

\$4.3B Gap in the Market: But is there a Market in the Gap?

A Strategic Case for Family Office Capital

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1. Executive Summary

India stands at a pivotal economic juncture, transitioning from a \$3.5 trillion economy toward a projected \$7 trillion by 2030. While global attention has focused on large-cap public markets and unicorn startups, a structural dislocation has emerged in the mid-market enterprise (MME) segment. This paper analyzes the specific opportunity for Family Offices to deploy patient capital into the "missing middle" of India's corporate landscape companies with ₹100-500 Cr (\$12-60M) in revenue.

***Core Thesis:** Regulatory constraints on domestic institutional capital and the lack of familiarity of foreign investors with the market have created a persistent funding gap for profitable, growth-stage mid-market enterprises in traditional sectors. Family Offices, with their flexible mandates and patient capital, are uniquely positioned to arbitrage this gap, capturing superior risk-adjusted returns (21% IRR historically) while driving the next wave of industrial productivity.*

Key Findings:

- **Structural Capital Void:** Despite India's private equity deal value reaching \$43B in 2024, only ~14%* (\$6.2B) targeted the growth/mid-market segment, compared to 27% in China and 31% in Japan. This creates an estimated \$4.3B annual funding shortfall for high-quality MMEs.
- **Regulatory Constraints Create Opportunity:** India's \$1.1 trillion institutional capital pool (Pension/Insurance) remains largely sidelined due to strict regulatory caps (5% for Pension Funds) and conservative mandates (actual allocation ~3%), leaving the mid-market field open for private capital.
- **Superior Performance Profile:** Indian private equity has delivered ~21%[!] IRR over the last decade (2015-2025), significantly outperforming the NIFTY 50 public market benchmark (12.64% CAGR), offering a meaningful illiquidity premium.
- **Improving Exit Liquidity:** The exit environment has matured dramatically, with exits surging to \$33B in 2024 (+16% YoY). Notably, IPO exits jumped 78%, establishing India as the deepest exit market in Asia-Pacific and reducing the liquidity risk historically associated with private markets.
- **Productivity Arbitrage:** The next phase of MME growth will be driven by operational efficiency. With GenAI and automation potential estimated to add 0.6%+* to annual productivity growth, capital that brings both funding and operational governance can unlock significant value in traditional family-run businesses.

2. Problem Statement & Scope

The Indian corporate landscape is often described as a "barbell" structure: a vast base of micro-enterprises at one end and a consolidated layer of large conglomerates at the other. The middle, comprising established but capital-starved enterprises, remains the most underserved segment of the economy.

Defining the Mid-Market Enterprise (MME)

For the purposes of this investment thesis, we define Mid-Market Enterprises (MMEs) based on the following specific criteria:

- **Revenue Band:** ₹100 Cr to ₹500 Cr (\$12M - \$60M USD)
- **Profitability:** EBITDA positive or path to profitability within 12 months
- **History:** Established operating history >5 years (excluding early-stage startups)

This definition explicitly excludes early-stage venture capital (high technology risk) and large-cap buyouts (high valuation/competition). Based on Ministry of MSME and corporate database analysis, this segment comprises approximately **22,000 active enterprises** across India.¹

The "Missing Middle" Phenomenon

These ~22,000 companies represent the industrial core of India. They own physical assets, control supply chains, and possess established customer bases. However, they face a dual challenge:

1. **Capital Access:** Too large for traditional bank collateral-based lending limits, yet too small for public capital markets or large sovereign wealth checks.
2. **Operational Stagnation:** Often family-run with limited succession planning, lacking professional governance, and slow to adopt digital productivity tools.

This stagnation is not a business viability issue but a capital and governance issue. The exclusion of this segment from institutional capital flows creates a classic market inefficiency that private capital can exploit.

