driven by acquihires. The findings suggest that although India's exit ecosystem is more developed than it was ten years ago, it remains limited and prone to concentration, affecting fund-level returns, the confidence of limited partners, and the speed of future capital formation.

Keywords: venture capital exits; India; initial public offering; secondary sale; mergers and acquisitions; liquidity; SEBI; private equity; emerging markets

1. Introduction
The realization of liquidity through exit is the defining feature that distinguishes venture capital from other forms of long-horizon, illiquid investments. Unlike strategic corporate investors, VC funds operate under closed-end structures with finite tenures, and fund-level performance is ultimately measured by distributions to paid-in capital (DPI) rather than by unrealized mark-to-market valuations alone (Gompers & Lerner, 2001; Phalippou & Gottschalg, 2009). The availability, depth, and predictability of

exit channels therefore exert a first-order influence on the willingness of limited partners to commit capital to a given VC market- and on the capacity of that market to sustain successive fundraising cycles. India's exit ecosystem has traditionally trailed behind its swift expansion in primary investment activities. Throughout much of the 2010s, companies in India backed by venture capital primarily depended on strategic trade sales and secondary transfers among financial investors. Public listings were a less common option due to the profitability requirements in domestic listing regulations and a limited interest from investors in technology businesses that were not yet profitable. However, this trend changed significantly starting in 2021. A series of new-age technology companies, such as Zomato, Nykaa, and PB Fintech, successfully listed publicly, proving that public market exits were viable for VC-backed firms. This was followed by a further increase in IPO-driven liquidity through 2024 and 2025. The most recent data indicate a notable divergence: while primary venture capital and private equity investment in India reached a three-year peak of approximately US$ 26 billion in 2025, the total exit value declined to a four-year low of approximately US$ 11 billion, a decrease from approximately US$ 20 billion in 2024. This study explores the structural and cyclical factors contributing to this divergence, analyzes the evolving composition of exit routes—such as initial public offerings (IPOs), secondary sales, strategic mergers and acquisitions (M&A), and the emerging category of general partner (GP)-led continuation vehicles—and evaluates the implications for the long-term sustainability of India's venture capital ecosystem.

2. Literature Review

In academic discussions about venture capital (VC) exits, the initial public offering (IPO) is often highlighted as the quintessential 'successful' exit. It is linked to the highest average realized multiples and beneficial certification effects for the wider venture market (Black & Gilson, 1998; Gompers, 1996). Black and Gilson's influential comparative study posited that a well-developed domestic IPO market is essential for a thriving VC industry. This is because financial systems centered around banks, which lack liquid equity markets, find it challenging to mimic the exit-driven incentive structures typical of US-style venture finance. Subsequent work has tempered this position, indicating that trade sales and secondary buyouts can serve as operationally adequate alternatives for IPOs in places where public listing standards are restricted (Cumming and MacIntosh, 2003; Schwienbacher, 2008).

The concept of exit discounting and valuation markdowns in secondary transactions is explored in a different body of research, which shows that realized secondary pricing is generally lower than last-round valuations due to information gap between incumbent and incoming investors as well as reduced bargaining power among sellers with limited capital (Hochberg, Ljungqvist, & Vissing-Jorgensen, 2014). According to more recent industry-focused research on continuation vehicles and GP-led secondary transactions, which are becoming more common in developed private capital markets, these structures can reduce forced sale discounts by allowing managers to prolong holding periods for high-conviction assets while providing current limited partners some liquidity (Preqin, 2023).

Within the Indian context, prior analysis has linked the country's historically narrow exit market to listing eligibility constraints under SEBI's Issue of Capital and Disclosure Requirements (ICDR) Regulations, which, until recent reforms emphasized profitability and track record criteria poorly suited to capital-intensive, pre-profit technology companies (Nair & Pandey, 2022). This article builds on that literature by incorporating the most recent (2024–2025) exit data and examining the compositional shift toward secondary and M&A-driven liquidity that has accompanied the post 2022 IPO market contraction.

3. Data and Methodology

This study employs a descriptive, secondary data-based research design. The exit value and exit composition data were compiled from the Bain & Company/IVCA India Venture Capital Report (2025 and 2026 editions), Equirus Capital's private equity VC market analysis, Inc42's exit- focused industry reporting, and Silicon Valley Bank's State of the Markets H2 2025 report for cross-market M&A comparison. As with primary investment data, exit value estimates vary across providers according to whether private equity-style late-stage transactions are included alongside narrowly defined venture exits- and whether undisclosed or partially disclosed secondary transactions are estimated or excluded. These discrepancies are reported transparently rather than reconciled into a single estimate, consistent with the standard practice in secondary data triangulation (Bowen, 2009). Regulatory analysis draws on SEBI's ICDR Regulations and related circulars governing public-offer eligibility for loss-making and pre-profit issuers.

