Contemporary Issues in Venture Capital Financing in India

Dr. C. Viswanatha Reddy
Editor
Contemporary Issues in Venture Capital Financing in India

By Dr. C. Viswanatha Reddy (Ed)

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Foreword

Young entrepreneurial firms with risky product introduction strategies are facing trouble in mobilizing funds from equity investors and banks because of two reasons. The first one is the conflicts of interest between entrepreneurs and investors. Debt financing from banks may not be available either, because the entrepreneur has incentives to handle excess risk from the bank’s perspective. He or she benefits, if the firm is successful, whereas the bank stands to lose if the firm fails. The second reason is asymmetric information. Equity investors fear that entrepreneurs would only issue equity when the firm is overvalued. Capital gains taxation also affects the demand for venture capital. Venture capitalists specialize at solving these problems, thereby connecting idea-rich entrepreneurs with cash-rich investors; ensuring funding for innovative firms has positive impact on the economy, as it makes sense for governments to promote an active venture capital and private equity market to bring the nation on par and above the developed nations.

In recent years, the government controlled financial institutions have initiated positive and progressive measures to provide financial support including MSMEs at reasonable and affordable costs and without any usual hurdles. Government-funded schemes exist at both the national and the state levels. The venture capital and private equity movement did not take deep roots in India so far, because of lack of further support, high tax rate on capital gains, poor fiscal incentives, lack of public private partnership, no proper review of existing laws, low focus on start up finance, lack of proper implementation
of the recommendations of the various committees, etc. Hence, there is a need to debate on the issues for the development of a sound venture capital and private equity industry in India.

The Government of India in an attempt to bring the nation on the same lines with the developed nations, has been promoting venture capital financing to new, innovative concepts & ideas, liberalizing taxation norms, providing tax incentives to venture firms, offering incentives to the creation of local pools of capital and holding training sessions for the emerging VC investors.

In this context, the edited volume entitled “Contemporary Issues in Venture Capital Financing in India” is timely and relevant. The issues highlighted and conclusions drawn by the authors coincide with and reflect the problems in venture capital financing in the world in general and India in particular. The conclusions and recommendations made by the authors are, no doubt, more practicable and hence will go a long way for strengthening the venture capital financing activities in India.

I congratulate the editor of the book, Dr. C. Viswanatha Reddy, Professor, Department of Business Administration, Sree Vidyanikethan Institute of Management, A.Rangampet – 517 102 and the authors of the papers for their effort, initiation, perceptive outlook and pragmatic approach in studying the contemporary issues in venture capital financing. I hope this edited volume will be a reference book to the researchers and the students in the field of finance, a guide to the policy makers.

I wish the editor of the book and authors of the papers all the best in their academic pursuits in the years to come.

Prof. B. Mohan
Former Registrar, Sri Venkateswara University.
Director, Sree Vidyanikethan Inst. of Management
A.Rangampet – 517 102, A.P.
Acknowledgements

I have received generous help from a number of people to carry on this work. Without their co-operation and encouragement, I could not have completed my work. With pleasure I acknowledge my debt to them.

I wish to express my deep sense of gratitude to our beloved Chairman of Sree Vidyanikathan Educational Institutions Padmashri Dr. M. Mohan Babu, for all his great motivation and affection at every stage of editing this book. This work would not have come to fruition had it not been for his encouragement; his friendly advice and affection at every stage of the work.

I wish to express my heartfelt thanks to Prof. T. Gopala Rao, the Special officer, Sree Vidyanikethan Educational Trust for his support and inspiration to do this work.

I will be failing in my duty if I do not express my deep sense of gratitude and appreciation to Prof. B. Mohan, (Former Registrar of S.V.University) Director, Sree Vidyanikethan Institute of Management for his scholarly advice and meticulous care in shaping my career.

I wish to place on record my profound thanks to my beloved Teacher-cum-Mentor Prof. D. Himachalam, ICSSR Senior Fellow, Dept., of Commerce, Sree Venkateswara University, Tirupati, and the Visiting Professor at Essex Business School, University of Essex, UK (2009-2015) for his everlasting and valuable guidance.

I will be failing in my duty, if I do not express my deep sense of
of gratitude and appreciation to all the contributors, who have graciously responded to my request and permitted me to include their scholarly contributions in this edited volume.

I wish to thank all my colleagues in the department who continuously encouraged and motivated me to complete this academic endeavour successfully.

I am also thankful to my wife Smt. C. Lakhmi Tulasi, and my son Master C. Sainatha Reddy, who have co-operated with me during my preoccupation with this work by sacrificing their golden moments without my presence.

Last but not the least, I would be happy to place on record my profound gratitude and appreciation to Sri Ramesha MH and his team of Niruta Publications, Bangalore who readily agreed to take up the task of bringing out this volume in a short span of time in the present shape.

Dr. C. Viswanatha Reddy
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An Overview of Venture Capital and Private Equity Financing in India

Dr. T. Narayana Reddy*
Dr. C. Viswanatha Reddy**

Abstract
Knowledge based ideas, scientific technology and innovative enterprises and converting them into commercial production are the key motivators for the promotion of venture capital (VC) and private equity (PE) activities in any country. Given the inherent strengths, viz., advancement in science and technology, research, competitive entrepreneurship, the skilled and cost competitive manpower with excellent policy support, rapid and sustainable economic growth and competitive global strength, India has become a strong hub for venture capital financing activities. The budding VC and PE industry in India will fill the gap between the capital requirements of start-up enterprises in various sectors, which are of technological and knowledge based and the funding available from traditional institutional lenders such as banks, etc. Conversely, the venture capital activity in India did not take deep roots so far, because of lack of proper implementation of the recommendations of various committees, high tax rates on capital gains, poor economic incentives, unclear guidelines for public private partnership, low focus on start up finance, Therefore, the present paper is a modest attempt in this direction aims at explaining the profile of venture capital and private equity industry in India, their problems, contemporary scenario, causes for poor performance in the recent past, avenues for further development, etc.

Key Words: Venture Capital, Private Equity, DFIs, SIDBI.

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** Professor, Sree Vidyanikethan Institute of Management, A.Rangampet – 517 102, Tirupati (A.P)
Introduction:

Firms at young entrepreneurial stage with risky and innovative product strategies are facing trouble in mobilizing risk capital from equity investors and banks. There are two reasons for such situation, i.e., (a) the conflicts of interest between entrepreneurs and investors; (b) asymmetric information. From the bankers perspective the entrepreneur has incentives to take on excessive risk, i.e., the entrepreneur benefits if the firm is successful, whereas the bank stands to lose if the firm fails. Equity investors fear that entrepreneurs would only issue equity when the firm is overvalued. Capital gains taxation also affects the demand for venture capital. The specialized venture capitalists plays a predominant role in solving these problems, therefore, linking idea-rich entrepreneurs with cash-rich investors, ensuring funding for innovative firms has positive externalities on the economy. So, it makes sense for governments to promote an active venture capital and private equity market to bring the nation at par and above the developed nations.

In spite of the best efforts, the venture capital and private equity movement did not take deep roots in India so far, due to lack of supplementary support, high tax rate on capital gains, poor financial incentives, lack of public private partnership, absence of review of existing laws, low focus on start up finance, ineffective implementation of the recommendations of the various committees, etc. Hence, there is a need to debate on the issues for the development of a sound venture capital and private equity industry in India. But, in the recent years, the government controlled financial institutions have initiated positive and progressive measures to provide financial support including MSMEs at reasonable and affordable costs and without any usual hurdles.

Statement of the Problem:

The contemporary business firms required to be resourceful with respect to cost, productivity, labour efficiency, flexibility
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to consumer demand, adaptability and foresightedness. Therefore, there is an imminent demand for highly cost effective, quality products and hence the need for right access to valuable human expertise to guide and monitor along with the necessary funds for financing the new projects. The Government of India in an attempt to fetch the nation at par and above the developed nations, has been promoted venture capital financing to new, innovative concepts & ideas, liberalizing taxation norms, providing tax incentives to venture firms, giving scope for the creation of local pools of capital and holding training sessions for the emerging VC investors. The present paper entitled “An Overview of Venture Capital and Private Equity Financing in India” is a modest attempt in this direction which focuses on the current scenario of Indian venture capital and private equity financing industry, problems in venture capital and private equity financing in India, risk involved in such financing, operational performance of venture capital and private equity financing in the recent past in India, and offers some useful suggestions for strengthening of such industry in India.

Objectives of the study:
The objectives of the study are as follows:
1. To emphasize the chronological progress of venture capital and private equity financing in India.
2. To illuminate the contemporary scenario of venture capital and private equity financing system in India.
3. To scrutinize problems involved and risks connected with venture capital and private equity financing in India.
4. To bid some valid suggestions for further reinforcement of venture capital and private equity financing in India.

Research Methodology:
Research design:
In view of the objectives of the study listed above, the descriptive research design has been adopted. Descriptive
research is one which largely interprets the historical data/information and it lays particular emphasis on analysis and interpretation of the existing and available information and it makes use of secondary data.

Sources of data:
The study is based on secondary data. The secondary data required for the study has been collected from the various websites, websites of different venture capital and private equity financiers, etc. The respective source from which the data has compiled is mentioned at each table under source.

Hypothesis of the Study:
Based on the data available and association between them, the following hypothesis is developed.

\[ H_0: \text{There is a statistical relationship between volume of private equity deals (number of deals) and deal value (amount in million dollars).} \]

Tools of Analysis:
The data collected for the study has analysed logically and meaningfully to arrive at logical and meaningful conclusions. The statistical tools applied for data analysis are percentage, average, pie-diagrams, line graphs, correlation coefficient, least squares analysis, etc.

Scope of the study:
The scope of the present paper is defined in terms of concepts under focus. Firstly, the Indian scenario of venture capital and private equity financing, policy support for the growth and development of such activities in India, and SEBI's role has been covered. Secondly, the risks involved in venture capital and private equity financing in India, innovative instruments for venture capital financing, recent avenues for investment, are highlighted. Thirdly, the binary concepts of venture capital and
private equity financing in terms of number of deals, deal value and the relationship between them has been discussed. Fourthly, the problems of venture capital and private equity financing in India were examined. Lastly, few of the suggestions were offered for further strengthening of these activities in India.

**Limitations of the Study:**
Since the concept of venture capital and private equity financing is a strange subject in India, much research has not taken place. So, it is difficult to find enough amount of literature on the topic.

**Historical Development of VC and PE Financing in India:**

<table>
<thead>
<tr>
<th>Period</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Before the emergence of Venture Capital Financing System in India.</td>
<td>During this period, the DFIs have been partially playing the same role – through direct equity participation to ventures at pre-public issue stage. During early 70’s when Govt of India appointed a committee lead by Late Shri R.S.Bhatt to find out the ways to meet a void in conventional financing for funding start-up companies based on absolutely new innovative technologies. Such companies either did not get any financial support or the funding was inadequate which resulted into their early mortality. The committee recommended starting of Venture Capital industry in India.</td>
</tr>
<tr>
<td>Mid 80’s</td>
<td>In mid 80’s three All India Development Financial Institutions (DFIs), viz., IDBI, ICICI, IFCI started investing into the equity of small technological companies.</td>
</tr>
</tbody>
</table>
In Nov 1988, Govt of India decided to institutionalize Venture Capital Industry and announced the guidelines in parliament. Controller of Capital Issues implemented these guidelines known as CCI for VC and such guidelines were very restrictive and followed a very narrow definition of VC. They required venture capital to be invested in companies based on innovative technologies started by first generation entrepreneur. This made VC investment highly risky and unattractive.

During the same era, the World Bank selected 6 institutions to start VC investment in India, viz., TDICICI (ICICI), GVFL, Can bank Venture Capital Fund, APIDC, RCTC (now known as IFCI Venture Capital Funds Ltd.) and ILF (now known as Pathfinder).

Up to 1995, the VCFs were paying a 20% tax on capital gains from investments. During the budget speech for the year 1995-96, the finance minister made an announcement that the exemption from tax on income by way of dividend and long-term capital gains from equity investments made by approved VCFs in unlisted companies. CBDT took the responsibility and notified a scheme. Section 10(23FA) of Income Tax Act was re-enacted to...
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<table>
<thead>
<tr>
<th>Topic</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Provide for Automatic Income Tax Exemption</td>
<td>Provide for automatic income tax exemption to VCFs registered with SEBI (like in the case of mutual funds) which will eliminate the taxation at the pool level while maintaining the same at investor level.</td>
</tr>
<tr>
<td>Issue of Guidelines for Foreign Finance Companies</td>
<td>In September 1995, Govt of India issued guidelines and permitted foreign finance companies to make investments in India and many foreign venture capital and private equity firms entered India.</td>
</tr>
<tr>
<td>Govt. Guidelines to regulate VC Industry</td>
<td>In 1996, government announced the guidelines to regulate the VC industry. Though there were many shortcomings these guidelines were the starting point.</td>
</tr>
<tr>
<td>IT Boom &amp; VC Industry</td>
<td>In 1997, IT boom in India made VC industry more significant. Due to symbiotic relationship between VC and IT industry, VC got more prominence as a major source of funding for the rapidly growing IT industry. Indian VC’s which were so far investing in all the sectors changed their focus to IT and telecom industry.</td>
</tr>
<tr>
<td>VC Industry during Recession</td>
<td>The recession during 1999 - 2001 took the wind out of VC industry. Most of the Venture Capitalists either closed down or wound-up their operations. Almost all of them changed their focus to existing successful firms for their growth and expansion. Currently, just a few firms are taking the risk of</td>
</tr>
</tbody>
</table>
investing into the start-up technology based companies. VC firms also got engaged into funding buyouts, privatisation and restructuring.

**SEBI’s Role in Indian Venture Capital Industry:**

The Government of India constituted a SEBI committee headed by K. B. Chandrasekhar to make recommendations to facilitate the growth of VC industry in India. This committee submitted its report in July 2000 with the following salient recommendations, all of which were accepted and implemented:

1. SEBI should be the nodal regulator for VC funds in India providing a smooth, single window, problem-free regulatory framework for quick and efficient flow of money into VC funds in India.
2. Tax pass-through status should be granted to all regulatory compliant VC funds, similar to that which is provided to mutual funds, ensuring that at the “pool-level” (VC Fund) profits are tax exempt.

Foreign venture capital investors (FVCI) should also be registered with SEBI. This registration should enable them to have the same facilities as the foreign institutional level of easy investments and disinvestments without any FIBP/RBI approvals.

**Table No.1**

<table>
<thead>
<tr>
<th>Financing Stage of Venture Capital and Risk Perception</th>
</tr>
</thead>
<tbody>
<tr>
<td>Stages of Financing</td>
</tr>
<tr>
<td>Seed Money</td>
</tr>
<tr>
<td></td>
</tr>
</tbody>
</table>
Innovative Instruments for Venture Capital Financing:

One of the preconditions for the development of an active and healthy venture capital industry is the availability of an array of financial instruments, which will trade-off between risk-return needs of investors. Innovation in financial instruments is an added feature of developed and developing nations for the growth of venture capital industry. There is a line of variation between such instruments among developed and developing countries. Following table No.2 provides the information on innovative financial instruments designed for venture capital financing.

### Table No.2

**Instruments Intended for Venture Capital Financing**

**Case-1: In Developed and Developing countries:**

<table>
<thead>
<tr>
<th>Stage</th>
<th>Duration</th>
<th>Risk Level</th>
<th>Characteristics</th>
</tr>
</thead>
<tbody>
<tr>
<td>Start Up</td>
<td>5-9</td>
<td>Very High</td>
<td>* To Initialize Operations.</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>* To develop Prototypes.</td>
</tr>
<tr>
<td>First Stage</td>
<td>3-7</td>
<td>High</td>
<td>* To start commercials production and marketing.</td>
</tr>
<tr>
<td>Second Stage</td>
<td>3-5</td>
<td>Sufficiently High</td>
<td>* To expand market.</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>* To meet the growing capital needs.</td>
</tr>
<tr>
<td>Third Stage</td>
<td>1-3</td>
<td>Medium</td>
<td>* To expand market.</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>* Acquisition of profit making company.</td>
</tr>
<tr>
<td>Fourth Stage</td>
<td>1-3</td>
<td>Low</td>
<td>* For facilitating public issue.</td>
</tr>
</tbody>
</table>
which is seeking venture finance is that it does not have burden of give out the dividends if the company have no cash flows.

2. **Conditional Loan**  
   It is a loan repayable in the form of a royalty once the loanee firm is able to turn out sales and no interest is charged on such loans. The rate of royalty ranges between 2 to 15 per cent, which depends on certain factors, viz., gestation period, risk, cash flow patterns, etc.

3. **Conventional Loan**  
   VCFs can charge dual rates of interest on conventional loan. A lower fixed rate of interest is charged till the assisted enterprises become commercially operational, after which the loan carries normal or higher rate of interest. The loan has to be repaid according to the predetermined schedule and the terms of repayment.

4. **Income Notes**  
   One of the exceptional ways of venture capital financing in India is income notes. Income note is a hybrid security which has the combined features of conventional loan and conditional loan. The entrepreneurs have to pay the substantial low rates of interest and royalty on sales.

5. **Participating Debentures**  
   A few venture capitalists in private sector have introduced innovative financial securities known as participating debentures, which carries charges in three distinct phases namely, start-up phase, operational level phase and at full commercialisation of operations.
6. Cumulative Convertible Preference Shares

Particularly, in Indian context, the Cumulative Convertible Preference Shares are very attractive because the holders of these shares do not have voting right. However, they are entitled to vote if they do not receive dividend consecutively for two years.

**Case-2: In Developed Countries:**

7. Deferred Shares

Deferred shares are those shares do not have any rights to the assets of a company undergoing bankruptcy until all common and preferred shareholders are paid. The value of these shares fluctuates with the market and cannot be accessed by the beneficiary for the purpose of liquidation until they are no longer employees of the company. In other words, deferred shares are the shares where ordinary share rights are deferred for a certain number of years.

8. Convertible Loan Stock

Convertible loan stock is an unsecured long-term loan to a company in the form of bonds that can later be converted into ordinary shares under certain conditions.

9. Special Ordinary Shares

The holders of these shares will have voting right but no commitment towards dividends.

10. Preferred Ordinary Shares

Preferred ordinary share holders will have voting right with a right get a modest fixed dividend and share in profits.

**Top 10 Venture Capital Companies in India by their investments:**

Ventura capital is the lifeline of any start up in their growth story. In the past, it was difficult to raise funds from the
traditional market for start up. There are now enough venture capitalists are available in India who can drive ideas of entrepreneurs into reality. They have already invested good amount in various start up companies in India.