1. Derived from Ministry of MSME Udyam Registration Data (2024) and CMIE Prowess Database.

3. Market Context & Macroeconomic Backdrop

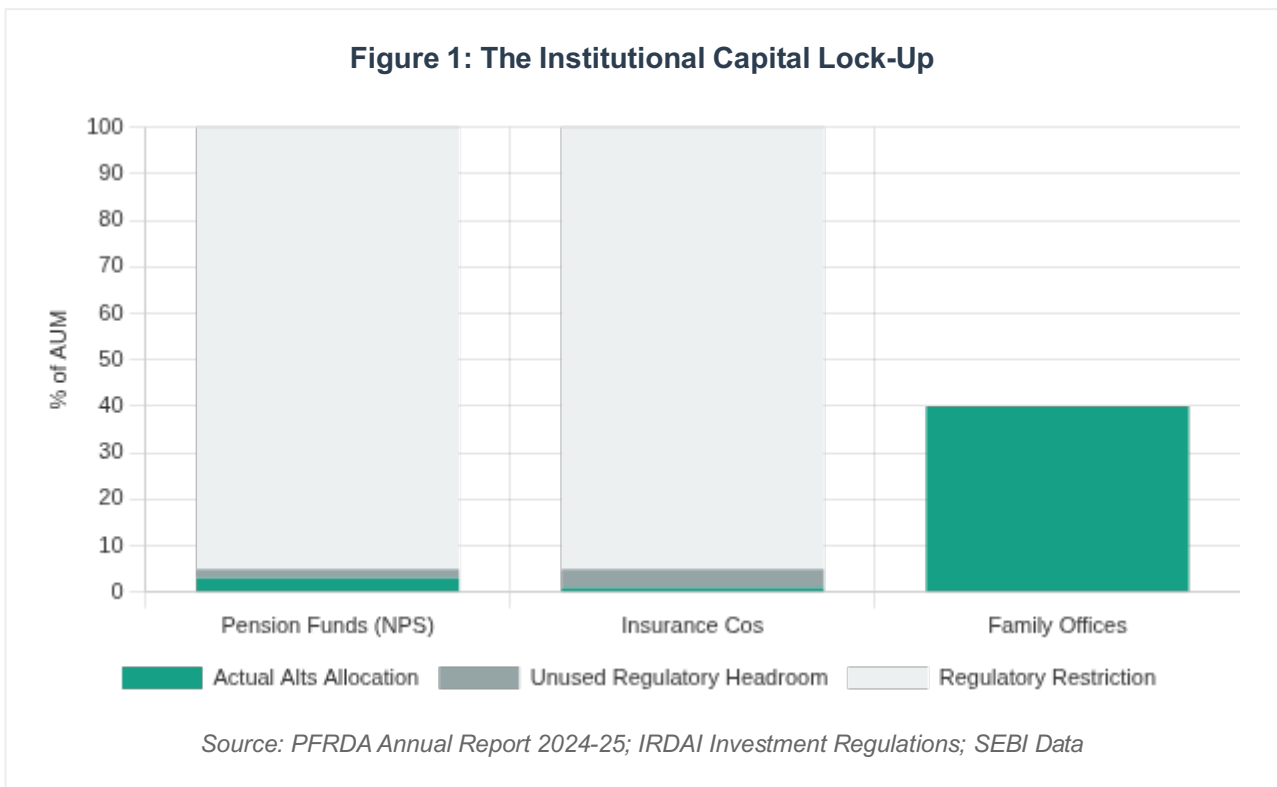
India's emergence as a premier investment destination is underpinned by structural macro tailwinds that differentiate it from other emerging markets, particularly in the context of shifting global supply chains.

The India vs. China Divergence

A significant reallocation of global capital is underway. In the MSCI Emerging Markets Index, China's weighting has compressed from 43% five years ago to 29% in 2024, while India's share has doubled from 8% to approximately 16%.² This shift is mirrored in private markets, where India ranked as the second-largest destination for PE/VC investment in Asia-Pacific in 2024, capturing 20% of the regional deal flow.

Institutional Capital Constraints

Despite a massive domestic institutional capital pool of approximately \$1.1 Trillion (₹90+ Lakh Crore), regulatory frameworks significantly restrict flow into alternative assets:



As illustrated in Figure 1, while global pension funds allocate 15-20% to alternatives, India's National Pension System (NPS) caps alternative investment funds (AIFs) at 5%. Actual allocation is even lower at ~3% due to conservative investment mandates.³ This regulatory bottleneck effectively locks out the largest pools of domestic capital from the mid-market, leaving the field open for Family Offices and flexible private capital.

2. MSCI Emerging Markets Index Factsheet, December 2024.

3. PFRDA Annual Report 2024-25; NPS Trust Data.

4. Quantifying the Mid-Market Enterprise Segment

The economic footprint of the MME segment is disproportionately large relative to the capital it receives. Understanding the scale of this "prize" is critical for investors.

