

Venture Capitalists Backing Indian Crypto Businesses Keep The Faith

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Published on February 15 2021, 8:43 AM

Last Updated on February 15 2021, 8:43 AM



Venture capital firms that backed Indian businesses built around cryptocurrencies find themselves torn between a potential growth opportunity and regulatory uncertainty that could wipe out their investments. Investors faced this dilemma in 2018 and are now staring at it once again as the government [re-considers](#) a ban on virtual currencies.

“If the government does go ahead with a complete ban on cryptocurrency we will be back to the status where we were in 2018, and the best that we can do is to educate the regulators and lawmakers,” said Arpit Agarwal, director at Blume Ventures that invested in Bengaluru-based cryptocurrency exchange Unocoin in 2016.

Along with Blume Venture, Sequoia Capital India and [Claris Capital](#) have backed crypto ventures in India. Global investors who invested in India’s crypto startups include San Francisco-based Coinbase Ventures, Polychain Capital, Pantera Capital, Ribbit Capital and Paradigm, Singapore-based VC firms Beenext and Jungle Capital and Japan’s Dream Incubator, among others.

Most investments in Indian entities dealing with cryptocurrency and blockchain have flowed in the last five years as venture capital firms saw the country becoming a growing hub for digital currencies.

“India's population is rapidly growing, young, and tech literate, leading to a massive growth in smartphone adoption, digital identity, and fintech over the past decade. Similarly, India could be one of the largest hubs for crypto, which is the next generation's gold, financial system, and internet,” said Arjun Balaji, partner at crypto-focused investment firm Paradigm.

While some investors stayed with their India bets, others exited after the Reserve Bank of India barred banks and financial institutions from facilitating transactions in cryptocurrencies in 2018.

Arjun Handa, vice chairman and managing director at Claris Group, an early backer of cryptocurrency exchange ZebPay exited the company in 2019 after one of its partners Rahul Pagidipati bought his stake. Reiterating his belief in the cryptocurrency opportunity in India, he said that even as the regulatory uncertainty has made the sector unviable for investment, he would go ahead and invest again if India opens its market to cryptocurrencies.

“Back when I had invested in ZebPay, it seemed like an exciting opportunity as currency was one of the few segments in finance that were yet to be disrupted. Also, India is a vast market that could drive large volumes for cryptocurrency exchanges unlike any other country,” he said.

Also Read: [India's Crypto Investors Weigh Options Ahead Of Impending Ban](#)

The Global Route

If the promise of growth offered by the world's [third largest](#) fintech market is thwarted by a [complete ban](#) on cryptocurrency investments, venture funds with exposures to crypto companies in India may consider moving these businesses abroad.

“While we believe that India is a great opportunity for cryptocurrency, we may consider shifting the operations abroad, among other options, if the ban does go through,” said Agarwal. Unocion, he said, already has a registered office in Singapore out of which it can operate in any other country in the world.

But going global could also mean stiffer competition for homegrown cryptocurrency firms.

“This business runs on trust, and it is challenging for an Indian exchange serving foreign countries to gain that trust. But if not given an option by the government, we would be forced to consider shifting our operations abroad,” said Sathvik Vishwanath, co-founder and chief executive of Unocoin.

Another Indian cryptocurrency exchange CoinDCX, backed by Singapore-based technology consultancy firm Primestack Pte Ltd., announced the launch of its global product Cosmex that facilitates crypto-to-crypto trading. The company has set up an international subsidiary that will serve as the special purpose vehicle to facilitate its global operations, it said in a Feb. 11 press release.

“Through this platform, we will work like a broker and provide global liquidity to Indian and global crypto investors. While we wait for the outcome on cryptocurrency regulation in India, in case a ban does go through, local investors who have grown their portfolio in various cryptocurrencies would still be able to continue their trade through the Cosmex platform,” said Ramalingam Subramanian, brand and marketing head at CoinDCX.

A similar script had played out three years ago after the RBI's restrictions brought local crypto businesses to a halt. In 2018, Ayon Capital and Rahul Pagidipati-backed ZebPay, which re-started its India operations in January last year, shut shop and set up an office in [Malta](#) to grow operations in the European market. The exchange later launched trading services in [131 countries](#) across the world.

“Indian entrepreneurs have built a lot of capability on the cryptocurrency front. But if the environment and the laws are not conducive, it will not be a surprise if they move out to setup global platforms to capture overseas markets,” said Handa.

Also Read: [#IndiaWantsCrypto Leads Pushback Against Specter Of New Ban](#)

Regulate vs Ban

After winning a [legal challenge](#) in the Supreme Court in March last year, cryptocurrency investors were hopeful that the government would choose to regulate these tokens as opposed to banning them.

Countries like the US have not banned cryptocurrencies while others like China have.

“Thoughtful regulation takes time,” said Balaji. The Indian government should establish a framework for compliance with inputs from industry leaders, following countries like the US, Balaji argued.

A ban on cryptocurrency would open up a large unregulated grey market that the government will not have any sight into, said Nischal Shetty, founder and chief executive of Mumbai-based cryptoexchange WazirX. “The biggest casualty of this ban would be genuine businesses that complied with the government, and investors who declared their holdings.”

VCs BACKING INDIAN CRYPTO VENTURES

Company	Round	Investors	Amount (Rs Cr)	Date
CoinDCX	Series B	Polychain Capital, Coinbase Ventures, others	100	Dec-2020
	Series A	Polychain Capital, Coinbase Ventures, others	18.9	May-2020
	Series A	Polychain Capital, Bain Capital Ventures, others	22.9	Mar-2020
	Seed	Bain Capital Ventures, Mehta Ventures, others	2.7	Jun-2018
CoinSwitch	Series A	Ribbit Capital, Sequoia Capital India, Paradigm, others	110	Jan-2021
	Seed	Sequoia Capital India	9.9	Apr-2018
InstaDApp	Seed	Coinbase Ventures, Pantera Capital, others	17	Oct-2019
Koinex	Series A	Pantera Capital, Beenext, others	7	Feb-2018
	Seed	Beenext, others	2.3	Oct-2017
Matic Network	Seed	Coinbase Ventures	Undisclosed	Apr-2019
Unocoin	Series A	Draper Associates, XBTO Ventures, others	Undisclosed	Oct-2020
	Seed	Dream Incubator, Blume Ventures, others	13.4	Oct-2016
Zebpay	Series A	Clariss Capital, others	6.6	Jan-2016
Zenprivex	Seed	Jungle Ventures	8.5	Apr-2018
	Seed	Rainmatter Capital	Undisclosed	Jan-2017