Table No.3
The list of top 10 venture capital firms operated in India during 2014

<table>
<thead>
<tr>
<th>Sl. No</th>
<th>Name of the VCF</th>
<th>Investment (in million) made in India</th>
<th>Stages of Financing</th>
<th>Financed to</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Sequoia Capital India</td>
<td>US$504</td>
<td>Seed Stage, Early Stage, and Growth Stage</td>
<td>Consumer Goods and Services, Energy, Financial Services, Health Care, Outsourcing, Technology, etc.</td>
</tr>
<tr>
<td>2</td>
<td>Norwest Venture Partners</td>
<td>US$156.6</td>
<td>Early Stage, Later Stage, and Growth Stage</td>
<td>Cloud &amp; IT Infrastructure, SaaS &amp; Enterprise Software, Internet &amp; Consumer, Healthcare, Services, etc.</td>
</tr>
<tr>
<td>3</td>
<td>Intel Capital</td>
<td>US$131</td>
<td>Seed, Startup, Early Venture, Emerging Growth, Growth Capital, MidVenture, LateVenture, Middle Market, and Mature Investments</td>
<td>Datacenter Software, Datacenter-Cloud-Network, Internet of Things, Internet-Digital Media, Manufacturing-Labs, Security, Services-Open Source, Smart Phones-Tablets, Ultrabook-Perceptual, Computing, Wearables, etc.</td>
</tr>
</tbody>
</table>
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<table>
<thead>
<tr>
<th></th>
<th>Partner</th>
<th>Capital</th>
<th>Stage</th>
<th>Focus Areas</th>
</tr>
</thead>
<tbody>
<tr>
<td>4</td>
<td>Helion Venture Partners</td>
<td>US$100</td>
<td>Early Stage to Mid-stage Venture Fund</td>
<td>Technology-powered and Consumer service businesses in sectors like Outsourcing, Internet, Mobile, Technology Products, Retail Services, Healthcare, Education and Financial Services.</td>
</tr>
<tr>
<td>5</td>
<td>Nexus India Capital</td>
<td>US$75.5</td>
<td>Early and Early growth stage Companies</td>
<td>Internet/Media, Technology, Mobile, Agriculture/Rural, Consumer Goods and Services, Business Services, etc.</td>
</tr>
<tr>
<td>6</td>
<td>DFJ India</td>
<td>US$61</td>
<td>Seed, Early, and Growth Stages.</td>
<td>Consumer applications &amp; services, Enterprise infrastructure &amp; apps, Big-bet disruptive technologies, etc.</td>
</tr>
<tr>
<td>7</td>
<td>Ventureast</td>
<td>US$54</td>
<td>Seed Stage, Early Stage, Growth Stage.</td>
<td>IT &amp; ITES, Life Sciences and Health Care, Clean Environment, Emerging Sectors, etc.</td>
</tr>
<tr>
<td>8</td>
<td>NEA Indo US Ventures (Kalaari Capital)</td>
<td>US$50</td>
<td>Early Stage and Mid-Stage startups</td>
<td>Snapdeal, Myntra, Medplus, Onward mobility, etc.</td>
</tr>
</tbody>
</table>
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<table>
<thead>
<tr>
<th>Rank</th>
<th>Firm</th>
<th>Stage</th>
<th>Start up, Early stage Financing.</th>
</tr>
</thead>
<tbody>
<tr>
<td>10</td>
<td>Kleiner Perkins</td>
<td>US$29</td>
<td>Face book (now social media giant), Group on (daily deals giant), inmobi, sound-cloud, spotify, etc. Google, Amazon.com, Netscape, etc.</td>
</tr>
</tbody>
</table>

Source: http://venture-capital-firms.findthebest.com/d/a/India

The information furnished in the above table shows that Sequoia Capital India ranked first in terms of investment ($ man) in India, followed by Norwest Venture Partners, Intel Capital and so on. Most of the top venture financiers are providing Seed stage, Early stage, Later stage, Growth stage, Expansion stage, financing to almost all sectors of industries. The major sectors of financing includes Consumer Goods and Services, Energy, Financial Services, Health Care, Outsourcing, Technology, Advertising & Marketing, social media, IT & ITES, Life Sciences and Health Care, Clean Environment, etc.

**Investment size-wise analysis of VC:**

Venture Capital is emerging as an important source of finance for small and medium-sized firms, especially for starting the business and business expansion. The investment size-wise analysis of venture capital is also witnessing that 43 per cent of total financing is given with in the size of less than $1 million, which indicates significance of venture capital financing in small and medium sized enterprises.

**Location-wise performance analysis of VC:**

Location is always an interesting parameter and in 2013, South India won the show with 43% of all the deals. Bangalore. The Silicon Valley of India saw 81 deals followed by Chennai and Hyderabad within South India. The second high dense area in terms of investments has been the west with 29% of the deals.
Mumbai is the clear winner here with 55 of all the deals. North India came in third with 57 deals.

Companies headquartered in Bangalore and Mumbai were the favourite among VC investors. During 2013 attracting 49 investments each, followed by Delhi based companies that accounted for 24 investments and Chennai based companies with 21 investments.

### Table No.4

**Size-wise and Region-wise analysis of Venture capital Financing in 2014**

<table>
<thead>
<tr>
<th>Size of Investment</th>
<th>Percentage to Total</th>
<th>Region of the Country</th>
<th>Percentage to Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than $1 million</td>
<td>43 per cent</td>
<td>South Region</td>
<td>43 per cent</td>
</tr>
<tr>
<td>Less than $5 million</td>
<td>30 per cent</td>
<td>West Region</td>
<td>29 per cent</td>
</tr>
<tr>
<td>Between $5 and $10 million</td>
<td>15 per cent</td>
<td>North Region</td>
<td>21 per cent</td>
</tr>
<tr>
<td>Greater than $10 million</td>
<td>12 per cent</td>
<td>Others</td>
<td>7 per cent</td>
</tr>
</tbody>
</table>

Source: [www.vccedge.com](http://www.vccedge.com)

**Investment Banks and Private Equity in India:**

An investment bank is a financial institution that assists individuals, corporations, and governments in raising capital by underwriting or acting as the client’s agent in the issuance of securities (or both). An investment bank may also assist companies involved in mergers and acquisitions and provide ancillary services such as market making, trading of derivatives and equity securities, and FICC services (fixed income instruments, currencies, and commodities). Private equity investors function similar to Investment Bankers, but where Investment Bankers advise on transactions, Private Equity investors make investments directly into private companies or conduct buyouts of public and private companies. The list of top 10 investment bankers along with their investment is given in the following table No.5.
Table No. 5
Top Ten Investment Banks (2013) - Private Equity

<table>
<thead>
<tr>
<th>Sl. No</th>
<th>Name of the Private Equity Firm</th>
<th>Investment in $ millions</th>
<th>Percentage to Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Goldman Sachs India Securities Pvt. Ltd.</td>
<td>1,263.98</td>
<td>21.64</td>
</tr>
<tr>
<td>2</td>
<td>Credit Suisse Securities (India) Pvt. Ltd.</td>
<td>971.53</td>
<td>16.63</td>
</tr>
<tr>
<td>3</td>
<td>Spark Capital Advisors India Pvt. Ltd.</td>
<td>910.93</td>
<td>15.59</td>
</tr>
<tr>
<td>4</td>
<td>Barclays Capital</td>
<td>469.80</td>
<td>8.04</td>
</tr>
<tr>
<td>5</td>
<td>JP Morgan Chase &amp; Co.</td>
<td>469.80</td>
<td>8.04</td>
</tr>
<tr>
<td>6</td>
<td>KPMG India Pvt. Ltd.</td>
<td>420.00</td>
<td>7.19</td>
</tr>
<tr>
<td>7</td>
<td>RBC Capital Markets LLC</td>
<td>420.00</td>
<td>7.19</td>
</tr>
<tr>
<td>8</td>
<td>J.P. Morgan Securities LLC</td>
<td>420.00</td>
<td>7.19</td>
</tr>
<tr>
<td>9</td>
<td>Kotak Mahindra Capital Co. Ltd.</td>
<td>277.28</td>
<td>4.74</td>
</tr>
<tr>
<td>10</td>
<td>IDFC Capital Ltd.</td>
<td>216.61</td>
<td>3.70</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>5,839.93</td>
<td>100.00</td>
</tr>
</tbody>
</table>

Source: www.vccedge.com

It is observed from the above table that among the top 10 investment banks in private equity, Goldman Sachs India Securities Pvt. Ltd. ranked first (21.64 per cent of the sum of top 10 investment banks) followed by Credit Suisse Securities (India) Pvt. Ltd., Spark Capital Advisors India Pvt. Ltd., etc. The IDFC Capital Ltd. is at 10th position with a share of 3.70 per cent.

**Sector-wise India’s Best PE/VC-Backed Indian Companies awarded in 2014:**

Despite economic growth having dipped to its lowest in a decade, Private equity (PE) and venture capital (VC) firms continue to bet on India’s Consumer goods and Services Sector, Energy, Financial Services, Health Care, Outsourcing, Technology, Manufacturing Sector, Internet/Media, Technology, Mobile, Agriculture/Rural, Business Services, IT & ITES, Life
Contemporary Issues in Venture Capital Financing in India

Sciences and Health Care, Clean Environment, Education Sector, Emerging Sectors, etc. Table No.6 gives us the data pertaining to the India’s best PE/VC backed companies awarded in 2014 in different sectors.

<table>
<thead>
<tr>
<th>Sector</th>
<th>Company</th>
</tr>
</thead>
<tbody>
<tr>
<td>IT Company</td>
<td>iGate Corporation</td>
</tr>
<tr>
<td>Consumer Internet Company</td>
<td>Myntra Designs Private Ltd.</td>
</tr>
<tr>
<td>Education Company</td>
<td>Manipal Global Education Services Private Ltd</td>
</tr>
<tr>
<td>Financial Services Company</td>
<td>Repco Home Finance Ltd.</td>
</tr>
<tr>
<td>Healthcare Company</td>
<td>Cloudnine Hospitals (Kids Clinic)</td>
</tr>
<tr>
<td>Manufacturing Company</td>
<td>International Tractors Ltd.</td>
</tr>
<tr>
<td>Infrastructure Company</td>
<td>GMR Airports Ltd.</td>
</tr>
</tbody>
</table>

Source: www.vccedge.com

It is observed from the above table that the iGate Corporation awarded as the best PE/VC backed company awarded from IT Sector, Myntra Designs Private Ltd., from Consumer Internet Sector, Manipal Global Education Services Private Ltd., from Education Sector, Repco Home Finance Ltd., from Financial Services Sector, Cloudnine Hospitals (Kids Clinic) from Health Care Sector, International Tractors Ltd., from Manufacturing Sector and GMR Airports Ltd., from Infrastructure Industry.

**Snapshot of Volume and Value of Private equity deals in 2013 & 14:**

Private Equity and Venture Capital is an increasingly source of finance for high growth potential companies. The goal of private equity and venture capital is to help more businesses to achieve their ambitions for growth by providing them with
finance, strategic advice and information at critical stages of their development. The month-wise analysis of private equity investments is provided in the following table No.7.

<table>
<thead>
<tr>
<th>Month</th>
<th>Volume of Private Equity Deals</th>
<th>Deal Value ($mn)</th>
<th>Month</th>
<th>Volume of Private Equity Deals</th>
<th>Deal Value ($mn)</th>
</tr>
</thead>
<tbody>
<tr>
<td>June, 2013</td>
<td>51</td>
<td>987</td>
<td>April, 2014</td>
<td>77</td>
<td>1,051</td>
</tr>
<tr>
<td>July, 2013</td>
<td>50</td>
<td>951</td>
<td>May, 2014</td>
<td>62</td>
<td>1,430</td>
</tr>
<tr>
<td>August, 2013</td>
<td>58</td>
<td>738</td>
<td>June, 2014</td>
<td>71</td>
<td>926</td>
</tr>
<tr>
<td>September, 2013</td>
<td>50</td>
<td>830</td>
<td>July, 2014</td>
<td>59</td>
<td>1,496</td>
</tr>
<tr>
<td>October, 2013</td>
<td>51</td>
<td>940</td>
<td>August, 2014</td>
<td>60</td>
<td>747</td>
</tr>
<tr>
<td>November, 2013</td>
<td>61</td>
<td>495</td>
<td>September, 2014</td>
<td>65</td>
<td>813</td>
</tr>
<tr>
<td>December, 2013</td>
<td>65</td>
<td>347</td>
<td>October, 2014</td>
<td>61</td>
<td>1,576</td>
</tr>
<tr>
<td>January, 2014</td>
<td>39</td>
<td>574</td>
<td>November, 2014</td>
<td>75</td>
<td>1,467</td>
</tr>
<tr>
<td>February, 2014</td>
<td>48</td>
<td>1,164</td>
<td>December, 2014</td>
<td>64</td>
<td>865</td>
</tr>
</tbody>
</table>

Source: www.vccedge.com

It is observed from the data provided in the above table that the volume of private equity deals has increased from 51 in June, 2013 to 77 in April, 2014. Further the same has declined to 64 in December, 2014. During the same period, the deal value has increased from $987mn in June, 2013 to $1,164mn in December, 2014 and again increased to $1,576mn in October, 2014. The correlation analysis between the volume of private equity deals and deal value ($man) is as follows:
Hypothesis Testing:

H₀: There is a statistical relationship between Volume of Private Equity Deals and Deal Value ($mn).

Table No.8
Correlation between Volume of Private Equity Deals and Deal Value ($mn)

<table>
<thead>
<tr>
<th></th>
<th>Volume of Private Equity Deals</th>
<th>Deal Value ($mn)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Volume of Private</td>
<td>Pearson Correlation</td>
<td>1</td>
</tr>
<tr>
<td>Equity Deals</td>
<td>Sig. (2-tailed)</td>
<td>.216</td>
</tr>
<tr>
<td></td>
<td>N</td>
<td>18</td>
</tr>
<tr>
<td>Deal Value ($mn)</td>
<td>Pearson Correlation</td>
<td>.216</td>
</tr>
<tr>
<td></td>
<td>Sig. (2-tailed)</td>
<td>.389</td>
</tr>
<tr>
<td></td>
<td>N</td>
<td>18</td>
</tr>
</tbody>
</table>

The Pearson correlation was used to test the hypothesis and significant relationship was found at 1% level between volume of private equity deals and deal value \( r = 0.216 \), which is low and positive. Therefore, there is a positive association between volume of private equity deals and deal value during the study period. In order to capture the trend more precisely, the volume of private equity deals and deal value has been regressed on the basis of time.

<table>
<thead>
<tr>
<th>Coefficients</th>
<th>Standard Error</th>
<th>t Stat</th>
<th>P-value</th>
<th>Lower 95%</th>
<th>Upper 95%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Intercept</td>
<td>49.52</td>
<td>4.14</td>
<td>11.93</td>
<td>40.72</td>
<td>58.31</td>
</tr>
<tr>
<td>X Variable</td>
<td>1.02</td>
<td>0.38</td>
<td>2.67</td>
<td>0.21</td>
<td>1.83</td>
</tr>
</tbody>
</table>

The best fitted model for the volume of private equity deals per unit of time is:
**Volume of Private Equity deals \( (Y) = 49.52 + 1.02 \) Time period \( (X) \).**

<table>
<thead>
<tr>
<th>Coefficients</th>
<th>Standard Error</th>
<th>t Stat</th>
<th>P-value</th>
<th>Lower 95%</th>
<th>Upper 95%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Intercept</td>
<td>701.86</td>
<td>160.45</td>
<td>4.37</td>
<td>361.71</td>
<td>1042.01</td>
</tr>
<tr>
<td>X Variable</td>
<td>27.85</td>
<td>14.82</td>
<td>1.87</td>
<td>-3.56</td>
<td>59.28</td>
</tr>
</tbody>
</table>

The best fitted model for the private equity deal value per unit of time is:

**Deal Value \( (Y) = 701.86 + 27.85 \) Time period \( (X) \).**

**Sector-wise analysis of PE Investments:**

The VC and PE industry in India have extended its arms to many sectors, where the risk and return are high and parallel, viz., Capital Goods, Software and Services, Retailing, Consumer Durables and Apparel, Consumer Services, Food, Beverage & Tobacco, Real Estate, Diversified Financial Services, Healthcare Equipment & Services, Automobiles & Components, and Others. The data relating sector-wise analysis of private equity investments (descending order) in terms of volume of deals and deal value is provided in the following table No.9.
## Table No.9
Sector-wise analysis of Private Equity (PE) Investment in 2013 & 2014

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Volume of Private Equity Deals</td>
<td>Deal Value ($mn)</td>
<td>Percentage to Total</td>
<td>Volume of Private Equity Deals</td>
<td>Deal Value ($mn)</td>
<td>Percentage to Total</td>
</tr>
<tr>
<td>Capital Goods</td>
<td>5</td>
<td>521.41</td>
<td>29.4</td>
<td>18</td>
<td>476.69</td>
<td>5.05</td>
</tr>
<tr>
<td>Software and Services</td>
<td>33</td>
<td>387.40</td>
<td>21.9</td>
<td>281</td>
<td>2,232.46</td>
<td>23.67</td>
</tr>
<tr>
<td>Retailing</td>
<td>9</td>
<td>288.24</td>
<td>16.3</td>
<td>69</td>
<td>3,445.10</td>
<td>36.54</td>
</tr>
<tr>
<td>Consumer Durables and Apparel</td>
<td>7</td>
<td>189.98</td>
<td>10.8</td>
<td>28</td>
<td>429.90</td>
<td>4.55</td>
</tr>
<tr>
<td>Consumer Services</td>
<td>8</td>
<td>115.92</td>
<td>6.5</td>
<td>62</td>
<td>504.92</td>
<td>5.35</td>
</tr>
<tr>
<td>Real Estate</td>
<td>4</td>
<td>43.53</td>
<td>2.5</td>
<td>48</td>
<td>1,493.49</td>
<td>15.84</td>
</tr>
<tr>
<td>Diversified Financial Services</td>
<td>4</td>
<td>42.06</td>
<td>2.4</td>
<td>36</td>
<td>603.27</td>
<td>6.39</td>
</tr>
<tr>
<td>Others</td>
<td>20</td>
<td>183.34</td>
<td>10.4</td>
<td>242</td>
<td>3,359.10</td>
<td>2.56</td>
</tr>
</tbody>
</table>

Note: Others include: Health care equipment & services, materials, food, beverage & tobacco, media, commercial & professional services, transportation, automobiles & components, technology hardware & equipment, household & personal products, telecommunication services, insurance, energy, food & staples retailing.

Source: www.vccedge.com
The data provided in the above table concerning to 2013 reveals that in terms of deal value the capital goods sector ranked first followed by software services, retailing, consumer durables and apparel, consumer services, food, tobacco and beverages, real estate, financial services, health care, automobile sectors, etc. But, in terms of number private equity deals software and services sector ranked first followed by retailing, consumer services, consumer durables and apparels and so on. During 2015, in terms of deal value the retailing sector has occupied the first position followed by software and services, real estate, diversified financial services and so on. However, some of the sectors like manufacturing, health care, education services, etc are predominantly neglected. The data relating to top five PE deals during 2013 and 2014 is provided in table No.10 says that the five investee companies are accounted for $997.7 millions in 2013 and $3,274. It means the private equity investors are highly concentrating on few sectors.

### Table No.10
**Top Five PE deals during 2013 & 2014**

<table>
<thead>
<tr>
<th>During - 2013:</th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Investor</strong></td>
<td><strong>Investee Company</strong></td>
<td><strong>Stake (%)</strong></td>
<td><strong>Deal Value ($mn)</strong></td>
</tr>
<tr>
<td>Canada Pension Plan</td>
<td>L&amp;T Infrastructure Development Capital Square, CX Partners</td>
<td>N.A.</td>
<td>321.4</td>
</tr>
<tr>
<td>Capital Square, CX Partners</td>
<td>Aditya Birla Minacs Worldwide</td>
<td>100</td>
<td>260.0</td>
</tr>
<tr>
<td>Temasek, IDFC</td>
<td>GMR Infrastructure</td>
<td>12.2</td>
<td>182.6</td>
</tr>
<tr>
<td>IndoUS Venture, Bessemer Venture</td>
<td>Jasper InfoTech</td>
<td>N.A.</td>
<td>133.7</td>
</tr>
<tr>
<td>KKR India Advisors</td>
<td>Avantha Holdings</td>
<td>N.A. Total</td>
<td>100.0 997.7</td>
</tr>
</tbody>
</table>
PE Exits during 2013:

One of the serious limitations of private equity financing is the investors may withdraw their funds as and when they found unhappy with the investee company. Normally, PE exists takes place in the form of mergers and acquisitions, secondary sale and open market sale. The information pertaining to PE exits during 2013 is provided in table No.11.
Table No.11
PE Liquidity Events/ PE Exits during 2013 & 2014

<table>
<thead>
<tr>
<th>Exit Type</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Deal Volume</td>
<td>Deal Value ($mn)</td>
</tr>
<tr>
<td>Mergers &amp; Acquisitions</td>
<td>1</td>
<td>115.23</td>
</tr>
<tr>
<td>Secondary Sale</td>
<td>8</td>
<td>24.59</td>
</tr>
<tr>
<td>Open Market</td>
<td>1</td>
<td>8.71</td>
</tr>
<tr>
<td>Buy back</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Initial Public Offering</td>
<td>—</td>
<td>—</td>
</tr>
</tbody>
</table>

Source: www.vccedge.com

It is observed from the above table that during 2013, 77.58 per cent of PE Exits took place in the form of mergers and acquisitions, followed by secondary sale (16.56 per cent) and open market sale (5.86 per cent). But, in terms number of exit deals secondary sale occupied the first position followed by mergers and acquisitions and open market sales. In 2014, 73.0 per cent of PE Exits took place in the form of open market sale, followed by mergers and acquisitions (13.11 per cent) and secondary sale (7.30 per cent). In terms of number of PE Exit deals open market sale ranked first followed mergers and acquisitions and secondary sale.

Recent Avenues for Venture Capital and Private Equity Financing in India:

1. **Radio Taxi**: Venture Capital (VC) players are betting big on the radio taxi services space. The VCs are bullish, as India has a massive, untapped market opportunity in cab
aggregation. There are about 6,00,000 taxis in the unorganised sector that can be aggregated, which is a $2.5-billion opportunity. Five deals worth $30 million had taken place in 2013 against $7 million in 2012. The radio taxi services segment has witnessed 21 deals worth about $103 million in the past seven years.