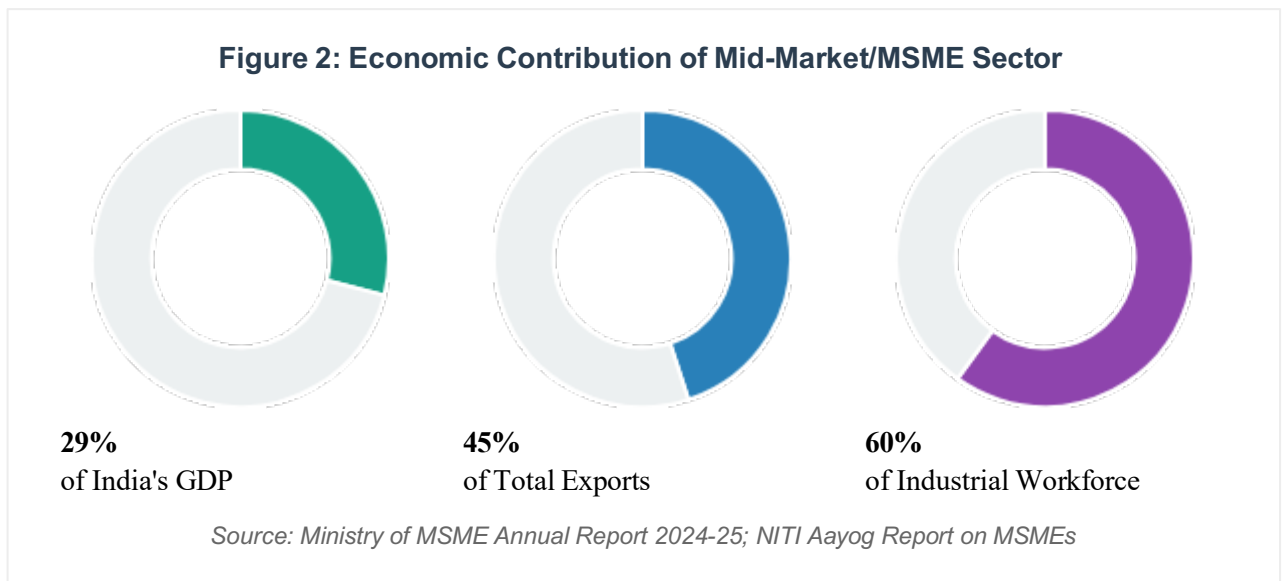
Enterprise Population Pyramid

Advaya's segmentation of India's corporate universe based on the Ministry of MSME and corporate filings:

- ₹10 - ₹100 Cr: ~95,000 Enterprises (Micro/Small)
- ₹100 - ₹500 Cr (Target Segment): ~22,000 Enterprises
- ₹500 - ₹1,000 Cr: ~5,000 Enterprises
- >₹1,000 Cr: ~3,700 Enterprises (Large Cap)

Economic Contribution

Collectively, the MSME and mid-market sector is the engine of the Indian economy, contributing significantly across three critical dimensions:



This segment dominates labor-intensive sectors such as manufacturing (textiles, auto components, chemicals), consumer goods, and specialized services. These are not speculative technology bets but tangible businesses with established cash flows and market shares.⁴

4. Ministry of MSME Annual Report 2024-25, Government of India.

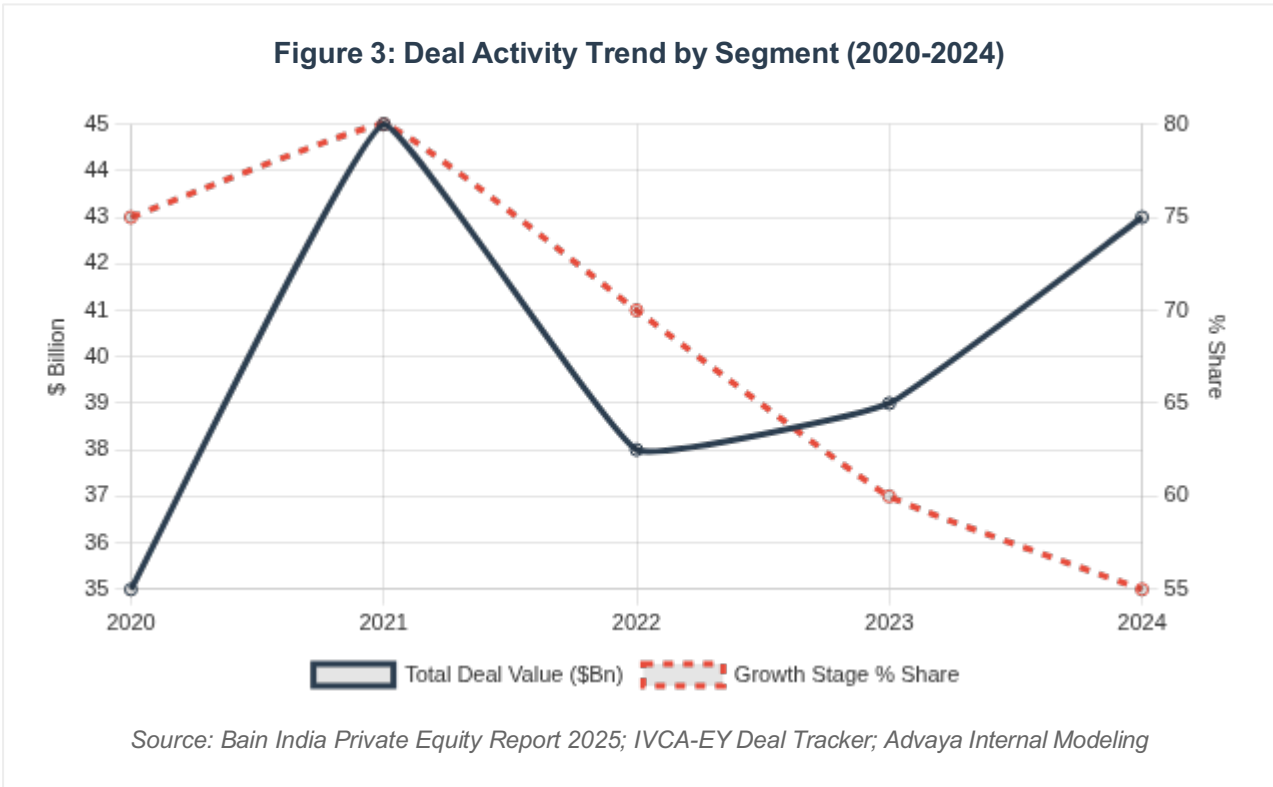
5. The Funding Gap: Evidence of Structural Under-Supply

The central argument for investing in this space is the "Capital Drought." While deal activity at the top end of the market is robust, the mid-market suffers from acute capital scarcity.