4. Trends in Venture Capital Exit Activity, 2021–2025

4.1 Aggregate Exit Value

Indian private equity VC exit values followed a pronounced boom-bust-recovery-contraction pattern over the study period. The total exit value reached approximately $20 billion in 2022 and $17 billion in 2023, even as the global technology IPO window remained largely closed, sustained primarily by block deals and secondary transactions. A marked recovery followed in 2024, with exit value rising to an estimated $20–26.7 billion the highest level since 2021 driven by a sevenfold increase in IPO-led exit value and a rise in the public market share of total exit value from approximately 55 percent to 76 percent. However this recovery proved short-lived: the 2025 exit value fell to approximately $7–11 billion, a four-year low, even as primary PE-VC investment simultaneously reached a three-year high of approximately $26 billion.

Table 1 summarizes this trend.

Year	Exit Value (US$ bn)	Notes
2021	≈ peak cycle	Pandemic-era listing wave (Zomato, Nykaa, PB Fintech)
2022	≈20	Block-deal and secondary-driven liquidity
2023	≈17	IPO window largely closed; PE-style exits dominant
2024	≈20–26.7	7× surge in IPO exit value; public-market share rose to ~76%
2025	≈7–11	Sharp contraction per Bain/IVCA and Equirus; PE-VC exits hit 4-yr low despite record investment inflows

Table 1. Indian private equity-VC exit value trend, 2021–2025 (estimates compiled from Bain & Company/IVCA and Equirus Capital; figures vary by source, methodology, and scope).

The central empirical puzzle addressed in this study is the divergence between record investment inflows and contracting exit values. This indicates that the 2025 funding recovery documented in companion research on Indian VC investment trends was not accompanied by a commensurate improvement in the realized liquidity environment and that deployment and exit cycle dynamics in the Indian market are not contemporaneously synchronized.

4.2 Composition of Exit Routes

Despite the contraction in aggregate exit value, the composition of exits shifted further toward public market liquidity in relative terms. According to the Bain & Company/IVCA India Venture Capital Report 2026, IPO-led VC and growth exits expanded by approximately 30 percent over 2024 levels in value terms, with public market exits accounting for over 65 percent of total PE VC exit value and the number of $100 million-plus IPO exits rising from two in 2024 to five in 2025. VC-specific data indicate that the share of VC-backed exits realized via public markets rose from approximately 22 percent in 2024 to 28 percent in 2025. VC and growth investors collectively realized close to $2 billion in IPO led exit value during 2025, with IPOs priced above $100 million contributing nearly 90 percent of the total VC exit value, up from approximately 70 percent the previous year, while exits below $100 million accounted for only around 10 percent, underscoring limited public market access for mid-sized companies.

Notable contributors to the 2025 IPO-led liquidity included Groww (approximately $670 million in investor exits), Lenskart (approximately $475 million), Dr Agarwal's Health Care (approximately $255 million), Urban Company (approximately $170 million), and Pine Labs (approximately $165 million), alongside the listings of Bluestone, Meesho, and Wakefit. Exit activity within India's venture capital (VC) and private equity (PE) ecosystem during 2025 was characterized by a marked increase in liquidity events through both public market listings and secondary transactions. Investors, including Peak XV Partners, Tiger Global, Temasek, Accel, and Elevation Capital, collectively realized approximately **US$1.5 billion** through secondary share sales executed in conjunction with major initial public offerings (IPOs), highlighting the increasing importance of secondary transactions as an effective mechanism for capital realization while preserving ownership continuity and supporting the long-term growth trajectory of portfolio companies (Bain & Company & Indian Venture and Alternate Capital Association [IVCA], 2025; EY, 2025).

Sectoral analysis indicates that consumer technology and fintech accounted for more than **60%** of the total VC and growth equity exit value in 2025, demonstrating that public-market readiness remained concentrated within a relatively small group of mature, well-capitalized firms. This concentration suggests that successful public exits continue to be driven by companies with scalable business models, robust governance structures, and sustainable revenue generation capabilities (Bain & Company & IVCA, 2025; KPMG, 2025).

Despite the resurgence of IPO activity, secondary transactions and block deals continued to represent the predominant exit channels by transaction volume, accounting for an estimated **52–67%** of all PE and VC exits between 2023 and 2025. The continued reliance on these mechanisms reflects the increasing maturity of India's private capital market, where investors prioritize flexible liquidity pathways in response to market volatility, evolving valuation dynamics, and extended investment horizons. Collectively, these developments indicate that diversified exit strategies have become an integral component of the entrepreneurial finance ecosystem, facilitating efficient capital recycling and contributing to the long-term sustainability of venture investment in India (EY, 2025; KPMG, 2025; Bain & Company & IVCA, 2025).