2. **Apparel Space:** Venture capital and PE firms have consistently shown interest in the apparel space, as a proxy of domestic consumption demand. Investors pumped in $115.4 million in 15 apparel firms in 2013.

3. **Eco System:** 2013 has been a year full of activity for the Indian start-up ecosystem. A wave of optimism surging through a pool of pessimism, there has always been something to cheer about. 2012 saw more than $760 million being invested via more than 200 deals and the number has risen in 2013 to over a $1.6 billion via 293 deals.

4. **Logistics:** Logistics is another area in which VCs are expected to invest (data is not available).

5. **Film Production:** The other prospective area in which VCs and PEs would make huge investments includes Indian film production. The Indian film industry currently is worth 1.8 billion and is expected to grow at over 25% and would reach a level of USD over 5 billion by 2011. With the newly accorded status of industry and professionalism on film industry, it will emerge as new venue for VCs.

6. **Education:** This is another prospective area in which VCs and PEs would make huge investments. With a booming economy and concurrent talent shortage, denying for services from the domestic education sector is slated to create a lucrative opportunities for VCs. A global private equity firm with $36 billion in assets is planning approximately $200 million investments in the Indian
education sector by taking up strategic positions in companies offering e-learning, distant learning, vocational training and the like.

7. **Beauty Saloon:** In Mumbai, Affinity Beauty Salon Pvt. Ltd is in talks with private equity (PE) firms to raise as much as Rs.100 crores by selling a significant minority stake to fund its expansion plans, according to a company official.

8. **Real Estate:** Looking at Venture Capital in the last few years, the biggest investment in India would have been in Info-tech, or in services (like Flipkart) or even in telecom. But strangely, the biggest investment as a percentage has been Real Estate. Since 2007, Venture Capital Investments in Real Estate have beaten others by a large margin, and as of December 2012 were nearly at Rs. 10,000 crores (about 30% higher than the next sector - Telecom).

**Problems of Indian Venture Capital and Private Equity Industry:**

The issues relating to venture capital funding are:

1. **Product risk:** The products concerned may have little or no track record in the markets as they are largely untested and usually have high rates of obsolescence.

2. **Entrepreneur risk:** Another of the disadvantages of venture capital funding is that it is difficult to evaluate the new management and new business application without any prior track record.

3. **Concentration risk:** Focusing on small market, which can relate to either the product or in geographical terms, raises exposure to sectoral downturn.

4. **Technology risk:** It is very hard to assess new technology on small set of products.

5. **Duration risk:** Generally a longer long-gestation period for funding is needed (longer pay-back period).
6. Asset risk: Due to a high percentage of fixed assets with high obsolescence, along with a high fraction of human capital, there is a lack of collateralizable assets, which is one of the drawbacks in venture capital funding.

7. Small deal size: This is not found economical by most investors.

Obtaining private equity financing is not without risks. Some of the risks or challenges include:

1. The private equity investor may replicate the business idea that he was presented with and pass it on to another established company where he holds ownership stakes.
2. Private equity investors may use the company to further the cause of other companies where they have larger investments. For example, he may force or influence the company into supplying materials to another company at below-market prices.
3. Performance-oriented private equity investors may withdraw their funds if the company does not perform in accordance with the required returns.
4. Since there is no market valuation for the stake in the company’s shares, the company may be ‘under-valued’ by private investors with strong bargaining power. This is especially so if the management of the company has comparatively less information.

Suggestions:

In the light of the foregoing analysis in various dimensions of the performance of venture capital and private equity financing in India, the researcher has offered the following suggestions for better performance and to become a major source of finance/capital for the Indian industry.

1. There is a serious mismatch between the kind of venture capital available in India and what the market demands.
Most of the venture capital financiers are offering second stage and expansion financing (which is less risky) and completely neglecting the start-up finance. So, it is suggested that the government should make a policy that certain percentage of financing (based on demand) must be meant for start-ups (ex: 40:60).

2. In India there are many idea rich, cash less entrepreneurs and cash rich and idea less investors. In order to encourage such idea rich entrepreneurs, the policy making body at the national level should set up separate cell for the collection of ideas. Periodically, those ideas must be screened by the experts and recommend the best and commercially viable ones for financing. No doubt, this would promote the concept of financing innovation and would provide an opportunity to the many young technocrats to become entrepreneurs.

3. Most operators of VC Financing in India are an extended arm or a division of global investment institutions. Their representation is more than 95 per cent of the VC invested in India. The investment mandates of these VCFs are often driven by the parent institutions’ global view, which often ignores local market needs. To overcome this limitation, it is necessary to promote India VCFs by establishing domestic VCF Association.

4. Indian rupee deprecation is another serious bottleneck making international VCFs in India unattractive. Every international VC investor in India has been a victim of the depreciation of the rupee against the dollar. The returns produced by Indian VCFs, measured in US dollars or other Western currencies, turn out to be considerably less attractive than that measured in Indian currency. Many nations such as the Netherlands, Portugal, Finland, Norway and Israel recognized the limitations of depending on foreign funds at the time of evolving a policy for
developing a local VC industry. Their first step was to kick start VCFs in the private sector with funds from domestic institutions. Over a decade, or even less, they succeeded in creating a local VC industry that depended less and less on government support and international investors. Hence, there is an urgent need that the government of India should encourage domestic venture capital financiers by liberalizing the policy guidelines, viz, licensing system, taxation, etc.

5. In place of multiple regulatory mechanisms, a single window regulatory mechanism must be developed. SEBI’s regulations, DFI’s regulations, regulations for private equity financiers, regulations for domestic financiers, regulations for venture financiers in India backed by international financiers should be brought into single platform.

6. There should be no place for restricted entry and exit for the venture capitalists and private equity financiers, i.e., free and entry and exit must be allowed.

7. Like US and Sweden, the double taxation (at corpus and investor level) was abolished in India. The same should be implemented effectively.

8. In addition to DFIs, SIDBI and other State level financial institutions (Ex: SFCs), the identified nationalized commercial banks must also be permitted to perform venture capital financing.

9. In PE financing, there is a scope for under valuation (because of the absence of market valuation) by private investors with strong bargaining power. This is especially so if the management of the company has comparatively less information. Therefore, there is a need for the development of an accounting system for fair valuation.

10. Most of VCFs and PEFs in India are focusing on few sectors only, viz., IT & ITES, Bio-technology, Pharmaceutical and Service sectors. It is suggested that
they should expand their wings in to modern areas like Clean Technology, Green Technology, Power Generation (Solar Power and Wind Power), Education Sector, Infrastructure, Film Production, Radio Taxi, Beauty Saloon, Apparel, Eco System, Cloud Computing, etc.

11. Another issue for slow performance of VCF and PEFs in India is the poor quality of corporate governance and lack of sensitivity among entrepreneurs and investors, to each other’s legitimate business aspirations. So, there is need to develop a model code of conduct for entrepreneurs and investors for their win-win association.

References:
19. www.vccedge.com
What is Venture Capital?

The term ‘Venture Capital’ is understood in many ways. In a narrow sense it refers to, investment in new and tried enterprises that are lacking a stable record of growth. In a broader sense, venture capital refers to the commitment of capital as shareholding for the formulation and setting up of small firms specializing in new ideas or new technologies. The emerging scenario of global competitiveness has put an immense pressure on the industrial sector to improve the quality level with minimization of cost of products by making use of latest technological skills. The implication is to obtain adequate financing along with the necessary hi-tech equipments to produce an innovative product which can succeed and grow in the present market condition. Venture Capital is money provided by professionals who invest and manage young rapidly growing companies that have the potential to develop into significant economic contributors. According to SEBI regulations, venture capital fund means a fund established in the form of a company or trust, which raises money through loans, donations, issue of securities or units and makes or proposes, to make investments in accordance with these regulations. The funds so collected are available for investment in potentially highly profitable enterprises at a high risk of loss. A Venture Capitalist is an
individual or a company who provides, Investment Capital, Management Expertise, Networking & marketing support while funding and running highly innovative & prospective areas of products as well as services. Thus, the investments made by Venture Capitalists generally involves Financing new and rapidly growing companies, purchasing equity securities, taking higher risk in expectation of higher reward, Having a long frame of time period, generally of more than 5-6 years, actively working with management to devise strategies pertaining for overall functioning of project.

Defining Venture Capital internationally:
As has been mentioned, countries with market-based systems have higher levels of venture capital activity. It should be noted, however, that any comparison of venture capital activity internationally is bound to run into problems, since definitions and demarcation lines vary. See Box 2 for international organisations of relevance for such analysis, and Box 3 for issues that complicate interpretations. In the US, venture capital is defined as capital provided by professionals who invest alongside management in young rapidly growing companies. It is considered an important source for start-up companies in particular. The European Venture Capital Association (EVCA) accords a somewhat broader definition to venture capital. Here, venture capital is viewed as a subset of private equity and refers to equity investments made for the launch, early development or expansion of a business.

Thus the terminology varies somewhat internationally and employing a universal venture capital definition is troublesome for various reasons. In countries that have little or no early-stage financing, expansion or later stage finance is more often referred to as venture capital. For instance, whereas the definition in the US, generally, is restricted to start-up companies, European venture capital is less developed and includes both early-stage and expansion companies.
Venture Capital financing:
It generally involves start up financing to help technically sound, globally competitive and potential projects to compete in the international markets with the high quality and reasonable cost aspects. The growth of South East Asian economies especially Hong Kong, Singapore, South Korea, Malaysia along with India has been due to the large pool of Venture Capital funds from domestic / offshore arenas.

Venture Capitalists draw their investment funds from a pool of money raised from public and private investors. These funds are deployed generally as equity capital (ordinary and preference shares) and sometimes as subordinated debt which is a semi secured investment in the company (through debenture) ranking below the secured lenders that often requires periodic repayment. Today, a VC deal can involve common equity, convertible preferred equity and subordinated debt in different proportions.

The Venture Capital funding varies across the different stages of growth of a firm. The various stages are:

1. Pre seed Stage: Here, a relatively small amount of capital is provided to an entrepreneur to conceive and market a potential idea having good future prospects. The funded work also involves product development to some extent.
2. Seed Stage: Financing is provided to complete product development and commence initial marketing formalities.
3. Early Stage / First Stage: Finance is provided to companies to initiate commercial manufacturing and sales.
4. Second Stage: In the Second Stage of Financing working capital is provided for the expansion of the company in terms of growing accounts receivable and inventory.
5. Third Stage: Funds provided for major expansion of a company having increasing sales volume. This stage is met when the firm crosses the breakeven point.
6. Bridge/Mezzanine finance or Later Stage Financing:
Bridge/Mezzanine Financing or Later Stage Financing is financing a company just before its IPO (Initial Public Offer). Often, bridge finance is structured so that it can be repaid, from the proceeds of a public offering.

There are basically four key elements in financing of ventures which are studied in depth by the venture capitalists. These are:

1. **Management**: The strength, expertise & unity of the key people on the board bring significant credibility to the company. The members are to be mature, experienced possessing working knowledge of business and capable of taking potentially high risks.

2. **Potential for Capital Gain**: An above average rate of return of about 30-40% is required by venture capitalists. The rate of return also depends upon the stage of the business cycle where funds are being deployed. Earlier the stage, higher is the risk and hence the return.

3. **Realistic Financial Requirement and Projections**: The venture capitalist requires a realistic view about the present health of the organization as well as future rejections regarding scope, nature and performance of the company in terms of scale of operations, operating profit and further costs related to product development through Research & Development.

4. **Owner’s Financial Stake**: The financial resources owned & committed by the entrepreneur/ owner in the business including the funds invested by family, friends and relatives play a very important role in increasing the viability of the business. It is an important avenue where the venture capitalist keeps an open eye.

**Summary:**

Recognising the importance of finance in the early stages of company development, countries over time have developed a range of measures to support the allocation of seed and venture
capital to new and entrepreneurial companies, especially to those deemed to have growth potential. Some countries, such as Japan and Germany, are traditionally characterised by a bank-based financial system which relies on concentrated ownership, strong monitoring of managers, emphasis on traditional collateral, and so forth. Others, such as the US and the UK, have developed market-based systems characterized by widely dispersed ownership, stronger protection for minority shareholders, versatile markets for control and ownership and greater transparency and openness to measuring intangible assets. In both systems, solid relationships between entrepreneurs looking for funds to establish new companies and outside investors are fundamental to the development of economic growth.

However, risk aversion and demands for high collateral are making the regular bank-based system inappropriate for financing innovation in new, high-risk enterprises. Hence, alternative sources of finance are required. The market-based system developed partly in response to the need for supporting intangible assets with high growth potential. In this system, most corporate financing is undertaken through capital markets. Venture capitalists provide, per definition, financial and non-financial sources to high-risk start-ups and expansion companies, and through active involvement, they manage to overcome market failures such as asymmetric information. Various types of private and institutional venture capital investors play a key role in entrepreneurial companies depending on the stage of company development. But private forces and market competition alone cannot provide socially desirable quantities of risk capital. Deficiencies remain visible in the mechanisms for channelling funding to start-up or early stage expansion of companies. Today, bank-based systems have moved in the direction of the market-based in some respects; transparency has increased as has the protection for minority shareholders and competition for ownership and control. In both kinds of system, however,
governments are looking for ways to strengthen the supply of financial and associated resources to new, potential high-growth, companies.

When moving to correct market failure in the provision of venture capital, governments may stimulate private investors to invest in fragile but important market segments that they would otherwise ignore due to expectations of poor economic returns. Public intervention may be particularly important in stages when entrepreneurial companies are subjected to the first or second equity gaps, as discussed in this chapter. Above all policy makers must strive for a state of play that is conducive to healthy interactions and learning processes. The extent to which government policies actually contribute to solving the market problems is dubious in many cases, however. As noted, venture capital allocated to early stage investment remains much smaller in the EU than in the US. As will be further highlighted in the ensuing chapters, venture capital activity varies greatly between countries, although national markets are, in part, confronted with similar challenges.

References:

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- http://www.nvca.org/
Comparative Analysis of Sectoral Financing
by VCFs and FVCIs in India

Dr. E. Lokanadha Reddy*
Dr. C. Viswanatha Reddy**

Abstract

Venture capital is a way of financing swift growing private companies who are in their pubescent phase and are in require of support in the form of money and corporate guidance. Venture capital financiers are ready to take risks and invest money in companies which are still making efforts to establish themselves in the market but because of the novelty of their ideas and innovations in their filed of business they are capable of earning high returns in near future. Therefore VCFs and FVCIs are not only a source of funds for newly established private companies but also a means of encouraging business innovations. The government of India has made the SEBI as nodal regulator for domestic and overseas venture capital financiers in India for hassle free flow of venture capital. The present paper is divided into four parts. Firstly, the Indian scenario, policy support and the SEBI’s role for the growth and development of venture capital financing activities has been covered. Secondly, the number of VCFs and FVCIs registered with SEBI and the details of cumulative investments made by them during the period of analysis has been discussed. Thirdly, the industry-wise cumulative investments made in India by VCFs and FVCIs together and alone were examined. In order to capture the trend precisely the cumulative investments made by VCFs and FVCIs in various industries have been regressed on

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Contemporary Issues in Venture Capital Financing in India

The concept of venture capital has emerged with a view to provide finance innovative ideas backed by entrepreneurial talent and business skills, which have potential for high growth but with intrinsic uncertainties. Apart from finance, venture capitalists provide networking, management and marketing support as well. In the broadest sense, venture capital connotes risk finance as well as managerial support. India has a vast pool of scientific and technical research carried out in research laboratories, defence laboratories as well as in universities and technical institutes. Conducive environment together with incubation facilities can help a great deal in identifying and actualizing some of these researches into commercial production. Further, with the given the inherent strengths, viz., advancement in science and technology, research, competitive entrepreneurship, the skilled and cost competitive manpower with excellent policy support, rapid and sustainable economic growth and competitive global strength, India has become a destination for venture capital financing activities.

The specialized venture capital financing system is required to endow with linkage between idea-rich entrepreneurs and cash-rich investors, ensuring funding for innovative firms have positive externalities on the economy. So, it makes sense for governments to promote an active venture capital market to
bring the nation equal to the developed nations. The Government of India has rightly attempted to fetch the nation at par and above the developed nations, has been promoted venture capital financing to new, innovative concepts and ideas, by way of liberalizing taxation norms, providing tax incentives to venture firms, giving scope for the creation of local pools of capital and holding training sessions for the emerging VC investors.

Venture capital activities in India began in 1986 with the start of the economic liberalisation. In 1988, the Indian government formalised venture capital by issuing a set of guidelines. Initially, venture capital was limited to subsidiaries set up IDBI, ICICI and the IFCI, and focused on large industrial concerns. But the turning point came when the well-established start-ups by Indians in the Silicon Valley convinced foreign investors that India had the talent and the scope for economic development and growth. Over the years, more and more private investors from India and abroad have entered the Indian venture capital market.

The Government of India constituted a SEBI committee headed by K. B. Chandrasekhar to make recommendations to facilitate the growth of VC industry in India. This committee submitted its report in July 2000 with the prominent recommendations, all of which were accepted and implemented: (a) SEBI should be the nodal regulator for VC funds in India providing a smooth, single window, problem-free regulatory framework for quick and efficient flow of money into VC funds in India; (b) Tax pass-through status should be granted to all regulatory compliant VC funds, similar to that which is provided to mutual funds, ensuring that at the “pool-level” (VC Fund) profits are tax exempt; and (c) A foreign investor who wants to make investment in venture capital company in India has to ensure that it has been registered as a Foreign Venture Capital Investor (FVCI) in India with SEBI under SEBI (Foreign Venture
Capital Investor) Regulations 2000. This registration should enable them to have the same facilities as the foreign institutional level of easy investments and disinvestments without any FIBP / RBI approvals. The investments by foreign investors in Indian Venture Capital Undertakings (VCU) and Venture Capital Funds (VCF) are governed by Foreign Exchange Management (Transfer or Issue of Security by a person Resident outside India) Regulations, 2000 and SEBI (Foreign Venture Capital Investor) Regulations 2000. A registered FVCI is allowed to invest 100% of its funds in a VCF registered under SEBI (Venture Capital Fund) Regulations in the following modes:

1. It has to invest at least 66.67% of its investible funds in unlisted equity shares or equity linked instruments of Venture Capital Undertakings.

2. It can invest only 33.33% of its funds (and not more), by –
   a. Subscribing to initial public offer of adventure capital undertaking whose shares are proposed to be listed;
   b. Investing in debt or debt instrument of the VCU provided it has already invested by way of equity in such a VCU;
   c. Preferential allotment of equity shares of a listed company subject to lock in period of one year;
   d. Investment by subscription or purchase in the equity shares or equity-linked securities of a financially weak listed company or industrial listed company;
   e. Investment by way of subscription or purchase in Special Purpose Vehicles created for the purpose of facilitating or promoting investment in accordance with these regulations.

Review of Literature:
Dr Reddy C.V. (2014) in his study entitled “Performance Analysis of Venture Capital and Private Equity Financing in
India” has highlighted the current scenario of Indian VC and PE financing industry, problems in VC and PE financing, risks involved in such financing, operational performance of VC and PE financing in the recent past and made a suggestion for the development of single window regulatory mechanism. According to him, the SEBI and DFIs regulations, regulations for PE financiers, regulations or domestic VC financiers, regulations for VCFs in India backed by International financiers should be brought into single platform. Dr Reddy C.V. (2014) in his another article “Risk Capital and MSMEs in India” has concluded that the nation waits for the burgeoning VC business in India in spite of the existing shortcomings in the Indian infrastructure.


Strategic Leadership in Entrepreneurial Firms” have concluded that VCs can also serve as intermediaries between lenders and entrepreneurs. According to Williamson (1996) in his work entitled “The Mechanisms of Governance”, VC involvement may also provide the new venture with legality and may act as a structure of plausible obligation for those transacting with the new ventures. Further, Megginson and Weiss, (1991) have highlighted in their research paper titled “Venture Capitalist Certification in Initial Public Offerings” that venture capitalists can introduce entrepreneurs to key buyers and suppliers and help them to establish ties with higher reputation underwriters. Gompers and Lerner, (1999) in their work on “The Venture Capital Cycle”, Seppa (2003), in his contribution “Essays on the Evaluation and Syndication of Venture Capital Investments” and Smith, (1999) in his work on “How Early Stage Entrepreneurs Evaluate Venture Capitalists” have highlighted that it is crucial for venture capitalists to retain a good reputation to signal their honesty and ability to potential investors, peers and potential investment targets. Smith, (1998) in his work on “Venture Capital Contracting in the Information Age” has been suggested that entrepreneurs select venture capitalists based on their reputation and this may inspire venture capitalists to perform diligently and avoid opportunistic behavior.