Declining Share of Growth Capital

In 2024, total PE/VC investments in India reached \$43 billion. However, the composition of this capital has skewed heavily toward late-stage buyouts and early-stage VC. Growth stage deals - the primary mechanism for funding MMEs, have declined significantly to just 55% of total deal volume in recent years.

Figure 3: Deal Activity Trend by Segment (2020-2024)



Quantifying the Shortfall

We can model the funding gap using a bottom-up approach based on the universe of investable companies:

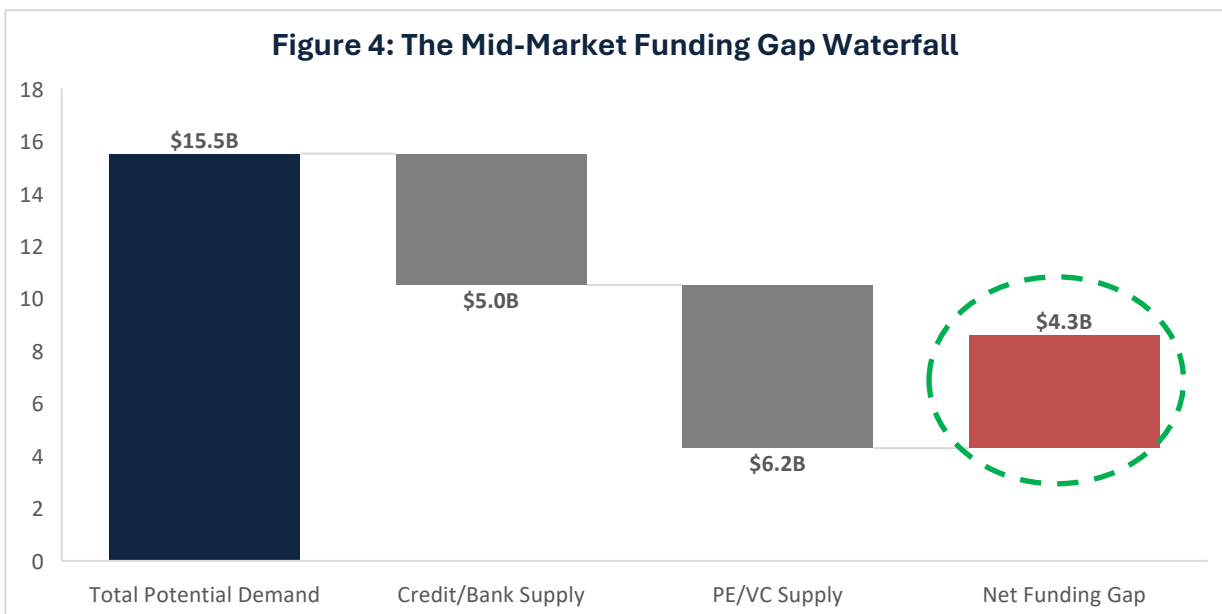
Funding Gap (2025 Estimate):

Demand: 22,000 MMEs × 7.8% Seeking Capital × ₹125 Cr (\$9M) Avg Ticket = **\$15.5Billion**

Supply: Actual Growth/Mid-Market Deal Volume (2024) = **\$6.2 Billion** (+\$5B Bank Lending)