Strategic M&A activity, which has declined sharply in proportional terms over the preceding two decades from an estimated ratio of one M&A exit for every four VC deals in the early 2000s to approximately one for every twenty by 2024, showed signs of a modest rebound in 2025, increasing to roughly eight M&A exits per hundred VC deals, according to a comparative analysis informed by Silicon Valley Bank's global M&A tracking. A growing share of this M&A activity has taken the form of acquihires and product roll-ups rather than synergy- driven strategic acquisitions, with the majority of deal values undisclosed, a pattern generally associated with smaller, more modest exit outcomes.

Table 2 summarizes the approximate compositions of Indian VC and PE exit routes in 2025.

Exit Route	Approx. Share of Value	Representative Cases
IPO / public-market listing	28% of VC exits; ~65% of total PE-VC exit value	Groww, Lenskart, Urban Company, Pine Labs, Bluestone, Meesho, Wakefit
Secondary sale / block deal	52–67% of all PE-VC exits (2023–25)	Peak XV, Accel, Elevation secondaries around IPO listings
Strategic M&A / acquihire	Rebounding from 2024 lows	Roll-ups and talent-driven acquisitions, especially. AI-related
GP-led continuation vehicles	Emerging, still nascent	Portfolio-level structured liquidity for ageing funds

Table 2. Composition of Indian venture capital and private equity exit routes, 2025 (compiled from Bain & Company/IVCA, Equirus Capital, Inc42, and SVB data; categories are not mutually exclusive across all sources).

4.3 Valuation Discounting in Secondary Transactions

A significant feature of the 2023–2025 exit environments is the normalization of discounted secondary transactions for companies lacking a clear path to profitability. Industry sources report secondary sales executed at discounts of 20 to 40 percent to prior valuation marks, with cited cases including Eruditus, Postman, and Exotel between late 2023 and mid 2025. Market participants offer differing interpretations of this trend: some characterize it as a rational repricing mechanism, whereby founders and investors increasingly prefer to crystallize a moderate discount today rather than risk a deeper correction at a future IPO; others note the parallel emergence of GP-led continuation vehicles, in which a blended discount is applied across a fund's residual portfolio to provide partial liquidity to existing limited partners while allowing general partners to retain exposure to higher-conviction assets. The latter structure, well- established in mature private capital markets such as the United States, is described in

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Indian industry commentary as a signal of increasing market depth and institutionalization, even though its absolute scale in India remains comparatively limited.

5. Regulatory and Market-Structure Determinants of Exit Activity

5.1 Listing Eligibility and SEBI Reform

The depth of India's public market exit channel is structurally conditioned by SEBI's Issue of Capital and Disclosure Requirements (ICDR) Regulations, which historically imposed profitability and net worth thresholds that constrained the eligibility of capital-intensive, pre-profit technology companies for main board listing. Recent regulatory and fiscal reforms have created a more supportive environment for venture capital (VC)-backed companies seeking access to India's public equity markets. Measures such as differentiated disclosure requirements for technology-focused firms, the abolition of the angel tax, and the rationalization of long-term capital gains taxation on unlisted shares have collectively reduced regulatory frictions and improved the attractiveness of public listings for high-growth enterprises (Securities and Exchange Board of India, 2024; Government of India, 2024; Bain & Company & Indian Venture and Alternate Capital Association [IVCA], 2025). These reforms have expanded the number of companies with the potential to pursue an initial public offering (IPO), reflecting the government's broader efforts to strengthen India's entrepreneurial finance ecosystem.

However, the distribution of IPO-led exit values in 2025 suggests that the benefits of these reforms have not been experienced uniformly across the startup ecosystem. A significant share of exit value remained concentrated among a relatively small group of large, well-established VC-backed companies that had already achieved considerable operational scale, financial stability, and governance maturity (Bain & Company & IVCA, 2025; EY, 2025). This pattern indicates that, although the regulatory framework has become more conducive to public listings, IPOs continue to represent a viable exit route primarily for mature firms capable of meeting the rigorous expectations of public investors and regulatory authorities. Consequently, the Indian IPO market continues to reflect a relatively **narrow exit window**, where successful public listings remain concentrated among a limited number of high-performing ventures rather than the broader startup population (KPMG, 2025; EY, 2025).

5.2 Secondary Market Infrastructure

The increasing use of block deals and structured secondary transactions highlights the growing sophistication of India's private capital ecosystem. Industry reports suggest that the depth and liquidity of India's public equity markets now support a wider range of exit options for investors, including initial public offerings (IPOs), block deals, strategic acquisitions, and fund-to-fund secondary transfers (Bain & Company & Indian Venture and Alternate Capital Association [IVCA], 2025; EY, 2025). These diversified exit pathways have provided investors with greater flexibility in realizing returns while responding to changing market conditions and portfolio management objectives.