Zopounidis, (1994) in a study on “Venture Capital Modeling: Evaluation Criteria for the Appraisal of Investments” has highlighted that the investment processes of VCs to make their investment decisions have a relatively long tradition in entrepreneurship research, with the first studies ranging back to the 1970s. Some other studies by Riquelme and Rickards, (1992) offer a number of valuable insights into the VC decision process. The results of such studies are often interpreted as direct evidence on the long-term success factors of new firms, because professional investors who earn their money by investing in new
firms are considered to possess much experience in distinguishing winners from losers. Zacharakis and Meyer, (1998), Shepherd and Zacharakis, (1999); Zacharakis and Meyer, (2000) and Shepherd et al., (2003), etc., have pronounced that though research gives key insights into the criteria used in the evaluation process, more recent studies reveal that previous results might be misleading due to (a) methodological shortcomings: as most research in this area relies on post hoc methodologies which typically suffer from problems of recalling past information and (b) biases in the decision process of VCs.

**Statement of the Problem:**

In the globally competitive world, the companies are required to be super efficient with respect to cost, productivity, labour efficiency, technical back up, flexibility to consumer demand, adaptability and foresightedness. There is an impending demand for highly cost effective, quality products and hence the need for right access to valuable human expertise to guide and monitor along with the necessary funds for financing the new projects. To bring the nation at par and above the developed nations, the Government of India has been promoting venture capital financing to new, innovative concepts & ideas, by liberalizing taxation norms, providing tax incentives to venture firms, giving a Philip to the creation of local pools of capital and holding training sessions for the emerging VC investors. Venture Capital Funds in India (both Domestic, i.e., VCFs and International, i.e., FVCIs) are governing by the Securities and Exchange Board of India. SEBI has become the nodal agency for registration and regulation of both domestic and overseas venture capital funds. Accordingly, it has made the regulations, namely, SEBI (VCFs) Regulations 1996 and SEBI (FVCIs) Regulations 2000. These regulations provides the guidelines and procedures for establishment of VCFs both with in India and outside it; their
management structure and set up; as well as size of investment criteria’s of the funds. The present paper entitled “Comparative Analysis of Sectoral Financing by VCFs and FVCIs in India” highlights the scenario of VCFs and FVCIs in India, Growth in Number of VCFs and FVCIs in India, Cumulative Investment Details of Venture Capital Funds (VCFs) and Foreign Venture Capital Investors (FVCIs), Individual performance analysis of VCFs and FVCIs in India, etc, and offers some useful suggestions for strengthening of such activities in India.

**Objectives of the study:**
The objectives of the study are as follows:
1. To highlight the scenario of VCFs and FVCIs in India.
2. To explain the growth in number of registered VCFs and FVCIs with SEBI.
3. To examine sector-wise cumulative investments by VCFs and FVCIs together in India.
4. To discuss the growth in sector-wise investments by VCFs during the study period.
5. To narrate the growth in sector-wise investments by FVCIs during the study period.
6. To understand the statistical relationship between investments by VCFs and FVCIs during the study period.
7. To offer some valid suggestions for further strengthening of venture capital financing in India.

**Research Methodology:**

**Research design:**

In view of the objectives of the study listed above, an exploratory research design has been adopted. Exploratory research is one, which lays particular emphasis on the analysis and interpretation of the existing and available information and it makes use of secondary data.
Sources of data:
The study is based on secondary data and the same has been collected from SEBI’s Handbook of Statistics, 2013-14, and the websites of different venture capital financiers, etc. The respective source from which the data has compiled is mentioned at each table under source. However, the study period ranges from 2006 to 2014.

Hypothesis of the Study:
Based on the data available and association between them, the following hypothesis is developed.

- \( H_{01} \): There is no significant difference between number of VCFs and FVCIs in India during different years of study period.
- \( H_{02} \): There is no significant difference between mean number of VCFs and FVCIs in India during the study period.
- \( H_{03} \): There is no statistical relationship between cumulative investments by VCFs and FVCIs during different financial years.
- \( H_{04} \): There is no significant difference between mean percentages of investments by VCFs and FVCIs among different sectors of industries.
- \( H_{05} \): There is no significant difference between mean percentages of investments by VCFs and FVCIs during different years of study period.
- \( H_{06} \): There is no significant difference between mean percentages of investments by VCFs among different sectors of industries.
- \( H_{07} \): There is no significant difference between mean percentages of investments by VCFs during different years of study period.
- \( H_{08} \): There is no significant difference between mean percentages of investments by FVCIs among different sectors of industries.
- \( H_{09} \): There is no significant difference between mean percentages of investments by FVCIs during different years of study period.
Tools of Analysis:
The data collected for the study has analysed logically to arrive at meaningful conclusions. The statistical tools applied for data analysis are - Percentages, Compound Annual Growth Rate (CAGR), Mean, Variance, Standard Deviation, Pearson's Correlation Coefficient and Correlation Matrix, Linear Trend Equations, ANOVA – Two Factor without Replication, t-Statistic, Multiple R, R Square, Adjusted R Square, Standard Error of Difference, etc.

Scope of the paper:
The scope of the present paper is divided into four parts. Firstly, the Indian scenario, policy support and the SEBI’s role for the growth and development of venture capital financing activities has been covered. Secondly, the number of VCFs and FVCIs registered with SEBI and the details of cumulative investments made by them during the period of analysis has been discussed. Thirdly, the industry-wise cumulative investments made in India by VCFs and FVCIs together and alone were examined. In order to capture the trend precisely the cumulative investments made by VCFs and FVCIs in various industries have been regressed on time. With a view to analyse whether there is a significant difference between various industries respect to investments made by VCFs and FVCIs over the years of the study period, ANOVA: Two-Factor without replications has been performed. Fourthly, the problems of venture capital financing in India were examined. Lastly, few suggestions were offered for further strengthening of these activities in India.

Limitations of the Study:
Since the venture capital financing is a strange concept in India, much research has not been taken place. So, it is difficult to find enough amount of literature on the topic.
Data Analysis and Interpretation:

Growth in Number of VCFs and FVCIs in India:

Table No.1 provides the data relating to the number of VCFs and FVCIs registered with SEBI and their proportion to the total number of institutions during the study period, i.e., from 2004-05 to 2013-14. The proportions show frequent fluctuations during the study period. Therefore, no comment is possible on the changes in the relative proportions of these institutions. At best we can say that the percentage share of VCFs has been consistently greater than that of the FVCIs.

<table>
<thead>
<tr>
<th>Year</th>
<th>No. of VCFs (A)</th>
<th>No. of FVCIs (B)</th>
<th>Percentage to Total</th>
<th>Percentage to Total</th>
<th>Total (A+B)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2004-05</td>
<td>50</td>
<td>14</td>
<td>78.12</td>
<td>21.87</td>
<td>64</td>
</tr>
<tr>
<td>2005-06</td>
<td>80</td>
<td>39</td>
<td>67.22</td>
<td>32.77</td>
<td>119</td>
</tr>
<tr>
<td>2006-07</td>
<td>90</td>
<td>78</td>
<td>53.57</td>
<td>46.42</td>
<td>168</td>
</tr>
<tr>
<td>2007-08</td>
<td>106</td>
<td>97</td>
<td>52.21</td>
<td>47.78</td>
<td>203</td>
</tr>
<tr>
<td>2008-09</td>
<td>132</td>
<td>129</td>
<td>50.57</td>
<td>49.42</td>
<td>261</td>
</tr>
<tr>
<td>2009-10</td>
<td>158</td>
<td>143</td>
<td>52.49</td>
<td>47.50</td>
<td>301</td>
</tr>
<tr>
<td>2010-11</td>
<td>184</td>
<td>153</td>
<td>54.59</td>
<td>45.40</td>
<td>337</td>
</tr>
<tr>
<td>2011-12</td>
<td>207</td>
<td>175</td>
<td>54.18</td>
<td>45.81</td>
<td>382</td>
</tr>
<tr>
<td>2012-13</td>
<td>211</td>
<td>182</td>
<td>53.68</td>
<td>46.31</td>
<td>393</td>
</tr>
<tr>
<td>2013-14</td>
<td>218</td>
<td>200</td>
<td>52.15</td>
<td>47.85</td>
<td>418</td>
</tr>
</tbody>
</table>

**Mean**

|          |                  |                  | 54.51               | 45.47               |

**Variance**

|          |                  |                  | 24.21               | 24.21               |

**t-statistic**

|          |                  |                  | 2.75                | 2.10                |

**t-critical value for 18 degrees of freedom**

|          |                  |                  | 2.10                | 2.10                |

**Source:** SEBI Handbook of Statistics, 2013-14

The percentage share of VCFs in relation to the total number of institutions over the study period has declined from 78.12 per cent in 2004-05 to 50.17 per cent in 2008-09 and again
increased to 52.15 per cent in 2013-14. The mean percentage of VCFs to the total number of institutions was recorded at 54.51 per cent. The percentage of FVCIs in relation to the total number of units over the study period has increased from 21.87 per cent in 2004-05 to 47.15 per cent in 2013-14. The mean percentage of FVCIs in relation to the total number of institutions was recorded at 45.47 per cent.

In order to know whether there is a significant difference in average number of VCFs and FVCIs in different years of the study period, ANOVA: Two-Factor without Replication has been performed. The null and alternative hypothesis which, is kept in view and also the results of the F-test are briefly discussed hereunder.

\[ H_{01}: \text{There is no significant difference between number of VCFs and FVCIs in India during different years of study period.} \]

\[ H_{02}: \text{There is no significant difference between mean number of VCFs and FVCIs in India during the study period, i.e., the column means are equal.} \]

<table>
<thead>
<tr>
<th>Source of Variation</th>
<th>SS</th>
<th>df</th>
<th>MS</th>
<th>F</th>
<th>P-value</th>
<th>F crit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Between Rows</td>
<td>67473.2</td>
<td>9</td>
<td>7497.02</td>
<td>91.27</td>
<td>9.22</td>
<td>3.17</td>
</tr>
<tr>
<td>Between Columns</td>
<td>2553.8</td>
<td>1</td>
<td>2553.80</td>
<td>31.09</td>
<td>0.00</td>
<td>5.11</td>
</tr>
<tr>
<td>Error Variance</td>
<td>739.2</td>
<td>9</td>
<td>82.13</td>
<td>4.00</td>
<td>0.00</td>
<td>5.11</td>
</tr>
<tr>
<td>Total Variance</td>
<td>70766.2</td>
<td>19</td>
<td></td>
<td>91.27</td>
<td>9.22</td>
<td>3.17</td>
</tr>
</tbody>
</table>

Source: Calculated by using MS Excel.

At 95% confidence level, the critical value of F for \( v_1 = 9 \) and \( v_2 = 9 \), \( F_{0.05} \) is 3.17 and for \( v_1 = 1 \) and \( v_2 = 9 \), \( F_{0.05} \) is 5.11. The calculated value of F for rows is 91.27 and it is much greater than the critical value and falls in rejection region. Hence, the null hypothesis (\( H_{01} \)) is rejected. The calculated value of F for columns is 31.09. This is greater than the critical value and falls in the rejection region. Hence, the null hypothesis (\( H_{02} \)) is
rejected. The results indicate that there is a significant variation between percentage of VCFs and VFCIs during different years of the study period. The results also indicate there is a significant difference between mean percentage of VCFs and FVCIs during the study period.

**Cumulative Investment Details of VCFs and FVCIs:**

Venture Capital has emerged as an important source of finance for small and medium-sized firms, especially for starting the business and business expansion. Keeping in view of the advantages of venture capital financing, the VCFs and FVCIs are continuously striving to provide the sufficient risk capital for promoting the small and medium sized enterprises at affordable cost and without any usual hurdles. Table No.2 provides the data concerning to the cumulative investments by the VCFs and FVCIs during the study period.

**Table No.2**

**Cumulative Investment Details of Venture Capital Funds (VCFs) and Foreign Venture Capital Investors (FVCIs) (Rs. in Crores)**

<table>
<thead>
<tr>
<th>31st March</th>
<th>VCFs</th>
<th>FVCIs</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Amount</td>
<td>Annual Growth Rate</td>
<td>Percentage to Total</td>
<td>Amount</td>
</tr>
<tr>
<td>2006</td>
<td>9,350</td>
<td>—</td>
<td>56</td>
</tr>
<tr>
<td>2007</td>
<td>17,325</td>
<td>85.29</td>
<td>53</td>
</tr>
<tr>
<td>2008</td>
<td>21,216</td>
<td>22.45</td>
<td>52</td>
</tr>
<tr>
<td>2009</td>
<td>24,101</td>
<td>13.59</td>
<td>49</td>
</tr>
<tr>
<td>2010</td>
<td>23,023</td>
<td>-4.47</td>
<td>41</td>
</tr>
<tr>
<td>2011</td>
<td>27,593</td>
<td>19.84</td>
<td>42</td>
</tr>
<tr>
<td>2012</td>
<td>31,557</td>
<td>14.36</td>
<td>48</td>
</tr>
<tr>
<td>2013</td>
<td>35,400</td>
<td>12.17</td>
<td>44</td>
</tr>
<tr>
<td>2014</td>
<td>35,003</td>
<td>-1.12</td>
<td>44</td>
</tr>
</tbody>
</table>
The amounts of investment (cumulative) by VCFs and FVCIs have consistently increased during the study period. The amount of investment by VCFs has increased from Rs.9,350 crores as on 31st March 2006 to Rs.35,003 crores as on 31st March 2014. Similarly, the amount of investment by FVCIs also increased from Rs.7,256 crores as on 31st March 2006 to Rs.44,804 crores as on 31st March 2014. During the study period, the growth rate in respect of cumulative investments made by VCFs and FVCIs was satisfactory. The growth rates have been calculated to show the percentage increase or decrease over the previous years. The highest growth rate of investments by VCFs recorded during the year 2006-07 over 2005-06, i.e., 85.29 per cent. During 2009-10 and 2013-14, it recorded a negative growth over its previous years, i.e., - 4.47 per cent and – 1.12 per cent respectively. Similarly, the maximum growth rate of investments by FVCIs recorded during the year 2006-07 over 2005-06, i.e., 114.77 per cent. During 2011-12 and 2013-14, it recorded a negative growth over its previous years, i.e., - 12.79 per cent and – 0.19 per cent respectively. It is clear from the analysis that, the growth rate in respect of cumulative investments by VCFs and FVCIs was satisfactory and they are little fluctuated.
To understand the association between cumulative investments made by VCFs and FVCIs in India over the study period, the following hypothesis has been set.

\( H_0 \): There is no statistical relationship between cumulative investments by VCFs and FVCIs during different financial years.

To test the hypothesis, the Pearson correlation is used. It is found that there is a significant relationship between investments by VCFs and FVCIs at 1% level with \( r = 0.950 \) (significant at the 0.01 level (2-tailed)), which is high and positive. Therefore, there is a statistical relationship between investments by VCFs and FVCIs during the study period.

**Sector-wise flow of Investments by VCFs and FVCIs:**

The VC industry (VCFs and FVCIs) in India has extended its arms to many sectors, where the risk and return are high and parallel, viz., Information Technology, Telecommunications, Pharmaceuticals, Bio-technology, Media and Entertainment, Capital Goods, Software and Services, Industrial Products, Real Estate, Retailing, Consumer Durables and Apparel, Consumer Services, Food, Beverage & Tobacco, Diversified Financial Services, Healthcare Equipment & Services, Automobiles & Components, and Others. In order to precise the analysis of data, the overall investments by VCFs and FVCIs in India has been classified into 9 sectors, viz., Information Technology, Telecommunications, Pharmaceuticals, Bio-technology, Media and Entertainment, Services Sector, Industrial Products, Real Estate, and Others. The data relating to sector-wise investments together by VCFs and FVCIs is provided in the following Table No.3.
Contemporary Issues in Venture Capital Financing in India

Table No.3
Industry-wise Cumulative Investment Details of Venture Capital Funds (VCFs) and Foreign Venture Capital Investors (FVCIs)

(Rs. in Crores)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Technology</td>
<td>1,594 (9.41)</td>
<td>2,769 (7.19)</td>
<td>2,520 (1.07)</td>
<td>2,715 (5.84)</td>
<td>3,549 (6.30)</td>
<td>4,191 (6.30)</td>
<td>4,597 (7.91)</td>
<td>5,453 (6.76)</td>
<td>5,782 (6.85)</td>
</tr>
<tr>
<td>Information Technology</td>
<td>844 (3.08)</td>
<td>869 (3.00)</td>
<td>1,076 (2.62)</td>
<td>3,054 (7.98)</td>
<td>8,003 (14.22)</td>
<td>7,983 (12.00)</td>
<td>7,534 (11.63)</td>
<td>8,461 (10.96)</td>
<td>10,799 (12.23)</td>
</tr>
<tr>
<td>Real Estate</td>
<td>682 (4.10)</td>
<td>1,186 (3.28)</td>
<td>1,229 (2.19)</td>
<td>1,460 (2.94)</td>
<td>1,445 (2.56)</td>
<td>1,244 (2.56)</td>
<td>1,263 (1.83)</td>
<td>1,098 (1.32)</td>
<td>1,379 (1.96)</td>
</tr>
<tr>
<td>Retail/ Hospitality</td>
<td>268 (1.25)</td>
<td>321 (1.15)</td>
<td>634 (1.54)</td>
<td>424 (0.98)</td>
<td>327 (0.56)</td>
<td>328 (0.49)</td>
<td>316 (1.83)</td>
<td>364 (0.45)</td>
<td>359 (0.40)</td>
</tr>
<tr>
<td>Service Sector</td>
<td>1,260 (7.79)</td>
<td>1,206 (7.53)</td>
<td>905 (2.13)</td>
<td>1,227 (2.47)</td>
<td>1,503 (2.67)</td>
<td>1,631 (2.45)</td>
<td>1,310 (2.00)</td>
<td>1,975 (2.45)</td>
<td>2,144 (2.43)</td>
</tr>
<tr>
<td>Industrial Products</td>
<td>957 (5.76)</td>
<td>2,475 (7.52)</td>
<td>2,678 (7.25)</td>
<td>3,353 (6.75)</td>
<td>3,254 (5.78)</td>
<td>3,699 (5.57)</td>
<td>3,723 (5.71)</td>
<td>4,781 (5.95)</td>
<td>4,548 (5.82)</td>
</tr>
<tr>
<td>Media or Entertainment</td>
<td>4,066 (24.42)</td>
<td>2,047 (9.22)</td>
<td>1,951 (4.75)</td>
<td>2,131 (4.29)</td>
<td>1,869 (2.86)</td>
<td>3,527 (5.50)</td>
<td>12,282 (17.21)</td>
<td>13,240 (16.49)</td>
<td>14,922 (19.95)</td>
</tr>
<tr>
<td>Others</td>
<td>6,084 (40.25)</td>
<td>9,344 (19.28)</td>
<td>8,311 (15.38)</td>
<td>7,827 (15.19)</td>
<td>11,282 (20.01)</td>
<td>12,096 (18.24)</td>
<td>11,280 (17.21)</td>
<td>13,240 (16.49)</td>
<td>14,922 (19.95)</td>
</tr>
<tr>
<td>Total</td>
<td>10,606</td>
<td>32,939</td>
<td>41,016</td>
<td>49,886</td>
<td>56,285</td>
<td>60,324</td>
<td>65,532</td>
<td>60,291</td>
<td>90,012</td>
</tr>
</tbody>
</table>


Industry-wise investments together by VCFs and FVCIs have increased from Rs.16,606 crores as on 31st March 2006 to Rs.88,012 crores as on 31st March 2014. The mean percentage of investments in Real Estate with 18.22 per cent, followed by Telecommunication with 8.73 per cent, Information Technology with 6.84 per cent, Services Sector with 6.43 per cent, Industrial Products with 4.19 per cent, Pharmaceutical Sector with 2.51 per cent, Media or Entertainment sector with 2.23 per cent, Bio-technology with 0.80 per cent, Other Industries
with 50.09 per cent respectively. In order to know whether there
is a significant difference between percentage of investments
by VCFs and FVCIs among different sectors of industries in
different years of the study period, ANOVA: Two-Factor without
Replication has been performed. The null hypothesis and also
the results of F-test are briefly discussed hereunder.

\[ H_{04} \]: There is no significant difference between mean
percentages of investments by VCFs and FVCIs among different
sectors of industries, i.e., all the column means are equal.

\[ H_{05} \]: There is no significant difference between mean
percentages of investments by VCFs and FVCIs during different
years of study period, i.e., all the row means are equal.