Net Gap: ~\$4.3 Billion Annual Shortfall

Figure 4: The Mid-Market Funding Gap Waterfall



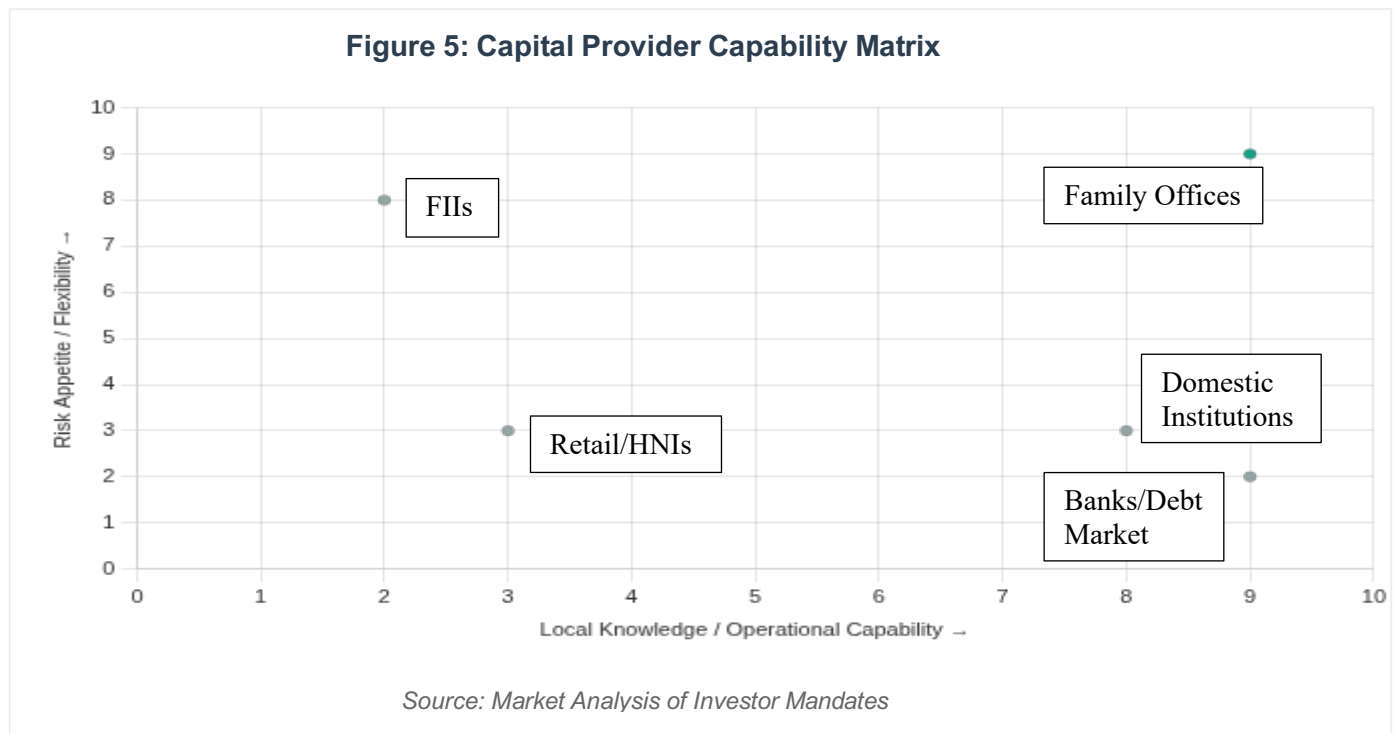
Source: Internal Analysis Based on Bain Data and Ministry of MSME Statistics

This \$4B+ shortfall represents high-quality demand that is currently unmet by the formal private equity ecosystem. In comparable economies like China and Japan, mid-market deal volume represents 27% and 31% of total PE activity respectively, compared to just 14% in India.⁵

5. Advaya Estimates based on comparative market data from Preqin Asia-Pacific Private Equity Report 2024;

6. Capital Provider Landscape

If the opportunity is so obvious, why hasn't it been arbitrated away? The answer lies in the structural limitations of other capital providers.



Investor Class	Primary Constraint in Mid-Market
Foreign Institutional Investors (FIIs)	Information Asymmetry: Lack deep local networks to source proprietary deals; prefer \$100M+ checks to move the needle.
Domestic Institutions (Pension/Insurers)	Regulatory Handcuffs: PFRDA/IRDAI caps limit allocation; risk-averse mandates prioritize AAA debt over equity.
Banks / Debt Markets	Collateral Fixation: Lending based on hard assets, not cash flow growth; cannot fund transformative capex or M&A.
Retail / HNI Investors	Scale & Duration: Ticket sizes too small for direct impact; inability to hold illiquid assets for 5-7 years.

This leaves a specific vacuum for sophisticated domestic capital that combines **local knowledge** with **institutional scale** – this is precisely where modern Indian Family Offices play!

7. Why Family Offices: The Strategic Fit

Family Offices (FOs) are the natural owners of this asset class. The Indian family office ecosystem has matured rapidly, growing from ~45 offices in 2018 to over 300 in 2024, managing an estimated \$30B+ in AUM.⁶

The "Right to Win"

Family Offices possess five structural advantages that make them the ideal capital partner for MMEs:

1. **Operational Empathy:** Most FOs originated from operating businesses. They understand promoter psychology, succession challenges, and manufacturing cycles better than financial engineers.
2. **Flexible Mandates:** FOs can structure deals creatively - using convertibles, structured equity, or hybrid instruments - that rigid fund mandates often prohibit.
3. **Network Effects:** FOs can leverage their own operating companies to provide customer access, supply chain synergies, or mentorship to investee companies.
4. **Speed of Execution:** Without complex investment committee bureaucracies, FOs can close deals in 6-8 weeks vs. 4-6 months for institutional funds.