At the same time, the Indian market has historically lacked a well-developed ecosystem for general partner (GP)-led continuation vehicles, which have become an increasingly important liquidity solution in more mature private equity markets such as the United States and Europe. Although the adoption of continuation vehicles in India remains at an early stage, their gradual emergence signals the institutional evolution of the country's private capital secondary market (KPMG, 2025; Bain & Company & IVCA, 2025). As these structures become more widely accepted, they have the potential to broaden liquidity options for investors, extend the holding period of high-quality assets, and reduce dependence on discounted bilateral secondary transactions as the primary exit mechanism for ageing fund portfolios.

This transition reflects the continued maturation of India's venture capital and private equity ecosystem and aligns it more closely with international best practices in private market investing.

6. Discussion

The fundamental finding of this study, that record primary investment inflows in 2025 coincided with a four-year low in exit value, carries significant implications for the interpretation of headline Indian VC market statistics. Aggregate deployment figures, often cited as evidence of ecosystem health, do not by themselves indicate that limited partners are receiving commensurate liquidity. In fact, the data suggest a widening gap between capital committed and capital returned, a pattern that, if sustained, risks dampening future fundraising even as deployment activity appears robust. This divergence is consistent with a market in which a small number of high-profile, well-governed companies can able to access public markets at scale, while a much larger population of growth and late-stage companies faces constrained or discounted liquidity options, generating a bifurcated outcome distribution broadly analogous to the pattern of concentrated returns documented in mature VC markets (Korteweg & Sorensen, 2010).

From a market design perspective, the rising prominence of secondary sales, block deals, and GP-led continuation vehicles can be read as a maturing, if still incomplete, response to this liquidity constraint. These mechanisms allow capital to be returned to limited partners without requiring the binary, scale-dependent threshold of a public listing, and their continued institutionalization may prove more consequential for the long-run health of the Indian VC ecosystem than fluctuations in IPO volume alone. Simultaneously, the prevalence of 20–40 percent valuation discounts in secondary transactions indicates that this liquidity is being obtained at a material cost to sellers, with implications for fund-level internal rates of return and for the willingness of early stage investors to hold positions through extended periods of valuation uncertainty.

7. Conclusion and Implications

This study examined the trajectory and composition of venture capital exits in India over 2021–2025, documenting a pronounced divergence between record primary capital deployment and contracting exit realization in 2025. Although public market exits have gained prominence in recent years, much of the increase in exit value has been driven by a relatively small number of large-scale IPOs rather than a broad expansion of exit opportunities across the venture capital ecosystem. Consequently, India's VC exit landscape remains relatively constrained, with secondary transactions continuing to serve as the dominant liquidity mechanism and GP-led continuation vehicles only beginning to emerge as an alternative solution for portfolio management (Bain & Company & Indian Venture and Alternate Capital Association [IVCA], 2025; EY, 2025).

These developments have important implications for key stakeholders. For limited partners (LPs), the findings suggest that fund performance should be evaluated using realized liquidity measures, such as the distribution-to-paid-in (DPI) ratio, rather than relying solely on investment deployment or unrealized portfolio valuations. Such an approach provides a more accurate assessment of a fund's ability to generate cash returns under constrained exit conditions (Institutional Limited Partners Association, 2024).

From a policy perspective, maintaining the momentum of IPO-led exits will require continued refinement of listing regulations, stronger corporate governance standards, and the development of a more efficient secondary market capable of supporting transparent and fair value price discovery for high-growth companies that have not yet reached public-market readiness (Securities and Exchange Board of India, 2024; Bain & Company & IVCA, 2025). Expanding institutional participation in private market secondary transactions could further improve market liquidity and facilitate more efficient capital recycling.

For venture capital and private equity fund managers, the gradual emergence of GP-led continuation vehicles and other structured secondary solutions provides additional flexibility in managing mature portfolio companies. These mechanisms can support fund life extensions, optimize asset realization strategies, and improve alignment with limited partner expectations regarding liquidity and value creation. As India's private capital market continues to evolve, these alternative liquidity structures are likely to become an increasingly important component of portfolio management and long-term fund strategy, consistent with practices observed in more developed private equity markets (EY, 2025; KPMG, 2025).

Future research should pursue firm-level analysis of the determinants of exit route selection among Indian VC-backed companies, employ matched sample comparison of realized secondary sale discounts against subsequent IPO pricing outcomes, and examine the comparative development of GP-led continuation-vehicle markets across major emerging market VC ecosystems.

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