<table>
<thead>
<tr>
<th>Source of Variation</th>
<th>SS</th>
<th>d.f</th>
<th>MS</th>
<th>F</th>
<th>P-value</th>
<th>F crit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Variance Between Rows</td>
<td>3.11</td>
<td>8</td>
<td>3.89</td>
<td>5.64</td>
<td>1</td>
<td>2.086</td>
</tr>
<tr>
<td>Variance Between Columns</td>
<td>17252.75</td>
<td>8</td>
<td>2156.59</td>
<td>312.06</td>
<td>3.27</td>
<td>2.086</td>
</tr>
<tr>
<td>Residual or Error Variance</td>
<td>442.28</td>
<td>64</td>
<td>6.91</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Variance</td>
<td>17695.03</td>
<td>80</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Calculated by using MS Excel.

At 95% confidence level, the critical value of F for \( v_1 = 8 \) and
\( v_2 = 64 \), \( F_{0.05} \) is 2.086 and for \( v_1 = 8 \) and \( v_2 = 64 \), \( F_{0.05} \) is 2.086. The
calculated value of F for rows is 3.89 and it is greater than the
critical value and falls in rejection region. Hence, the null
hypothesis (\( H_{04} \)) is rejected. The calculated value of F for
columns is 312.06. This is much greater than the critical value
and falls in the rejection region. Hence, the null hypothesis (\( H_{05} \))
is rejected. In order to capture the trend more precisely, the
investments by VCFs and FVCIs among different sectors of
industries has been regressed on time. The results of regression
analysis are provided in the following table.
### Sl. N. | Sector                  | Intercept | X-coefficient | R   | \( R^2 \) | Adjusted \( R^2 \) | S.E. of Difference |
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Information Technology</td>
<td>7.66</td>
<td>-0.164</td>
<td>0.41</td>
<td>0.17</td>
<td>0.05</td>
<td>1.05</td>
</tr>
<tr>
<td>2</td>
<td>Telecommunication</td>
<td>1.69</td>
<td>1.364</td>
<td>0.76</td>
<td>0.58</td>
<td>0.51</td>
<td>3.06</td>
</tr>
<tr>
<td>3</td>
<td>Pharmaceutical</td>
<td>3.88</td>
<td>-0.285</td>
<td>0.96</td>
<td>0.92</td>
<td>0.91</td>
<td>0.22</td>
</tr>
<tr>
<td>4</td>
<td>Biotechnology</td>
<td>1.53</td>
<td>-0.142</td>
<td>0.84</td>
<td>0.71</td>
<td>0.67</td>
<td>0.23</td>
</tr>
<tr>
<td>5</td>
<td>Media/Entertainment</td>
<td>1.82</td>
<td>-0.079</td>
<td>0.49</td>
<td>0.24</td>
<td>0.12</td>
<td>0.37</td>
</tr>
<tr>
<td>6</td>
<td>Services Sector</td>
<td>7.78</td>
<td>-0.275</td>
<td>0.86</td>
<td>0.74</td>
<td>0.69</td>
<td>0.43</td>
</tr>
<tr>
<td>7</td>
<td>Industrial Products</td>
<td>5.92</td>
<td>-0.349</td>
<td>0.80</td>
<td>0.64</td>
<td>0.57</td>
<td>0.69</td>
</tr>
<tr>
<td>8</td>
<td>Real Estate</td>
<td>18.02</td>
<td>-0.105</td>
<td>0.16</td>
<td>0.02</td>
<td>-0.13</td>
<td>1.73</td>
</tr>
<tr>
<td>9</td>
<td>Others</td>
<td>53.03</td>
<td>-0.326</td>
<td>0.22</td>
<td>0.05</td>
<td>-0.17</td>
<td>3.73</td>
</tr>
</tbody>
</table>

Source: Calculated by using MS Excel.

The data provided in the above table says that the investment by VCFs and FVCIs in Pharmaceutical sectors has high correlation with time (0.96) followed by Services Sector (0.86), Industrial Products (0.80), etc. The regression value \( R^2 \) of Pharmaceutical sector is 0.92 showing 92 per cent of impact of independent factor (Time) on dependent factor, followed by Services Sector (0.74), Bio-technology (0.71), Industrial products (0.64), etc.

**Industrial Sector-wise Investments by VCFs:**

VCFs comprise of professionals of various fields. They provide funds to the firms after carefully scrutinizing the projects at various stages, viz., Early stage Financing (for product
development, R&D and initial marketing), Expansion Financing (financing for Working capital, Development Financing), Acquisition/Buyout Financing (to Acquire another firms, Turnaround Financing), etc.. Their main aim is to earn huge returns on their investments, but their concepts are totally different from the traditional moneylenders. VCFs can not only take active participation in the management of the company but also provides expert advises in making the projects profitable. Literally, the venture capitalist and the entrepreneur act as partners. The data relating to sector-wise investments by VCFs is provided in the following Table No.4.

### Table No.4

**Industry-wise Cumulative Investment Details of Venture Capital Funds (VCFs)**

<table>
<thead>
<tr>
<th>Sector of Economy</th>
<th>Information Technology</th>
<th>Telecom</th>
<th>Textile</th>
<th>Pharmaceutical</th>
<th>Biotechnology</th>
<th>Media &amp; Entertainment</th>
<th>Service Sector</th>
<th>Industrial Products</th>
<th>Real Estate</th>
<th>Others</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>31st March</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2006</td>
<td>668 (7.14)</td>
<td>42 (0.44)</td>
<td>487 (5.20)</td>
<td>200 (2.13)</td>
<td>294 (3.03)</td>
<td>648 (6.93)</td>
<td>486 (5.19)</td>
<td>2,026 (21.86)</td>
<td>3,009 (25.29)</td>
<td>8,050</td>
<td></td>
</tr>
<tr>
<td>2007</td>
<td>779 (4.49)</td>
<td>118 (0.68)</td>
<td>716 (4.13)</td>
<td>354 (2.04)</td>
<td>401 (2.31)</td>
<td>1,134 (6.54)</td>
<td>735 (4.24)</td>
<td>4,207 (24.28)</td>
<td>8,851 (51.28)</td>
<td>17,325</td>
<td>21,216</td>
</tr>
<tr>
<td>2008</td>
<td>871 (4.10)</td>
<td>275 (1.29)</td>
<td>581 (2.73)</td>
<td>603 (2.64)</td>
<td>622 (2.93)</td>
<td>1,818 (7.82)</td>
<td>1,095 (5.16)</td>
<td>4,887 (23.03)</td>
<td>10,664 (50.26)</td>
<td></td>
<td>21,216</td>
</tr>
<tr>
<td>2009</td>
<td>763 (3.24)</td>
<td>215 (0.86)</td>
<td>790 (3.27)</td>
<td>373 (1.54)</td>
<td>907 (3.68)</td>
<td>1,866 (7.74)</td>
<td>1,205 (4.99)</td>
<td>6,495 (26.94)</td>
<td>11,437 (47.40)</td>
<td>24,101</td>
<td></td>
</tr>
<tr>
<td>2010</td>
<td>533 (2.31)</td>
<td>896 (3.72)</td>
<td>468 (1.59)</td>
<td>187 (0.81)</td>
<td>802 (3.48)</td>
<td>1,215 (5.27)</td>
<td>763 (3.40)</td>
<td>8,155 (35.42)</td>
<td>10,029 (43.56)</td>
<td>23,063</td>
<td></td>
</tr>
<tr>
<td>2011</td>
<td>576 (2.08)</td>
<td>1,185 (4.25)</td>
<td>469 (1.68)</td>
<td>188 (0.88)</td>
<td>911 (3.30)</td>
<td>1,443 (5.22)</td>
<td>1,110 (4.02)</td>
<td>9,373 (33.96)</td>
<td>12,336 (44.70)</td>
<td>27,563</td>
<td></td>
</tr>
<tr>
<td>2012</td>
<td>770 (2.44)</td>
<td>1,182 (3.74)</td>
<td>550 (1.74)</td>
<td>216 (0.68)</td>
<td>1,101 (3.48)</td>
<td>2,137 (6.77)</td>
<td>1,224 (3.67)</td>
<td>10,159 (32.16)</td>
<td>14,218 (40.05)</td>
<td>31,567</td>
<td></td>
</tr>
<tr>
<td>2013</td>
<td>954 (2.69)</td>
<td>1,469 (4.14)</td>
<td>420 (1.16)</td>
<td>222 (0.62)</td>
<td>1,148 (3.24)</td>
<td>2,426 (6.85)</td>
<td>1,252 (3.53)</td>
<td>11,482 (32.43)</td>
<td>16,029 (45.27)</td>
<td>35,400</td>
<td></td>
</tr>
<tr>
<td>2014</td>
<td>776 (2.21)</td>
<td>1,444 (4.12)</td>
<td>489 (1.37)</td>
<td>214 (0.61)</td>
<td>1,201 (3.43)</td>
<td>2,239 (6.39)</td>
<td>1,252 (3.69)</td>
<td>11,623 (33.30)</td>
<td>15,730 (44.93)</td>
<td>35,003</td>
<td></td>
</tr>
</tbody>
</table>

**Mean (%):** 3.47 2.59 2.58 1.33 3.23 6.59 4.23 28.96 46.03 ---

**Std. Dev.:** 1.63 1.68 1.37 0.83 0.64 0.86 0.70 4.47 3.07 ---

**CAGR:** 1.89 55.6 -0.18 0.94 19.75 16.76 12.99 20.43 19.00 17.94

**Source:** SEBI Handbook of Statistics, 2013-14
Industry-wise investments by VCFs have increased from Rs. 9,350 crores as on 31st March 2006 to Rs. 35,003 crores as on 31st March 2014. The mean percentage of investments in Real Estate with 29.95 per cent, followed by Services Sector with 6.59 per cent, Industrial Products with 4.23 per cent, Information Technology with 3.47 per cent, Media or Entertainment with 3.23 per cent, Telecommunication and Pharmaceutical Sectors with 2.59 per cent each, Other Industries with 46.03 per cent respectively. In order to know whether there is a significant difference between percentages of investment by VCFs among different sectors of industries in different years of the study period, ANOVA: Two-Factor without Replication has been performed. The null hypothesis and also the results of F-test are briefly discussed hereunder.

\[ H_{06} \]: There is no significant difference between mean percentages of investments by VCFs among different sectors of industries, i.e., all the column means is equal.

\[ H_{07} \]: There is no significant difference between mean percentages of investments by VCFs during different years of study period, i.e., all the row means is equal.

<table>
<thead>
<tr>
<th>Source of Variation</th>
<th>SS</th>
<th>df</th>
<th>MS</th>
<th>F</th>
<th>P-value</th>
<th>F crit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Variance Between Rows</td>
<td>1.35</td>
<td>8</td>
<td>1.69</td>
<td>3.45</td>
<td>1</td>
<td>2.086</td>
</tr>
<tr>
<td>Variance Between Columns</td>
<td>18038.17</td>
<td>8</td>
<td>2254.77</td>
<td>460.96</td>
<td>1.65</td>
<td>2.086</td>
</tr>
<tr>
<td>Residual or Error Variance</td>
<td>313.05</td>
<td>64</td>
<td>4.89</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Variance</td>
<td>18351.23</td>
<td>80</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Calculated by using MS Excel.

At 95% confidence level, the critical value of F for \( v_1 = 8 \) and \( v_2 = 64 \), \( F_{0.05} \) is 2.086 and for \( v_1 = 8 \) and \( v_2 = 64 \), \( F_{0.05} \) is 2.086. The calculated value of F for rows is 3.45, which is greater than the
critical value and falls in rejection region. Hence, the null hypothesis \( H_0\) is rejected. The calculated value of \( F \) for columns is 460.96. This is much greater than the critical value and falls in the rejection region. Hence, the null hypothesis \( H_0\) is rejected. With a view to capture the trend more precisely, the investments by VCFs among different sectors of industries have been regressed on time. The results of regression analysis are provided in the following table.

<table>
<thead>
<tr>
<th>Sl. N.</th>
<th>Sector</th>
<th>Intercept</th>
<th>X-coefficient</th>
<th>R</th>
<th>R²</th>
<th>Adjusted R²</th>
<th>S.E. of Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Information Technology</td>
<td>5.88</td>
<td>-0.493</td>
<td>0.82</td>
<td>0.68</td>
<td>0.63</td>
<td>0.98</td>
</tr>
<tr>
<td>2</td>
<td>Telecommunication</td>
<td>0.18</td>
<td>0.556</td>
<td>0.89</td>
<td>0.80</td>
<td>0.77</td>
<td>0.80</td>
</tr>
<tr>
<td>3</td>
<td>Pharmaceutical</td>
<td>4.90</td>
<td>-0.462</td>
<td>0.92</td>
<td>0.85</td>
<td>0.83</td>
<td>0.56</td>
</tr>
<tr>
<td>4</td>
<td>Biotechnology</td>
<td>2.67</td>
<td>-0.259</td>
<td>0.84</td>
<td>0.71</td>
<td>0.67</td>
<td>0.47</td>
</tr>
<tr>
<td>5</td>
<td>Media/Entertainment</td>
<td>2.82</td>
<td>0.081</td>
<td>0.50</td>
<td>0.25</td>
<td>0.14</td>
<td>0.40</td>
</tr>
<tr>
<td>6</td>
<td>Services Sector</td>
<td>7.04</td>
<td>-0.090</td>
<td>0.28</td>
<td>0.07</td>
<td>-0.05</td>
<td>0.90</td>
</tr>
<tr>
<td>7</td>
<td>Industrial Products</td>
<td>5.21</td>
<td>-0.194</td>
<td>0.75</td>
<td>0.56</td>
<td>0.50</td>
<td>0.49</td>
</tr>
<tr>
<td>8</td>
<td>Real Estate</td>
<td>24.09</td>
<td>1.171</td>
<td>0.71</td>
<td>0.51</td>
<td>0.44</td>
<td>3.33</td>
</tr>
<tr>
<td>9</td>
<td>Others</td>
<td>47.48</td>
<td>-0.310</td>
<td>0.27</td>
<td>0.07</td>
<td>-0.05</td>
<td>3.16</td>
</tr>
</tbody>
</table>

Source: Calculated by using MS Excel.

The data provided in the above table says that the investment by VCFs in Pharmaceutical sector has high correlation with time (0.92) followed by Telecommunications Sector (0.89), Bio-
Technology (0.84), etc. The regression value ($R^2$) of Pharmaceutical sector is 0.85 showing 85 per cent of impact of independent factor (Time) on dependent factor, followed by Telecommunications Sector (0.80), Bio-technology (0.71), Information Technology (0.64), etc.

Table No.5
Correlation analysis between Sector-wise Investments by VCFs

<table>
<thead>
<tr>
<th>Sector Code</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
<th>7</th>
<th>8</th>
<th>9</th>
<th>10</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>1</td>
<td>1.000</td>
<td></td>
<td></td>
<td></td>
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<td></td>
</tr>
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<td>0.063</td>
<td>1.000</td>
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<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>0.199</td>
<td>0.656</td>
<td>1.000</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4</td>
<td>0.488</td>
<td>-0.547</td>
<td>0.577</td>
<td>1.000</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5</td>
<td>0.236</td>
<td>0.863**</td>
<td>-0.270</td>
<td>-0.304</td>
<td>1.000</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>6</td>
<td>0.614</td>
<td>0.714*</td>
<td>-0.099</td>
<td>-0.005</td>
<td>0.908**</td>
<td>1.000</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>7</td>
<td>0.481</td>
<td>0.658</td>
<td>-0.007</td>
<td>0.103</td>
<td>0.894**</td>
<td>0.940**</td>
<td>1.000</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>8</td>
<td>0.134</td>
<td>0.971**</td>
<td>-0.479</td>
<td>-0.469</td>
<td>0.952**</td>
<td>0.822*</td>
<td>0.776*</td>
<td>1.000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>9</td>
<td>0.423</td>
<td>0.842**</td>
<td>-0.215</td>
<td>-0.124</td>
<td>0.941**</td>
<td>0.950**</td>
<td>0.926**</td>
<td>0.922**</td>
<td>1.000</td>
<td></td>
</tr>
<tr>
<td>10</td>
<td>0.337</td>
<td>0.902**</td>
<td>-0.316</td>
<td>-0.250</td>
<td>0.968**</td>
<td>0.929**</td>
<td>0.896**</td>
<td>0.967**</td>
<td>0.984**</td>
<td>1.000</td>
</tr>
</tbody>
</table>

** Pearson's Correlation is significant at 0.01 level (2-tailed)
* Pearson's Correlation is significant at 0.05 level (2-tailed)


Source: Calculated by using MS Excel.

From the above correlation matrix, high correlation has been observed during the study period between investments in ‘Telecommunication sector’ and ‘Real estate’ at 0.971. The correlation of Total Investments with various sectors, viz., ‘Other Industries’ at 0.984, followed by Media/Entertainment at 0.968 and Real Estate at 0.967 indicating the sound relationship between total investments and the said industrial sectors. A moderate correlation, i.e., 0.337 has been observed between Total Investments and Information Technology Sector during the study period. However, the negative correlation has been identified between Total Investments by VCFs and the investments in Pharmaceuticals and Bio-technology sector.
Table No.6

Industry-wise Cumulative Investment Details of Foreign Venture Capital Investors (FVCIs)

<table>
<thead>
<tr>
<th>Source of Economy</th>
<th>Information Technology</th>
<th>Telecommunication</th>
<th>Pharmaceutical Biotechnology</th>
<th>Medical/Entertainment</th>
<th>Service Sector</th>
<th>Industrial Products</th>
<th>Real Estate</th>
<th>Others</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>31st March 2006</td>
<td>696 (12.34)</td>
<td>802 (11.06)</td>
<td>195 (2.68)</td>
<td>8 (0.11)</td>
<td>37 (0.50)</td>
<td>642 (8.94)</td>
<td>471 (6.49)</td>
<td>1,430 (19.70)</td>
<td>2,775 (38.24)</td>
</tr>
<tr>
<td>2007</td>
<td>1,592 (10.20)</td>
<td>872</td>
<td>360 (2.31)</td>
<td>31 (0.19)</td>
<td>69 (0.44)</td>
<td>1,341 (8.80)</td>
<td>1,212 (8.41)</td>
<td>2,141 (13.73)</td>
<td>7,069 (50.48)</td>
</tr>
<tr>
<td>2008</td>
<td>1,689 (6.32)</td>
<td>801 (4.04)</td>
<td>648 (3.27)</td>
<td>31 (0.15)</td>
<td>284 (1.43)</td>
<td>1,356 (6.85)</td>
<td>850 (4.32)</td>
<td>1,424 (7.11)</td>
<td>12,749 (64.36)</td>
</tr>
<tr>
<td>2009</td>
<td>1,972 (7.71)</td>
<td>3,439 (12.45)</td>
<td>675 (2.64)</td>
<td>51 (0.19)</td>
<td>290 (1.13)</td>
<td>1,467 (5.81)</td>
<td>926 (3.92)</td>
<td>1,432 (5.03)</td>
<td>15,295 (69.62)</td>
</tr>
<tr>
<td>2010</td>
<td>3,016 (9.07)</td>
<td>7,146 (21.49)</td>
<td>985 (2.96)</td>
<td>140 (0.42)</td>
<td>701 (2.19)</td>
<td>2,036 (6.13)</td>
<td>986 (2.99)</td>
<td>3,107 (9.34)</td>
<td>15,223 (45.79)</td>
</tr>
<tr>
<td>2011</td>
<td>3,813 (9.94)</td>
<td>6,778 (17.50)</td>
<td>775 (2.00)</td>
<td>140 (0.36)</td>
<td>720 (1.95)</td>
<td>2,256 (5.82)</td>
<td>1,217 (3.14)</td>
<td>2,725 (7.03)</td>
<td>20,307 (52.43)</td>
</tr>
<tr>
<td>2012</td>
<td>3,707 (11.21)</td>
<td>6,392 (18.03)</td>
<td>713 (2.11)</td>
<td>100 (0.29)</td>
<td>209 (0.91)</td>
<td>1,596 (4.72)</td>
<td>1,211 (3.23)</td>
<td>1,091 (55.41)</td>
<td>15,716 (63.75)</td>
</tr>
<tr>
<td>2013</td>
<td>4,498 (10.02)</td>
<td>7,013 (15.62)</td>
<td>646 (1.43)</td>
<td>142 (0.31)</td>
<td>827 (1.84)</td>
<td>2,365 (5.24)</td>
<td>1,444 (3.21)</td>
<td>1,758 (3.91)</td>
<td>26,239 (58.38)</td>
</tr>
<tr>
<td>2014</td>
<td>4,490 (6.33)</td>
<td>8,059 (17.56)</td>
<td>851 (1.89)</td>
<td>150 (0.33)</td>
<td>719 (1.60)</td>
<td>2,318 (5.17)</td>
<td>1,342 (2.93)</td>
<td>1,995 (4.45)</td>
<td>24,994 (56.62)</td>
</tr>
<tr>
<td>Mean (%)</td>
<td>9.86</td>
<td>13.96</td>
<td>2.36</td>
<td>0.26</td>
<td>1.28</td>
<td>6.36</td>
<td>4.27</td>
<td>8.24</td>
<td>63.39</td>
</tr>
<tr>
<td>Std. Dev.</td>
<td>1.40</td>
<td>6.00</td>
<td>0.07</td>
<td>0.10</td>
<td>0.63</td>
<td>1.47</td>
<td>1.92</td>
<td>5.36</td>
<td>7.84</td>
</tr>
<tr>
<td>CAGR</td>
<td>22.18</td>
<td>33.43</td>
<td>20.22</td>
<td>44.25</td>
<td>44.89</td>
<td>17.40</td>
<td>13.08</td>
<td>4.24</td>
<td>31.67</td>
</tr>
</tbody>
</table>

Source: SEBI Handbook of Statistics, 2013-14

Industry-wise investments by FVCIs have increased from Rs.7,256 crores as on 31st March 2006 to Rs. 44,804 crores as on 31st March 2014. The mean percentage of investments in Telecommunications with 13.95 per cent, followed by Information Technology with 9.85 per cent, Real Estate with 8.24 per cent, Services Sector with 6.35 per cent, Industrial Products with 4.27 per cent, Pharmaceutical Sector with 2.36 per cent, Other Industries with 53.39 per cent respectively. In order to know whether there is a significant difference between percentages of investment by FVCIs among different sectors of industries in different years of the study period, ANOVA: Two-Factor without Replication has been performed. The null
hypothesis and also the results of F-test are briefly discussed hereunder.