Data from Campden Wealth (2025) indicates that Indian FOs have already increased their allocation to alternatives to >15%, comparable to the global average, signaling a strong appetite for this asset class.⁷

6. The Indian Family Office Playbook 2025, Julius Baer / PwC.

7. Campden Wealth India Family Office Report 2025.

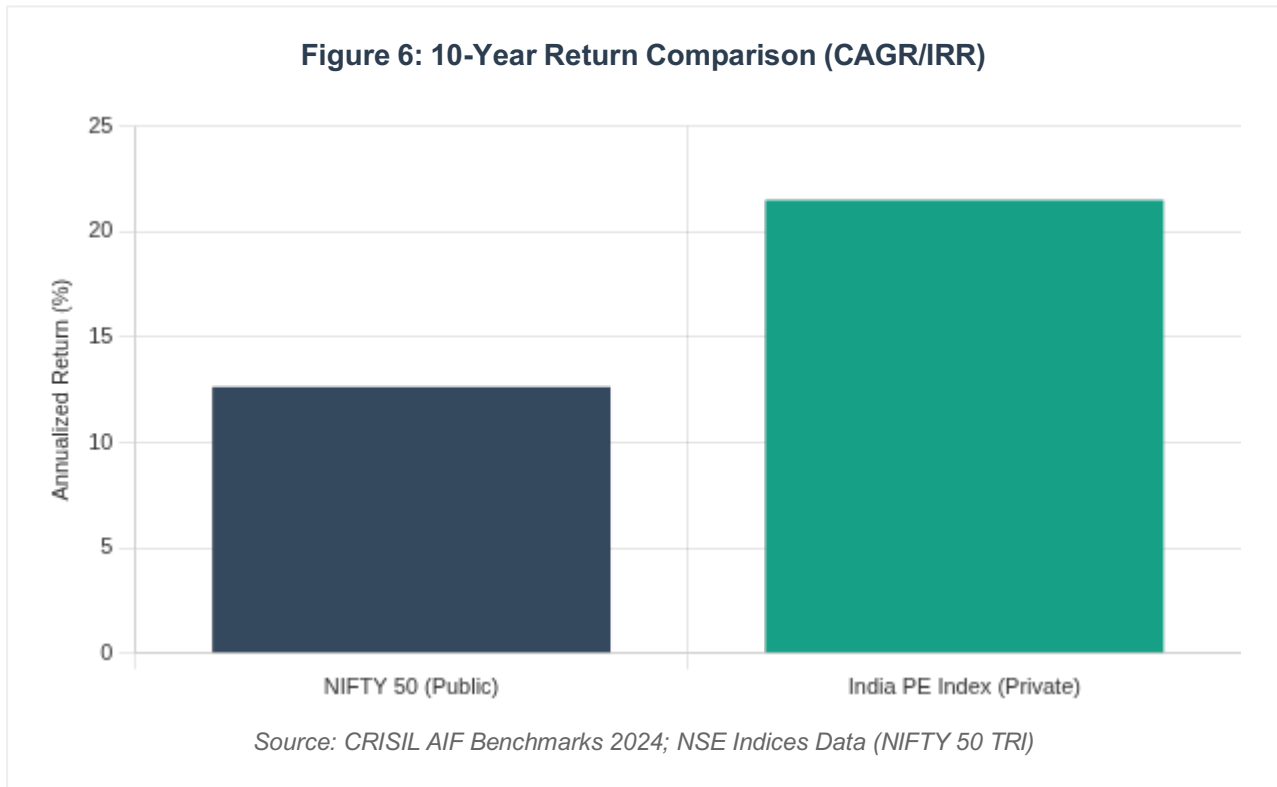
8. Return Evidence & Performance Benchmarks

The case for mid-market PE is not just theoretical; it is supported by robust historical performance data.

Private vs. Public Performance

Over the last decade (2015-2025), Indian Private Equity has consistently outperformed public market benchmarks, delivering a significant alpha.

Figure 6: 10-Year Return Comparison (CAGR/IRR)