$H_{08}$: There is no significant difference between mean percentages of investments by FVCIs among different sectors of industries, i.e., all the column means is equal.

$H_{09}$: There is no significant difference between mean percentages of investments by FVCIs during different years of study period, i.e., all the row means is equal.

<table>
<thead>
<tr>
<th>Source of Variation</th>
<th>SS</th>
<th>df</th>
<th>MS</th>
<th>F</th>
<th>P-value</th>
<th>F crit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Variance Between Rows</td>
<td>7.87</td>
<td>8</td>
<td>9.84</td>
<td>5.82</td>
<td>1</td>
<td>2.086</td>
</tr>
<tr>
<td>Variance Between Columns</td>
<td>19494.98</td>
<td>8</td>
<td>2436.87</td>
<td>144.28</td>
<td>6.34</td>
<td>2.086</td>
</tr>
<tr>
<td>Residual or Error Variance</td>
<td>1080.94</td>
<td>64</td>
<td>16.88</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Variance</td>
<td>20575.92</td>
<td>80</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Calculated by using MS Excel.

At 95% confidence level, the critical value of $F$ for $\nu_1=8$ and $\nu_2=64$, $F_{0.05}$ is 2.086 and for $\nu_1=8$ and $\nu_2=64$, $F_{0.05}$ is 2.086. The calculated value of $F$ for rows is 5.82, which is greater than the critical value and falls in rejection region. Hence, the null hypothesis ($H_{08}$) is rejected. The calculated value of $F$ for columns is 144.28. This is much greater than the critical value and falls in the rejection region. Hence, the null hypothesis ($H_{09}$) is rejected. With a view to capture the trend more precisely, the investments by FVCIs among different sectors of industries have been regressed on time. The results of regression analysis are provided in the following table.

<table>
<thead>
<tr>
<th>Sl. N.</th>
<th>Sector</th>
<th>Intercept</th>
<th>X-coefficient</th>
<th>R</th>
<th>$R^2$</th>
<th>Adjusted $R^2$</th>
<th>S.E. of Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Information Technology</td>
<td>10.04</td>
<td>-0.038</td>
<td>0.07</td>
<td>0.00</td>
<td>-0.13</td>
<td>1.49</td>
</tr>
<tr>
<td>2</td>
<td>Telecommunication</td>
<td>6.33</td>
<td>1.523</td>
<td>0.69</td>
<td>0.48</td>
<td>0.40</td>
<td>4.62</td>
</tr>
<tr>
<td>3</td>
<td>Pharmaceutical</td>
<td>3.09</td>
<td>-0.145</td>
<td>0.69</td>
<td>0.48</td>
<td>0.40</td>
<td>0.44</td>
</tr>
</tbody>
</table>
The data provided in the above table says that the investment by FVCIs in Services sector has high correlation with time (0.85) followed by Real Estate Sector (0.76), Pharmaceutical Sector (0.69), etc. The regression value ($R^2$) of Services sector is 0.72 showing 72 per cent of impact of independent factor (Time) on dependent factor, followed by Real Estate Sector (0.59), Telecommunications and Pharmaceutical Sector (0.48), etc.

**Table No.5**
**Correlation analysis between Sector-wise Investments by FVCIs**

<table>
<thead>
<tr>
<th>Sector Code</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
<th>7</th>
<th>8</th>
<th>9</th>
<th>10</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>1.000</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>0.937**</td>
<td>1.000</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>0.683*</td>
<td>0.792*</td>
<td>1.000</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4</td>
<td>0.939**</td>
<td>0.975**</td>
<td>0.802**</td>
<td>1.000</td>
<td></td>
<td></td>
<td></td>
<td></td>
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<td></td>
</tr>
<tr>
<td>5</td>
<td>0.816**</td>
<td>0.840**</td>
<td>0.751*</td>
<td>0.917**</td>
<td>1.000</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>6</td>
<td>0.908**</td>
<td>0.880**</td>
<td>0.792*</td>
<td>0.947**</td>
<td>0.935**</td>
<td>1.000</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>7</td>
<td>0.784*</td>
<td>0.560</td>
<td>0.364</td>
<td>0.617</td>
<td>0.502</td>
<td>0.745*</td>
<td>1.000</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>8</td>
<td>0.942**</td>
<td>0.406</td>
<td>0.475</td>
<td>0.529</td>
<td>0.573</td>
<td>0.549</td>
<td>0.161</td>
<td>1.000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>9</td>
<td>0.948**</td>
<td>0.860**</td>
<td>0.721*</td>
<td>0.871**</td>
<td>0.834**</td>
<td>0.919**</td>
<td>0.749*</td>
<td>0.147</td>
<td>1.000</td>
<td></td>
</tr>
<tr>
<td>10</td>
<td>0.976**</td>
<td>0.938**</td>
<td>0.779*</td>
<td>0.952**</td>
<td>0.886**</td>
<td>0.959**</td>
<td>0.727**</td>
<td>0.307</td>
<td>0.979**</td>
<td>1.000</td>
</tr>
</tbody>
</table>

**Pearson’s Correlation is significant at 0.01 level (2-tailed)**

* Pearson's Correlation is significant at 0.05 level (2-tailed)

From the above correlation matrix, high correlation has been observed during the study period between investments in ‘Telecommunication sector’ and ‘Bio-technology’ at 0.971. The correlation of Total Investments with various sectors, viz., ‘Other Industries’ at 0.979, followed by Information Technology at 0.968 and Bio-technology at 0.967 indicating the sound relationship between total investments and the said industrial sectors. A moderate correlation, i.e., 0.307 has been observed between Total Investments and Real Estate Sector during the study period. However, no negative correlation has been identified between Total Investments by FVCIs and any of the sectors of the Industry.

**Suggestions:**

In the light of the foregoing analysis in various dimensions of the performance of VCFs and FVCIs in India, the researcher has offered the following suggestions for better performance and to become a major source of finance/capital for the Indian industry.

12. There is a serious mismatch between the variety of venture capital available in India and what the market demands. Most of the domestic and overseas venture capital financiers are offering second stage and expansion financing (which is less risky) and completely neglecting the start-up finance. So, it is suggested that the government should make a policy that certain percentage of financing (based on demand) must be meant for start-ups (ex: 40:60).

13. In order to encourage idea rich, cash less entrepreneurs, the policy making body at the apex level should set up separate cell for the collection of ideas. Periodically, those ideas must be screened by the experts and recommend the commercially viable ones for financing by VCFs and FVCIs. No doubt, this would promote the concept of
financing innovation and provide an opportunity to the many young technocrats to become entrepreneurs.

14. Most of the VCFs in India are an extended arm or a division of global investment institutions. Their representation is more than 95 per cent of the VC invested in India. The investment mandates of these VCFs are often driven by the parent institutions’ global view, which often ignores local market needs. To overcome this limitation, it is necessary to promote India VCFs by establishing domestic VCF Association.

15. Indian rupee deprecation is another serious bottleneck making FVCIs in India unattractive. Every FVCI in India has been a victim of the depreciation of the rupee against the dollar. The returns produced by FVCIs in India, measured in US dollars or other Western currencies, turn out to be considerably less attractive than that measured in Indian currency. Hence, there is an urgent need that the government of India should encourage domestic VCFs by liberalizing the policy guidelines, viz, licensing system, taxation, etc.

16. Most of VCFs and FVCIs in India are focusing on few sectors only, viz., IT & ITES, Bio-technology, Pharmaceutical and Service sectors. It is suggested that they should expand their wings in to modern areas like Clean Technology, Green Technology, Power Generation (Solar Power and Wind Power), Education Sector, Infrastructure, Film Production, Radio Taxi, Beauty Saloon, Apparel, Eco System, Cloud Computing, etc.

17. Another issue for slow performance of VCFs and FVCIs in India is poor quality of corporate governance and lack of sensitivity among entrepreneurs and investors, to each other's legitimate business aspirations. So, there is need to develop a model code of conduct for entrepreneurs and investors for their win-win association.
References:

Monitoring The Performance of Venture Capital Funded Companies

Dr. E. Lokanadha Reddy*
Dr. A. Amruth Prasad Reddy**
Dr. V.N. Jothi***

Abstract

Venture capital is the engine that is financing the growth of the knowledge based industries worldwide and has become very popular in different parts of India too, as it is instrumental for industrial development by exploiting vast and untapped potentialities. The term venture capital may be defined as investment in the form of equity, quasi-equity or conditional loan made in new, unlisted, high-risk or high-technology firms started by technically or professionally qualified entrepreneurs, where venture capitalists. The main objective of this paper is to analyse the different approaches of performance monitoring of assisted units used by venture capitalists. This study made use of both primary and secondary sources of data. Venture capital investment were analysed with the help of statistical tools such as mean, percentage share, co-efficient of variation, Compound Annual Growth Rate (CAGR), trend analysis and correlation. The enduring relationship between the venture capital company and portfolio enterprises and the active role by the former in the management of the latter is termed as investment nurturing after care. Nurturing refers to the extent of participation by the venture capital

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company in the affairs of the portfolio enterprises. It broadly falls into three categories viz. hands-on, hands-off and hands-holding nurturing. The hands-off approach is predominantly used by Venture Capitalists (VCs), which indicates the relatively passive role played by them in monitoring. The VCs consider cost control, better customer services and good product as the key factors for the success of the assisted units, while fund diversions is the pointed cause of their failure.

**Key words:** Venture Capital, Venture Capitalist, Hands-on nurturing, Hands-off approach.

**Introduction:**

India watched the industrial revolution that occurred a century ago from the sidelines. Fortunately for India, a new revolution is ushering in the economy in the knowledge based industries where major investments are made, with substantially lower investments on land, building, plant and machinery. Thus, the heavily asset/collateral backed lending instruments adopted for the core manufacturing industries are simply inadequate for knowledge based industries which very often start with just an idea. The only way to finance such industries is venture capital.

Venture capital is the engine that is financing the growth of the knowledge based industries worldwide and has become very popular in different parts of India too, as it is instrumental for industrial development by exploiting vast and untapped potentialities. In India a number of banks, financial institutions and private sector companies started providing the venture capital service. Existing venture capital firms and number of new firms have already committed lot of money in venture capital activities in India. However, the contribution of venture capital to the overall economic development is still negligible. This necessitates a clear understanding of venture capital activities in India.
Concepts:

The concept of venture capital is not new and had its nurturing under the dictum “no innovative concept shall meet death in its womb for genuine need for finance for venturism”.

The term venture capital may be defined as investment in the form of equity, quasi-equity or conditional loan made in new, unlisted, high-risk or high-technology firms started by technically or professionally qualified entrepreneurs, where venture capitalists.

Venture capitalists may be defined as organizational units or persons- who can take-up substantial activity in the management of equity or quasi-equity financing for the start-up and/or development of small, and medium-sized unquoted enterprises having significant growth potential in terms of products, technology, business concepts and services, and can provide active management support to investees.

Objective of the Study:

- To analyse the different approaches of performance monitoring of assisted units used by venture capitalists;

Research Methodology:

Data Collection:

This study made use of both primary and secondary sources of data.

The primary data were collected through a well structured questionnaire and was supplemented with information obtained through post, e-mail and personal contact with few experts and executives of venture capital funds and companies.

The secondary data was collected from several published books, journals, magazines, periodicals, reports, the survey responses of the IVCA yearbooks, Venture Intelligence Indian Venture Capital reports and the reports of SEBI.
Statistical Tools for Data Analysis:
Venture capital investment were analysed with the help of statistical tools such as mean, simple percentages.

Monitoring the Performance of the Funded Companies:
Once the deal has been structured and agreement is finalized, the venture capitalist generally assumes the role of a partner and collaborator. He also gets involved in shaping the direction of the venture and constant on-going involvement during the entire life of the investment in investee companies. The enduring relationship between the venture capital company and portfolio enterprises and the active role by the former in the management of the latter is termed as investment nurturing after care.

This section examines monitoring the performance of the funded companies. Among the 28 venture capital respondents, 26 respondents (92.9 per cent) have stated that they monitor the performance of the funded units. The opinions of these 26 respondents on the frequency of monitoring by them are presented in Table –1.

The table reveals that among the 26 respondents who monitor the performance of their funded units, 6 (23.1 per cent) do so on a continuous basis, 8 respondents (30.8 per cent) monitor at periodic intervals, 10 (38.4 per cent) monitor as and when there is a need to monitor, while 2 respondents (7.7 per cent) do so in other ways.

Table No.1
Frequency of Monitoring the Performance of the Funded Units

<table>
<thead>
<tr>
<th>Monitoring Frequency</th>
<th>Number</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Continuous Basis</td>
<td>6</td>
<td>23.1</td>
</tr>
<tr>
<td>At Periodic Intervals</td>
<td>8</td>
<td>30.8</td>
</tr>
<tr>
<td>As and When need arises</td>
<td>10</td>
<td>38.4</td>
</tr>
<tr>
<td>Others</td>
<td>2</td>
<td>7.7</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>26</strong></td>
<td><strong>100.0</strong></td>
</tr>
</tbody>
</table>

Source: Primary data.
This clearly suggests the venture capitalists keep a keen watch on the performance of the funded units.

**Monitoring the Assisted Units:**

Monitoring of the performance and functioning of the assisted units is a crucial ingredient to protect the interest of venture capitalists. Different venture capitalists use different methods like asking for periodical reports from the promoters, sharing of knowledge, appointment of directors to keep in-house watch on the functioning of the project, feedback from experts and regular physical inspection of the project sites by the venture capitalists. The monitoring variables used by the respondents are presented in Table – 2.

<table>
<thead>
<tr>
<th>Monitoring Variables</th>
<th>Number</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Knowledge Sharing</td>
<td>1</td>
<td>3.6</td>
</tr>
<tr>
<td>Participating in the Board</td>
<td>9</td>
<td>32.1</td>
</tr>
<tr>
<td>Relying on the Annual Report Submitted</td>
<td>1</td>
<td>3.6</td>
</tr>
<tr>
<td>Feedback from experts</td>
<td>6</td>
<td>21.4</td>
</tr>
<tr>
<td>Plant visit</td>
<td>11</td>
<td>39.3</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>28</strong></td>
<td><strong>100.0</strong></td>
</tr>
</tbody>
</table>

Source: Primary data.

It can be noted that among the 28 respondents, one respondent (3.6 per cent) monitor the performance of the assisted units by sharing the knowledge, 9 (32.1 per cent) do so by participating in the board of the assisted units, in the case of another respondent, he monitors by relying on the annual reports submitted to him. There are 6 respondents (21.4 per cent) who get the feedback from experts, while as many as 11 (39.3 per cent) make a direct and personal plant visit in order to monitor the performance of the assisted units.
This indicates that the venture capitalists apart from monitoring the performance of the funded units, also monitor the performance of the assisted units and a considerable number of them make a direct plant visit.

**Styles or Approaches of Monitoring:**

The style of nurturing refers to the extent of participation by the venture capital company in the affairs of the portfolio enterprises. The style depends upon a variety of factors such as the specialization of the venture capital company, stage of investment, financing plan, the stage of development of the venture capital industry itself and so on. It broadly falls into three categories:

- Hands-on -nurturing.
- Hands-off -nurturing
- Hands-holding nurturing

* **Hands-on Nurturing**

It means continuous and constant involvement in the operational aspects of the venture. The venture capital firm invariably takes a seat on the board of directors of the investee company and also tries to provide advice and guidance on macro issues. The venture capital firms, following this style of management, feel that in view of their wider exposure and experience in the area, they can provide useful guidance on the aspects of long-term business planning, technology development, financial planning, marketing strategy and so on.

* **Hands-off Nurturing**

Venture capital firms play a relatively passive role in hands-off style of nurturing. Although they usually reserve the right, they rarely have nominee directors on the board of investee companies. They, moreover, do not normally actively participate in formulating strategies/policies in spite of the right
to do so. This style of nurturing is appropriate in case of syndicated/joint/consortium venture financing in which some financiers may follow hands-on approach while others may follow hand-off approach. The hands-off style may also be appropriate after the initial plan of the venture is over and the business is running smoothly.

* Hands-holding Nurturing

This is an intermediate style between hands-on and hands-off styles. Like the hands-on style, the venture capital firm has the right to have a nominee on the board of directors of the investee company, but actively participates in the decision making process only on being approached by the latter. If the investee company experiences any difficulty, the venture capital firms provide either in-house assistance or assistance from outside experts.

The purpose of close monitoring of investee companies is to avoid losses by foreseeing impending dangers, and to preserve capital. If a venture capitalist does not avail him/her of the privileges of close monitoring, then he/she is taking unusual risks with the capital entrusted to him/her. As a part of their monitoring effort, they routinely undertake the following services which would aid the investment success. The approaches adopted by the venture capitalists in their assisted units is tabulated and presented in Table – 3.

**Table No.3**

<table>
<thead>
<tr>
<th>Approaches</th>
<th>Number</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hands on Approach</td>
<td>9</td>
<td>32.1</td>
</tr>
<tr>
<td>Hands off Approach</td>
<td>15</td>
<td>53.6</td>
</tr>
<tr>
<td>Hands Holding Approach</td>
<td>4</td>
<td>14.3</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>28</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Source: Primary data.
As the table shows, among the 28 venture capital respondents, 9 (32.1 per cent) adopt hands on approach, 15 respondents (53.6 per cent) adopt the hands-off approach and the remaining 4 (14.3 per cent) depend on hands holding approach in the assisted units. Thus, the hands-off approach is predominantly used by the venture capitalists, which indicates the relatively passive role played by them.

**Key Factors for the Success of the Assisted Units:**
Many factors contribute to the success of the assisted units. Venture capitalists feel cost control; better customer services and good product are the most important key factors for the success of their investments. Good management, good company and general practices, purchasing process, and research and development are also considered as significant factors for successful investment. However, these factors depend on the life cycle of the funded company, the experience of entrepreneur and innovation sought by the venture. In addition to attending board meeting, venture capitalists often visit entrepreneurs at the site of the firm. Table – 4 provides the relative significance of the key factors as opined by the venture capitalists for the success of the assisted units.