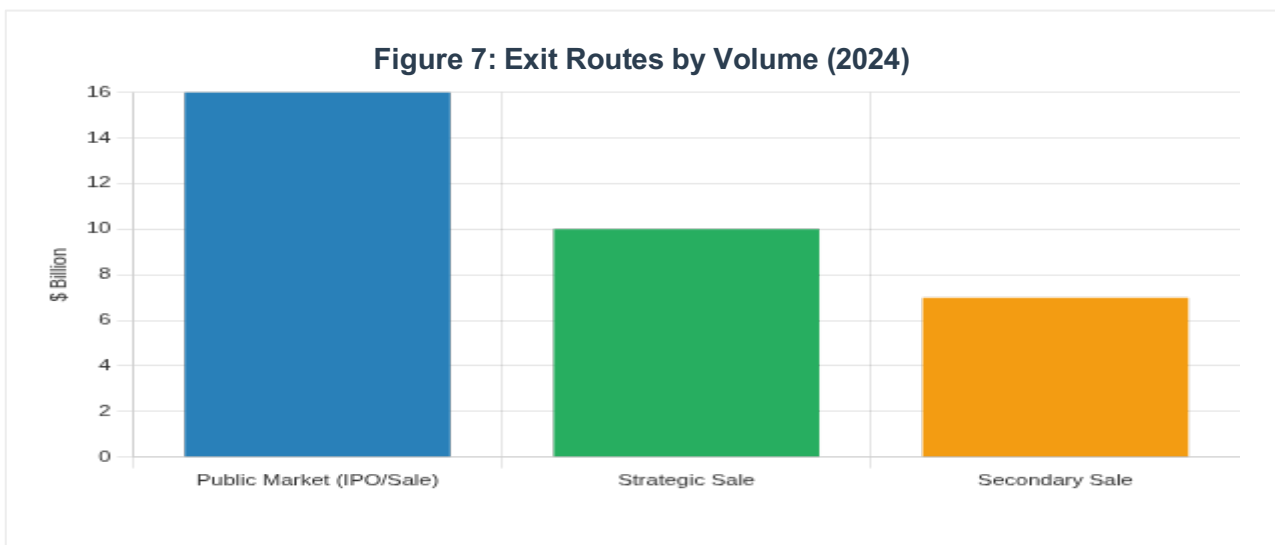


- **India PE Index (10-Yr IRR):** ~21% (Top – Quartile)
- **NIFTY 50 (10-Yr CAGR):** 12.64%
- **Alpha (Illiquidity Premium):** ~8.8%

The Liquidity Myth: Improving Exit Environment

One historical concern for investors has been "trapped capital." However, 2024 marked a turning point in liquidity events. Total exits surged 16% YoY to \$33 Billion. Most significantly, IPO exits increased by 78%, proving that mid-market companies have a viable path to public listing.

Figure 7: Exit Routes by Volume (2024)

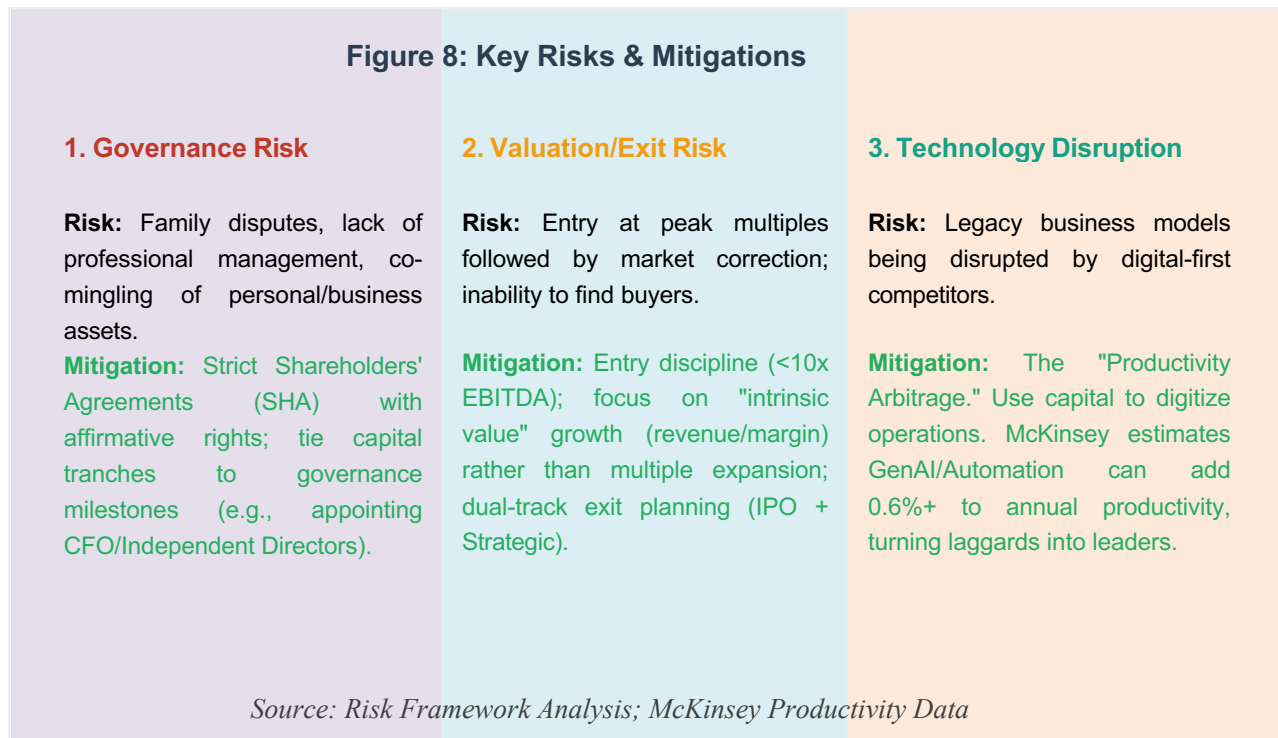


This deep exit market and introduction of the SME Board reduce the liquidity risk premium historically assigned to Indian private assets, further enhancing the risk-adjusted return profile.⁸

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9. Risks & Mitigations

Intellectual honesty requires addressing the specific risks inherent in mid-market investing.