<table>
<thead>
<tr>
<th>Key Factors</th>
<th>Yes</th>
<th>No</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>No.</td>
<td>Per cent</td>
<td>No.</td>
</tr>
<tr>
<td>Good Management</td>
<td>22</td>
<td>78.6</td>
<td>6</td>
</tr>
<tr>
<td>Cost Control</td>
<td>24</td>
<td>85.7</td>
<td>4</td>
</tr>
<tr>
<td>Marketing Strategies</td>
<td>15</td>
<td>53.6</td>
<td>13</td>
</tr>
<tr>
<td>Purchasing Process</td>
<td>20</td>
<td>71.4</td>
<td>8</td>
</tr>
<tr>
<td>Better Customer Services</td>
<td>24</td>
<td>85.7</td>
<td>4</td>
</tr>
</tbody>
</table>
It can be observed that three factors viz., cost control, better customer services and good product attain equal significance with 24 out of 28 respondents (85.7 per cent) providing them utmost importance in attaining success in the assisted units. This is followed by ‘good management’ by 22 respondents (78.6 per cent), ‘good company general practices’ by 21 respondents (75 per cent), ‘purchasing process’ and ‘research and development’ by 20 respondents (71.4 per cent), ‘reputation of the concern’ by 16 respondents (57.1 per cent) and two factors attain the least significance, viz., marketing strategies and innovativeness as they are selected only by 15 respondents (53.6 per cent). This suggests that the venture capitalists consider cost control, better customer services and good product as the key factors for the success of the assisted units.

**Reasons for Failures in the Assisted Units:**

As all investments do not create success stories and venture cannot be left to chance, post-investment monitoring of activities of the assisted units becomes a matter of concern for the venture capitalists. This aspect has been studied under factors responsible for failure of venture capitalist investment. Following results are obtained which are presented in Table – 5.
Contemporary Issues in Venture Capital Financing in India

Table No.5
Reasons for Failure in the Assisted Units

<table>
<thead>
<tr>
<th>Reasons for Failure</th>
<th>Yes</th>
<th>No</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>No.</td>
<td>Per cent</td>
<td>No.</td>
</tr>
<tr>
<td>Lack of Innovativeness</td>
<td>18</td>
<td>64.3</td>
<td>10</td>
</tr>
<tr>
<td>Cyclical nature of few Industry</td>
<td>20</td>
<td>71.4</td>
<td>8</td>
</tr>
<tr>
<td>Fund Diversions</td>
<td>26</td>
<td>92.9</td>
<td>2</td>
</tr>
<tr>
<td>Weak Management</td>
<td>16</td>
<td>57.1</td>
<td>12</td>
</tr>
</tbody>
</table>

Source: Primary data.

The major cause for failure of the assisted units as opined by the venture capital respondents is ‘fund diversions’ that take place in the assisted units, since this factor is selected by 26 respondents (92.9 per cent). The cyclical nature of few industries as causing the failure of the units is stated as the second reason for failure by 20 respondents (71.4 per cent) and it is followed by ‘lack of innovativeness’ by 18 respondents (64.3 per cent) and ‘weak management’ by 16 respondents (57.1 per cent). Hence, the venture capitalists are of the opinion that the allocated funds are not utilised for the intended purpose which cause the failure of the assisted units.

Conclusion:

In this section the performance measurement approaches used by venture capitalists in monitoring their funded units are assessed. 92.2 per cent respondents monitor the performance of their funded units. 38.4 per cent respondents monitor as and when the need arises, the performance of their funded units. Plant visit and participating in the board are the preferred methods of monitoring the venture capitalists. The hands-off approach is predominantly used by VCs, which indicates the relatively passive role played by them in monitoring. The VCs
consider cost control, better customer services and good product as the key factors for the success of the assisted units, while fund diversions is the pointed cause of their failure.

References:
Private Equity Investments in India: A Review

Dr. V Vijay Durga Prasad*

Abstract

The term 'Private Equity' (PE) refers to shareholder capital invested in companies not listed on public exchanges. A company may seek PE for a variety of applications, namely, business expansion, developing new technologies and products to grow and remain competitive, making acquisitions of other businesses, restructuring the company etc. PE investments are best source for the capital needs of dynamic companies with high growth rates. There is a high and increasing demand for private equity/venture capital funding in India in the post-liberalized era. The primary growth drivers for private equity in India are Industrial growth and increasing opportunities for enthusiastic entrepreneurs. The role of private equity increased significantly over the last two decades. Private equity funds invested in almost all the sectors in India. Technology, Infrastructure, Telecom, Healthcare, Retail etc. are some of the sectors highly benefited because of Private Equity funding. PE played a vital role in providing employment opportunities too.

Key words: Private equity, Gross Domestic Product, Opportunities, Challenges.

Introduction:

Financial sector reforms in India have afforded golden opportunities to the enthusiastic entrepreneurs. Indian dynamic economy created excellent companies that are open to global business. Raising economy, increasing opportunities for expansion of new and/or existing businesses are eagerly waiting for funding agencies. PE is one of the best sources to raise the

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funds. Moreover PE firms are responding positively to accommodate Indian capital investment needs. The main reason behind positive response of PE firms is optimistic trends in Indian economy.

Indian rate of GDP grew from 6.5 per cent in IX plan to 7.7 per cent in X plan and in XI plan GDP grew at 8.1 per cent. There is an inverse relation between unemployment rate and GDP. Decrease in unemployment rate may cause increase in disposable income. A recent study on PE by Fourth Wheel cited that India now has a sizable middle class and percentage of its population below the poverty line is gradually reducing. At the same time, disposable income among its middle class is growing and there is a great deal of cash circulation in the economy. The country has second largest population in the world of 1.173 bn, with 65 per cent of population between 15-64 years of age.

A study by the McKinsey Global Institute suggests that if India continues its recent growth, average household incomes will triple over the next two decades and it will become the world's largest consumer economy by 2025, up from the 12th now. McKinsey study shows that aggregate consumer spending could more than quadruple in coming years, reaching 70 trillion rupees by 2025. Expanding urban wealth and increased domestic consumption has resulted in the industrial production growth rate 9.7 per cent (CIA world fact book). There is a large demand for FMCG, Schooling, Retail, and Real Estate. PE investors have played a significant role in the development of several sectors in India.

**Private Equity Investments in India 2000-2010:**

Graph-1 provides details about PE investments declined drastically in 2002, 2004 and 2009. PE firms invested US $10,110 million over 441 deals in India in 2010-11, this was comparatively high than the previous year (2009-10) PE investments of US $ 7970 Million over 362 deals. The Scenario of PE investments during 2011-12 in value and volume terms is depicted in Table 4.
Private Equity Investments in the year 2012:

The first three months of 2012 saw $2.45 billion worth of PE investments in Indian companies across 131 deals. During the quarter, the real estate sector topped the investment charts accounting for 29 per cent of investments with a total deal value of $711 million. The banking, financial services and insurance (BFSI) sector came next with 15.7 per cent of total PE investments. (Table 2) The month of April saw $543.4 million in private equity (PE) investments in Indian companies across 39 deals. The pharmaceuticals and healthcare sector topped the investment chart, accounting for 30.6 per cent of investments with a deal value of $166.2 million. The manufacturing sector occupied the second slot, with seven deals worth $130.7 million (24.1%). Logistics companies aggregated $88 million (16.2%) worth of investments. PE investments during 2011-12 have been continuously falling. According to the study by the Venture Intelligence, it was the third consecutive quarter that saw a decline in PE investments.

The various stages of a company's development provide multiple opportunities for a private equity fund to invest in the company. In general the following are the important stages of the company and opportunities available for Private Equity firms.

<table>
<thead>
<tr>
<th>Life cycle of a company</th>
<th>Opportunity for PE firm</th>
</tr>
</thead>
<tbody>
<tr>
<td>Initial stage</td>
<td>Finance for research and development of concept</td>
</tr>
<tr>
<td>Start-up</td>
<td>Financing for product development and initial marketing</td>
</tr>
<tr>
<td>Expansion</td>
<td>Financing for growth and expansion</td>
</tr>
<tr>
<td>Replacement of Capital</td>
<td>Purchase of shares from another investor through refinancing of debt</td>
</tr>
<tr>
<td>Buyout</td>
<td>Acquisition of a significant portion or majority control of a business</td>
</tr>
</tbody>
</table>
Challenges and barriers to the PE:
The biggest challenges and barriers to the private equity firms are as follows
(a) Mismatch of valuation expectations
(b) Volatile Macro Economic Factors
(c) Tough Competitive Environment
(d) Non-supportive regulatory environment
(e) Difficulty in getting access to capital
(f) Poor corporate governance
(g) Unwillingness of promoter/CEO to sell stake
(h) Limited availability of investment professionals
(i) Unwillingness of promoter/CEO to allow management oversight by a PE investor

Recent KPMG survey clearly states that PE executives believe that the national economy will remain stagnant in the near future. Mr. Harish H.V., Partner, India Leadership team, Grant Thornton India, quoted "still there is hope that India offers immense opportunities for PE investments because in India, 60 per cent of corporate are looking at PE as a source of funding in 2012."

Conclusion:
There is a need for controlling body for private equity industry like capital market regulator SEBI. It is also necessary for the Government to clearly spell out the definition of Private Equity in India in comparison to Venture Capital Fund Rules 2000, guidelines for management of PE Funds from within India and abroad, compliance to the FIPB / DIPP Guidelines, terms for repatriation of capital and interest/dividend funds in foreign exchange, and taxation laws as also relaxations, if any, by CBDT and so on.
Table No.2
Private Equity: Sector-wise Allocations, No. of PE deals and investments during the first three months of 2012

<table>
<thead>
<tr>
<th>Sector</th>
<th>Allocation (%)</th>
<th>No. of deals</th>
<th>Investment ($ millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Real estate</td>
<td>29</td>
<td>18</td>
<td>711</td>
</tr>
<tr>
<td>BFSI</td>
<td>15.6</td>
<td>19</td>
<td>384.2</td>
</tr>
<tr>
<td>Healthcare</td>
<td>15</td>
<td>12</td>
<td>367.2</td>
</tr>
<tr>
<td>Retail</td>
<td>10.2</td>
<td>15</td>
<td>249.6</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>9.6</td>
<td>14</td>
<td>235.5</td>
</tr>
<tr>
<td>Logistics</td>
<td>5.5</td>
<td>4</td>
<td>135.7</td>
</tr>
<tr>
<td>Infrastructure</td>
<td>4.9</td>
<td>8</td>
<td>120.3</td>
</tr>
<tr>
<td>Media &amp; Entertainment</td>
<td>3.2</td>
<td>7</td>
<td>78.5</td>
</tr>
<tr>
<td>Others</td>
<td>7</td>
<td>34</td>
<td>172</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>100</strong></td>
<td><strong>1312</strong></td>
<td><strong>454</strong></td>
</tr>
</tbody>
</table>

Table No.3
Private Equity: Sector-wise Allocations, No. of PE deals and Investments during April 2012.

<table>
<thead>
<tr>
<th>Sector</th>
<th>Allocation (%)</th>
<th>No. of deals</th>
<th>Investment ($ millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pharma and Healthcare</td>
<td>30.6</td>
<td>3</td>
<td>166.2</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>24.1</td>
<td>7</td>
<td>130.7</td>
</tr>
<tr>
<td>Logistics</td>
<td>16.2</td>
<td>2</td>
<td>88</td>
</tr>
</tbody>
</table>
Contemporary Issues in Venture Capital Financing in India

<table>
<thead>
<tr>
<th>Sector</th>
<th>No. of Deals</th>
<th>Value ($mn)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Real Estate</td>
<td>13.4</td>
<td>73</td>
</tr>
<tr>
<td>BFSI</td>
<td>7</td>
<td>38.3</td>
</tr>
<tr>
<td>IT &amp; ITES</td>
<td>5.3</td>
<td>29</td>
</tr>
<tr>
<td>Infrastructure</td>
<td>0.7</td>
<td>3.6</td>
</tr>
<tr>
<td>Others</td>
<td>2.7</td>
<td>14.6</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>100</strong></td>
<td><strong>543.4</strong></td>
</tr>
</tbody>
</table>

Table No.4

Private Equity investments and No. of deals during September 2011 to April 2012

<table>
<thead>
<tr>
<th>Month &amp; Year</th>
<th>No. of Deals</th>
<th>Value ($mn)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sep-11</td>
<td>27</td>
<td>802.8</td>
</tr>
<tr>
<td>Oct-11</td>
<td>33</td>
<td>466.8</td>
</tr>
<tr>
<td>Nov-11</td>
<td>45</td>
<td>612.3</td>
</tr>
<tr>
<td>Dec-11</td>
<td>33</td>
<td>580.2</td>
</tr>
<tr>
<td>Jan-12</td>
<td>39</td>
<td>929.4</td>
</tr>
<tr>
<td>Feb-12</td>
<td>51</td>
<td>922.7</td>
</tr>
<tr>
<td>Mar-12</td>
<td>41</td>
<td>601.9</td>
</tr>
<tr>
<td>Apr-12</td>
<td>39</td>
<td>543.4</td>
</tr>
</tbody>
</table>

References:

Venture Capital Financing in India & Its Prospects

Dr. D.H. Malini Srinivasa Rao*

Abstract
Venture Capital funding is different from traditional sources of financing. Venture capitalists finance innovation and ideas which have potential for high growth but with inherent uncertainties. This makes it a high-risk, high return investment. Apart from finance, venture capitalists provide networking, management and marketing support as well. In the broadest sense, therefore, venture capital connotes risk finance as well as managerial support. In the global venture capital industry, investors and investee firms work together closely in an enabling environment that allows entrepreneurs to focus on value creating ideas and venture capitalists to drive the industry through ownership of the levers of control in return for the provision of capital, skills, information and complementary resources. This very blend of risk financing and hand holding of entrepreneurs by venture capitalists creates an environment particularly suitable for knowledge and technology based enterprises. The paper starts with Research and Development Cess Act, 1986 and covers the development in the field till 2003 and presents an analysis of venture investments as well as future prospects. The history of Venture capital (VC), its advent in India, Classification of VC in India, Types of VC and their analysis has been dealt in the paper.

Key words: Venture Capital, Investee firms, Domestic funds, Offshore funds, etc.

* Assistant Professor, Department of Management, Pondicherry University, KARAikal-609605.
Introduction:

Venture Capital is money provided by professionals who invest and manage young rapidly growing companies that have the potential to develop into significant economic contributors. According to SEBI regulations, venture capital fund means a fund established in the form of a company or trust, which raises money through loans, donations, issue of securities or units and makes or proposes, to make investments in accordance with these regulations. The funds so collected are available for Investment in potentially highly profitable enterprises at a high risk of loss. A Venture Capitalist is an individual or a company, who provides, Investment Capital, Management Expertise, Networking & marketing support while funding and running highly innovative & prospective areas of products as well as services. Thus, the investments made by Venture Capitalists generally involves Financing new and rapidly growing companies, purchasing equity securities, taking higher risk in expectation of higher reward It generally involves start up financing to help technically sound, globally competitive and potential projects to compete in the international markets with the high quality and reasonable cost aspects. The growth of South East Asian economies especially Hong Kong, Singapore, South Korea, Malaysia along with India has been due to the large pool of Venture Capital funds from domestic / offshore arenas.-Venture Capitalists draw their investment funds from a pool of money raised from public and private investors. These funds are deployed generally as equity capital (ordinary and preference shares) and sometimes as subordinated debt which is a semi secured investment in the company (through debenture) ranking below the secured lenders that often requires periodic repayment. Today, a VC deal can involve common equity, convertible preferred equity and subordinated debt in different proportions.
Problems of Venture Capital Financing:

VCF is in its emerging stages in India. The emerging scenario of global competitiveness has put an immense pressure on the industrial sector to improve the quality level with minimization of cost of products by making use of latest technological skills. The implication is to obtain adequate financing along with the necessary hi-tech equipments to produce an innovative product which can succeed and grow in the present market condition. Unfortunately, our country lacks on both fronts. The necessary capital can be obtained from the venture capital firms who expect an above average rate of return on the investment. The financing firms expect a sound, experienced, mature and capable management team of the company being financed. Since the innovative project involves a higher risk, there is an expectation of higher returns from the project. The payback period is also generally high (5 -7 years). The various problems/ queries can be outlined as follows:

a. Requirement of an experienced management team.
b. Requirement of an above average rate of return on investment.
c. Longer payback period.
d. Uncertainty regarding the success of the product in the market.
e. Questions regarding the infrastructure details of production like plant location, accessibility, relationship with the suppliers and creditors, transportation facilities, labour availability etc.
f. The category of potential customers and hence the packaging and pricing details of the product.
g. The size of the market.
h. Major competitors and their market share.
i. Skills and Training required and the cost of training.
j. Financial considerations like return on capital employed (ROCE), cost of the project, the Internal Rate of Return
(IRR) of the project, total amount of funds required, ratio of owners investment (personnel funds of the entrepreneur), borrowed capital, mortgage loans etc. in the capital employed

**Venture Capital in India:**

Research and Development Cess Act, 1986 introduced in the fiscal budget for the year 1986-87 is the precursor of the concept of venture capital as a new financial service in India. This Act imposed 5 per cent cess on all know-how import payments to create a pool of funds for, inter alia, venture capital activities. Technology Development Fund (TDF) was set up in the year 1987-88, through the levy of this cess on all technology import payments. TDF was meant to provide financial assistance to innovative and high-risk technological programs through the Industrial Development Bank of India. This measure was followed up in November 1988, by the issue of guidelines by the (then) Controller of Capital Issues (CCI). These stipulated the framework for the establishment and operation of funds/companies that could avail of the fiscal benefits extended to them. However, another form of venture capital which was unique to Indian conditions also existed. That was funding of green-field projects by the small investor by subscribing to the Initial Public Offering (IPO) of the companies. Companies like Jindal Vijaynagar Steel, which raised money even before they started constructing their plants, were established through this route.

In March 1987, Industrial Development Bank of India (IDBI) had become the first to introduce Venture Capital Fund (VCF) scheme for financing ventures seeking development of indigenous technologies/adaptation of foreign technology to wider domestic applications. Thereafter, Industrial Credit and Investment Corporation of India (ICICI) started financing technology-oriented innovative companies. ICICI in association
with Unit Trust of India (UTI) formed a venture capital subsidiary called TDICI -Technology Development and Information Company of India -with headquarters at Bangalore, for taking up venture capital activity. Industrial Finance Corporation of India (IFCI) formed Risk Capital and Technology Finance Corporation (RCTC), with headquarters at New Delhi. TDICI is now known as ICICI Venture Funds Management Company Ltd. or ICICI Venture; and RCTC is now known as IFCI Venture Capital Funds Ltd. (IVCF). Their main focus is on development and commercialization of viable indigenous, often, untried technologies. Almost at the same time, Credit Capital Venture Finance Limited was started in the private sector. This has mobilized funding from global funding agencies, with the joint sponsorship of Commonwealth Development Corporation, London (U.K.), Credit Capital Finance Corporation, Asian Development Bank (ADB), and Bank of India, a public sector bank in India. Government of India, in November 1988, announced the first venture capital guidelines in the Parliament. These guidelines provided venture financing of technology start-ups, promoted primarily by first generation entrepreneurs. Soon thereafter in 1989, four institutions were selected by the World Bank under its Industrial Technology Development Project to start venture capital activities in different parts of the country. ICICI at Mumbai, Gujarat Industrial Investment Corporation (GIIC) in Ahmedabad, Andhra Pradesh Industrial Development Corporation (APIDC) in Hyderabad, and Canara Bank in Bangalore were selected under this scheme. IFCI at New Delhi, and Infrastructure Leasing and Financial Services Ltd. (IL & FS) at Mumbai were added later under the scheme. These institutions formed separate companies for handling venture capital activity and have been following Government of India guidelines. Venture Capital Funds promoted under the scheme and their parent organization are tabulated below. Canara Bank
Contemporary Issues in Venture Capital Financing in India

in Bangalore was selected under this scheme. IFCI at New Delhi, and Infrastructure Leasing and Financial Services Ltd. (IL & FS) at Mumbai were added later under the scheme. These institutions formed separate companies for handling venture capital activity and have been following Government of India guidelines. Venture Capital Funds promoted under the scheme and their parent organization are tabulated below:

<table>
<thead>
<tr>
<th>Parent Institution</th>
<th>Venture Fund Promoted</th>
</tr>
</thead>
<tbody>
<tr>
<td>ICICI</td>
<td>TDICI, renamed as ICICI Venture Funds Management Company or ICICI Venture.</td>
</tr>
<tr>
<td>IFCI</td>
<td>RCTC, renamed as IFCI Venture Capital Funds Ltd. (IVCF).</td>
</tr>
<tr>
<td>IL &amp; FS</td>
<td>Pathfinder.</td>
</tr>
<tr>
<td>GIIC</td>
<td>Gujarat Venture Capital Finance Ltd. (GVCFL), with all India coverage.</td>
</tr>
<tr>
<td>APIDC</td>
<td>APIDC Venture Capital Ltd., with coverage as Andhra Pradesh.</td>
</tr>
<tr>
<td>Canara Bank</td>
<td>Canfina VCF, with focus on southern state</td>
</tr>
</tbody>
</table>

**Classification of Venture Capital Funds in India:**

The VCFs can be classified into domestic & offshore and private & public funds.