9. McKinsey Global Institute: "The Economic Potential of Generative AI", 2024.

10. Conclusions & Recommendations

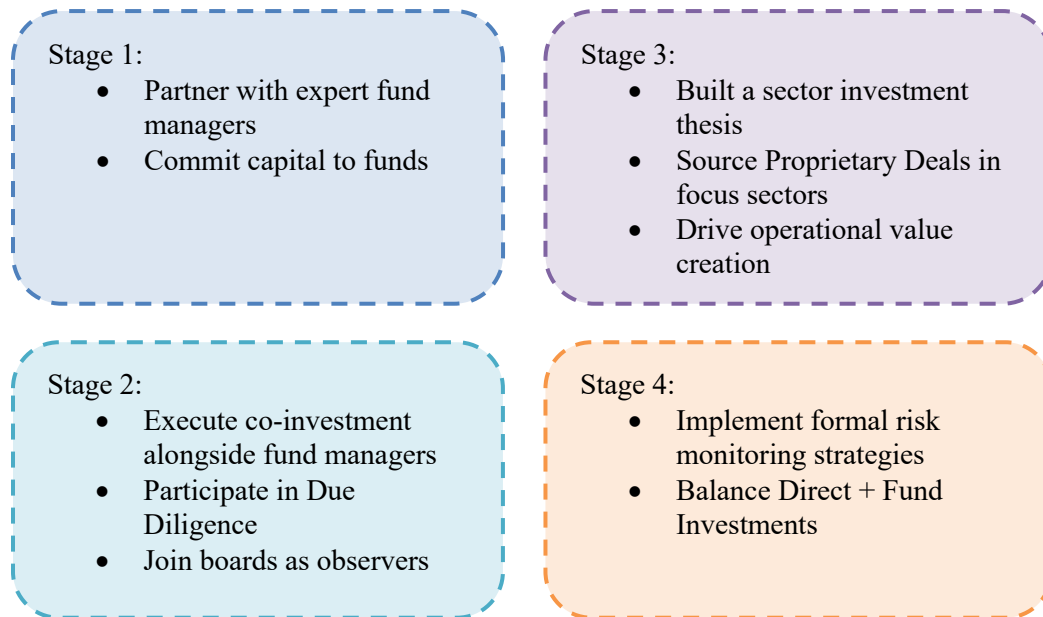
The "missing middle" of India's corporate sector represents one of the most compelling arbitrage opportunities in global private markets today. It is a segment characterized by high growth, resilient demand, and a structural scarcity of capital.

For Family Offices, the recommendation is clear: **Move from passive allocation to active participation.**

The Family Office Private Mid-Market Participation Journey

Family Offices, particularly those built by operating entrepreneurs, often approach private investments with a natural affinity toward sectors or businesses they understand. While this instinct can be valuable, it can also introduce emotional bias into investment decisions. Successful private market investing requires the ability to step back from individual opportunities and evaluate them within a broader portfolio and market context. By separating emotional conviction from disciplined investment frameworks, Family Offices can approach the mid-market not just as promoters backing familiar businesses, but as strategic capital allocators capturing a structural opportunity.

We propose a structured four-stage framework that allows Family Offices to progressively build competence, networks, and deal flow while managing risk appropriately at each level.



- **Allocate Strategically:** Target a 25-30% portfolio allocation to mid-market strategies (Direct + Funds).
- **Build or Partner:** For FOs with >\$100M AUM, build a small direct investment team. For others, *anchor emerging mid-market fund managers/investment managers with deep sector expertise.*
- **Focus on Value Creation:** Don't just provide capital; provide governance, network access, and digital transformation guidance. This is the "alpha" that Family Offices are uniquely positioned to deliver.

By stepping into the gap left by regulators and foreign giants, Indian Family Offices can not only generate superior wealth but also play a nation-building role in scaling the next generation of Indian enterprise.

Appendix A: Data Tables

Table A1: Deal Activity & Exits (2024)

Metric	Value (\$ Bn)	YoY Change
Total PE/VC Investment	\$43.0	+9%
Early VC Stage Investment	\$14.0	+40%
Growth Stage Mid-Market (Est. Share)	\$6.2	-
Total Exits	\$33.0	+16%
IPO Exits (Growth)	\$16.0	+78%

Source: Bain India Private Equity Report 2025

Table A2: Institutional Capital Pool

Institution Type	AUM (\$ Bn)	Regulatory Cap (Alts)	Actual Allocation
NPS (Pension Funds)	\$167	5%	~3%
Insurance Companies	\$600+	Variable/Low	<1%
Family Offices (India)	\$30+	None	20%*

Source: PFRDA, IRDAI, Campden Wealth *- Majority of the family offices are still below this average.

Appendix B: Glossary

- **MME (Mid-Market Enterprise):** Companies with annual revenue between ₹100 Cr and ₹500 Cr. (Advaya's Definition)
- **IRR (Internal Rate of Return):** The annual rate of growth that an investment is expected to generate.
- **AIF (Alternative Investment Fund):** A privately pooled investment vehicle established in India (defined by SEBI).
- **NPS (National Pension System):** A government-sponsored pension scheme in India regulated by PFRDA.
- **PFRDA:** Pension Fund Regulatory and Development Authority.
- **IRDAI:** Insurance Regulatory and Development Authority of India.
- **Buyout:** The acquisition of a controlling interest in a company.

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