**Domestic Funds:**

The majority of domestic venture capital funds created their funds under the Indian Trust Act, 1882. The industry has either a two or three tier structure. In the two tier structure, an Asset Management Company (AMC) is formed which also acts as a trustee to the funds. The funds are settled as close ended funds. In the three tier structure, an asset management company and a separate Trustee Company are formed. The policy guidelines to the AMC for making investments and disinvestments are provided by the Board of Trustees. This facilitates launching
of more funds, each with a different objective or focus by the VC companies which normally act as the AMC. Both the structures are very similar to the Limited Partnership Act which is the structure through which VC funds are operated in U.S.A. and U.K as well. IDBI operated its venture capital activities through a separate division. SIDBI, which also operated VC earlier through a separate division, has formed an asset management company and a Trustee Company in 1999-2000 to operate venture capital activities.

**Offshore Funds:**
Post liberalization, from 1991, mobility of international funds in India has steadily increased. The funds are set up outside India in many countries like U.S.A., Hong Kong, Singapore, and Mauritius etc. These are very large funds, and make large investments. They generally invest in existing big companies. The fund is set up usually either with the sole contribution from one company or with contributions channelled through the foreign investors. Most of the funds have created the fund in Mauritius for investment exclusively in India. These offshore funds create an advisory board that makes investment and divestment decisions. The funds are routed through Mauritius for investment in Indian companies. This is primarily done to save taxes under a double tax treaty between India and Mauritius. The Mauritius based companies are totally exempted from paying capital gains tax. Such investments are also subject to Foreign Investment Promotion Board (FIPB) approval.

**Forays of VCFs in India:**
- Some of the companies that have received funding through this route include:
- Mastek, one of the oldest software houses in India.
- Geometric Software, a producer of software solutions for the CAD/CAM market.
• Ruksun Software, Pune based software consultancy
• SQL Star, Hyderabad based training and software Development Company.
• Microland, networking hardware and Services Company based in Bangalore
• Satyam Infoway, the first private ISP in India
• Hinditron, makers of embedded software
• PowerTel Boca, distributor of telecommuting products for the Indian market
• Rediff on the Net, Indian website featuring electronic shopping, news, chat, etc
• Entevo, security and enterprise resource management software products
• Planetasia.com, Micro land’s subsidiary, one of India’s leading portals
• Torrent Networking, pioneer of Gigabit- scaled IP routers for inter/intra nets
• Selectica, provider of interactive software selection
• Yantra, ITL Infosys’ US subsidiary, solutions for supply chain management.

Conclusion:
Venture Financing in India is still in its infancy. There is no reliable estimates of VC funding because what all is reported is not real as rules allow many VC transactions to fall outside official statistics by making them indistinguishable from routine foreign investment. VC financing increased in the beginning with liberalization but started falling thereafter. VCs in India invest in profitable companies rather than start-ups. VC in India invests in profitable companies rather than start-ups. Information technology, software development, BPO, biotechnology, food and agro-processing industries, pharmaceuticals, service enterprises, media, entertainment and healthcare have emerged as the new stars. Indian VC investment is essentially small, far
less than China and Japan. Venture fund, generally, flows to the entrepreneur when the investor is personally familiar with him. For entrepreneurs seeking informal investments from outside their circle of social networks, this means that they must be prepared to provide sufficient information for the potential investor to make informed risk evaluation. They should also seek out, where possible, potential investors with experience in the area of their proposed new business. There is a need to professionalize the venture fund investment for which greater transparency and trust is needed between the entrepreneur and the investor. With greater encouragement given to professional entrepreneurship, adoption of innovative technologies and an integration of Indian business with the global market; industry and service sector in particular offer bright prospects for venture capital industry in the country.

References:
Venture Capital/Private Equity (VC/PE)
Funding in India’s Education Sector:
A Perspective

Gangineni Dhananjhay*
Archana G **

Abstract

In India, recently there is an increased focus on education sector by private equity (PE) players. Education is a hot sector for PE and highly attractive with an estimated USD 40 billion market for private institutions, according to an INSEAD study. In this paper, we study the PE potential in India’s education sector, challenges for PE in Education, PE investment best practice examples. We examine the investment and exits of PE players in Indian education sector from 2000 till 2013.

Key Words: Private Equity, Venture Capital, Education Sector in India, Financing.
JEL Classification Code(s): G 20, G24, I 22

Introduction:

If you think education is expensive, try ignorance!
- Derek Bok

( President of Harvard University-1971 till 1990)

Private Equity (PE) has been instrumental in transforming world economies. Over the last decade, it has become a crucial source of finance for start-ups, growing companies and takeover transactions and an asset class by its own. Investment by PE investors not only provides growth capital for business, but also has a demonstration effect in the market. Venture capital (VC) funding provides funds for early stage companies. VC
investments are traditionally made for scaling up operations. VCs provide various forms of support like partnership based value-addition, entrepreneurial support, providing financial advice, human resources, establishing networks with customers, strategic guidance. Private Equity (PE) players are established investment bankers and typically invest into proven/established businesses. PE players take reasonably well-defined risks and have a clear exit strategy.

**Regulatory Constraints in Education:**

- Investments in the education sector have not taken off well due to prevailing regulations that require the entity setting up a school/college with a non-profit character.
- Moreover, any surplus funds generated in the process of running formal schools have to be ploughed back into the same institution and no dividends can be distributed.
- Certain structures have emerged to overcome these difficulties.
- In certain cases, the company creates a trust a not-for-profit body that runs the educational institute it creates a subsidiary that supplies educational services, infrastructure to the trust in lieu of fees.
- The trust has teachers on its payrolls and collects fees from students.

**Literature Review:**

There are extensive studies, reports and books available on venture capital & private equity industry in India. We have reviewed some recently published literature pertaining to India's private equity industry with special reference to education sector.

Sahil S, Namrata S in their paper entitled “Indian Private Equity Industry-The Challenges ahead” examines the challenges faced by PE industry in India. Adopting a convenience sampling of 64 PE professionals for data collection they conclude that deteriorating economic climate, ethical/regulatory concerns, poor performance, competition, illiquidity and lack of
professional expertise are six significant challenges faced by PE industry.

A business standard report on “Private Equity in Education” finds that VC/PE funds have infused USD 804.29 million between 2006 and 2012 in education. The report concludes that PE is largely confined to non-formal education segments like vocational education and coaching centres, as it is an unregulated sector.

India Private Equity Report (2013) published by Bain & Co finds that there is increasing willingness to engage with PE investors and they accept the support that traditionally accompanies this type of funding. The report further concludes that India’s businesses need to be open and transparent from the start and PE should not just be seen as a way to access cash, but rather should be thought of as activist capital, which brings expertise, network and fiscal discipline.

In a Money Tree India report (2012) examines the total equity investments in PE backed companies. The report defines Buyout, late, Growth, PIPE, Early, Pre-IPO and other transactions. Exits in the form of public market sale, secondary sale, IPO, strategic sale, Buy back are enumerated in the report.

Everstone’s report on “Education Sector” describes largest education market in the world. The report concludes that education sector is riding on strong macro and robust return profile, but PE investors need to be cognizant of business models.

According to a report by Price Waterhouse Report by Dhiraj Mathur “Lack of public funding, households’ willingness to pay for quality education and the government’s stance on educational reforms are driving private investment in this sector. Investors have preferred the unregulated space such as test preparation, vocational education and pre-schools. With government encouraging skill and vocational education, this trend is expected to attract more investments. The present system of formal education lags woefully in quality and more companies are expected to bridge this gap with technology, school management, teacher training and finishing schools.”
Objectives of the Study:
1. To examine VC/PE investments in Indian Education.
2. To analyse the top VC/PE deals and exits in India’s education sector.

PE/VC Investments in Education:
Private equity (PE)/venture capital (VC) funds have infused $804.29 million between 2006 and 2012 in education. But PE is largely confined to non-formal education segments like vocational education and coaching centres, as it is an unregulated sector.

Table 1
PE/VC Investments in Education Sector during 2006-12.

<table>
<thead>
<tr>
<th>Year</th>
<th>Deal Volume</th>
<th>Deal Value USD million</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006</td>
<td>7</td>
<td>95.9</td>
</tr>
<tr>
<td>2007</td>
<td>18</td>
<td>123.1</td>
</tr>
<tr>
<td>2008</td>
<td>12</td>
<td>74.4</td>
</tr>
<tr>
<td>2009</td>
<td>13</td>
<td>165.4</td>
</tr>
<tr>
<td>2010</td>
<td>25</td>
<td>163.6</td>
</tr>
<tr>
<td>2011</td>
<td>21</td>
<td>136.1</td>
</tr>
<tr>
<td>2012</td>
<td>8</td>
<td>45.9</td>
</tr>
</tbody>
</table>

Source: Business Standard

Top VC/PE Deals in India’s Education Sector:
Table 2
Top Five Deals in India’s Education Sector during 2006-2012

<table>
<thead>
<tr>
<th>Target</th>
<th>Buyer</th>
<th>Deal Value USD Million</th>
</tr>
</thead>
<tbody>
<tr>
<td>Manipal Universal learning</td>
<td>IDFC Private Equity &amp; Others</td>
<td>67.31</td>
</tr>
<tr>
<td>NIIT</td>
<td>Orient Global Education Fund</td>
<td>51.00</td>
</tr>
<tr>
<td>Manipal Universal learning</td>
<td>PI opportunities fund 1</td>
<td>43.32</td>
</tr>
</tbody>
</table>
Contemporary Issues in Venture Capital Financing in India

| IL & FS Education & Technology Services | India Equity opportunities Fund 1 | 37.00 |
| People Combine | Ascent India Fund 3 | 32.46 |

Source: Business standard

### Table 3

<table>
<thead>
<tr>
<th>Target</th>
<th>Seller</th>
<th>Exit Type</th>
<th>Exit Value (US $ mn)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tutor Vista Global</td>
<td>Sequoia Capital</td>
<td>M&amp;A</td>
<td>127</td>
</tr>
<tr>
<td>NIIT</td>
<td>Intel Capital</td>
<td>Secondary Sale</td>
<td>51</td>
</tr>
<tr>
<td>Educomp Solutions</td>
<td>Quantum Fund</td>
<td>Open Market</td>
<td>16.9</td>
</tr>
<tr>
<td>Educomp Solutions</td>
<td>Gaja Capital Partners</td>
<td>Open Market</td>
<td>7.4</td>
</tr>
<tr>
<td>NIIT Fund</td>
<td>Elephant Capital</td>
<td>Open Market</td>
<td>2.8</td>
</tr>
</tbody>
</table>

Source: Business Standard

### Summary of Findings & Conclusions:

a. Private equity (PE)/venture capital (VC) funds have infused $804.29 million between 2006 and 2012 in education.

b. But PE is largely confined to non-formal education segments like vocational education and coaching centres, as it is an unregulated sector.

c. Investments in the education sector have not taken off well due to prevailing regulations that require the entity setting up a school/college with a non-profit character.

d. Top VC/PE deal in India’s Education Sector is Manipal Universal Learning with deal value of USD 67.31 man.

e. Top VC/PE exit in India’s education sector is Tutor Vista Global with exit value of USD 127 man.
Limitations of the Study:

a. The study is limited to secondary data sources only.
b. The study considers limited time period from 2006-2012 only.
c. Data availability in the public domain is up to 2012 for this researcher.
d. There is a constraint of limited time period in which this study is processed.

Scope for further Research:

a. The study can be extended to other sectors like healthcare etc.
b. The study can be extended to other time periods.
c. The study can be done using econometric techniques like regression etc.

References:

7. (2011). Returns from Indian Private Equity. India: KPMG.
Across the Sector Venture Capital Investments in India

Dr. P. Niranjan Reddy*
Dr. J. Prakash Reddy**

Abstract
As compared to conventional source of industrial finance, venture capital is of recent origin in India. It is yet to take firm roots in Indian Financial System. Lack of obestic growth of venture capital funds, there is attributable to sluggish promotion of new business ventures in industry and service sectors. The preference patterns of venture capital investment by Indian venture capital funds amply demonstrate that they prefer investment in traditional sectors like real estate. This means they are conservative in their investment in approach. As compared to this foreign venture capital funds have clear preference for investment in modern sectors like information technology and telecommunication which have global presence. From this, we can infer there are innumerable opportunities for foreign venture capital funds to come and operate in Indian economy.

Introduction
The Indian financial system has a large number of privately owned, decentralized and relatively small-sized financial intermediaries which makes a competitive market. They are primarily engaged in fund-based activities and provide diverse financial services. The former are called non-bank financial companies (NBFC), and the latter non-bank financial services companies (NBFSCs). Venture capital is a new type of financial

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** Professor & Principal, Department of Management Studies, Rayalaseema Institute of Information and Management Sciences (RIIMS), Tirupati-517502
intermediary, which emerged in the 1970s in the United States, in the early 1980s in the United Kingdom, in the mid 1980s in Japan and Canada and 1987 in India and now people talk of “Venture capital industry” or “Venture capital market” comprising a large number of Venture Capital Fund (VCFs).

**Concept of Venture Capital:**
Venture capital is “providing seed, start-up and first stage financing” and also “funding the expansion of companies that have already demonstrated their business potential but do not yet have access to the public securities market or to credit-oriented institutional funding sources”. The European Venture Capital Association describes it as risk finance as entrepreneurial growth-oriented companies. It is investment for the medium or long-term return, seeking to maximize medium or long-term return for both parties. It is a partnership with the entrepreneur in which the investor can add value to the company because of his knowledge, experience and contact base.

International Finance Corporation (IFC) defines Venture Capital as equity or equity featured capital seeking investment in new ideas, new companies, new products, new process or new services that offer the potential of high returns on investment. It may also include investment in turnaround situations.

In India, the Security and Exchange Board of India (SEBI) has laid down those activities that would constitute eligible business activities qualifying for the concessions available to a recognized venture capital fund. Security and Exchange Board of India (Venture Capital Funds) Regulation, 1996, the principal regulation, defines Venture Capital Fund as “a fund established in the form of a trust or a company having a dedicated pool of capital which raises moneys through loan, donations, issue of securities or units as the case may be, and makes or proposes to make investments in accordance with the regulations”. The Venture Capital Funds (VCFs) play an important role in
supplying management and marketing expertise to unlisted, new and small private business, especially in technology-oriented and knowledge-incentive business or industries which may have long development cycles and which usually do not have access to conventional sources of capital because of the absence of suitable collateral and the presence of high risk.

**Venture Capital Funding:**

Funds are most interested in ventures with exceptionally high growth potential, as only such opportunities are likely capable of providing the financial returns and successful exit event within the required timeframe (3-7 years) those venture capitalists expect. Venture capitalists typically assist at four stages in the company’s development: (a) idea generation, (b) Start-up, (c) Ramp up, and (d) Exit.

There are typically six stages of financing offered in Venture Capital:

- **Seed money**: Low level financing needed to prove a new idea (often provided by “angel investors”).
- **Start-up**: Early stage firms that need funding for expenses associated with marketing and product development.
- **First-round**: Early sales and manufacturing funds.
- **Second – round**: Working capital for early stage companies that are selling product, but not yet turning a profit.
- **Third – round**: Also called Mezzanine financing, this is expansion money for a newly profitable company.
- **Fourth - round**: Also called bridge financing is intended to finance the “going public’ process.

**Venture Capital – Sectors**

* IT and IT – enabled services,
* Software products
* Wireless/ Telecom / Semiconductor
* Banking
* PSU Disinvestments
* Media / Entertainment
Evolution of Venture Capital:
Since its beginnings in 1946 through the American Research and Development Corporation (AEDC) of General Detroit, venture capital business has expanded quite fast. Presently, VC in one form or the other has come to stay in over thirty five countries including Japan, Taiwan, India, South Korea, Singapore, Philippines, Malaysia in Asia, Brazil and Argentina and South America and Kenya and Nigeria in Africa. However barring US, UK, Japan, Canada, Germany, Sweden and Netherlands, the industry has a relatively limited activity base measured in terms of number of registered VC firms, committed capital or invested capital measured as share of GDP.

Venture Capital Industry in India:
India has a large sophisticated financial system including private and public, formal and informal actors. In addition to formal financial institutions, informal institutions such as family and moneylenders are important source of capital. India has substantial capital resources, but the bulk of this capital resides in the banking system.

In India, the VC industry had its formal introduction in the budget speech of the Financial Minister in 1988. The UTI set up a VCF of Rs.20 crores in collaboration with the ICICI for fostering industrial development in 1988-89. Technology Development and Information Company of India Ltd. (TDICI) established by the UTI jointly with the ICICI acts as an adviser and manager of the Fund. The UTI launched Venture Capital Unit Scheme (VECAUS-1) to raise resources for this fund. It set up a Second Venture Capital Fund in March 1990 with a capital of Rs.100 crores, with the objective of financing Greenfield ventures and steering industrial development.
Table No.1
Sources of Venture Capital Funds in India

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pension Funds</td>
<td>2</td>
</tr>
<tr>
<td>Corporations</td>
<td>62</td>
</tr>
<tr>
<td>Banks</td>
<td>15</td>
</tr>
<tr>
<td>Government Agencies</td>
<td>9</td>
</tr>
<tr>
<td>Insurance Companies</td>
<td>7</td>
</tr>
<tr>
<td>Private Individuals</td>
<td>5</td>
</tr>
<tr>
<td>Others</td>
<td>-</td>
</tr>
<tr>
<td>Total</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: AVCJ, 2011.

Corporations is the single most important source with the share of 62 per cent followed by banks with 15 per cent, Government agencies 9 per cent, insurance agencies 7 per cent, private industries 5 per cent and pension funds 2 per cent. It is obvious that corporation and banks are the main providers of venture capital in India. They together accounts for 77 per cent of sources of venture capital fund.

Table 2 exhibits city-wise venture capital headquarters. Out of 56 venture capital funds, 31, 10 and 8 are located in Bombay, New Delhi and Bangalore, respectively. The aggregate share of these three cities is 87.51 per cent.

Table No.2
Location of Headquarters of the Members of Indian Venture Capital Association

<table>
<thead>
<tr>
<th>Cities</th>
<th>Venture Capital headquarters</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Number</td>
<td></td>
</tr>
<tr>
<td>Bombay</td>
<td>31</td>
<td>(55.36)</td>
</tr>
<tr>
<td>New Delhi</td>
<td>10</td>
<td>(17.86)</td>
</tr>
<tr>
<td>Hyderabad</td>
<td>1</td>
<td>(1.79)</td>
</tr>
<tr>
<td>Bangalore</td>
<td>8</td>
<td>(14.29)</td>
</tr>
</tbody>
</table>
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<table>
<thead>
<tr>
<th>City</th>
<th>Stage</th>
<th>Percentage Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>Calcutta</td>
<td>Early Stage:</td>
<td>7</td>
</tr>
<tr>
<td></td>
<td>a) Seed</td>
<td></td>
</tr>
<tr>
<td>Pune</td>
<td>b) Start-up</td>
<td>47</td>
</tr>
<tr>
<td>Chennai</td>
<td>Expansion</td>
<td>46</td>
</tr>
<tr>
<td>Total</td>
<td>Total</td>
<td>100</td>
</tr>
</tbody>
</table>

Note: Figures in brackets indicate the percentage to total.
Source: IVCS, 2011

Table No.3
Distribution of Stage-wise Investments of Venture Capital in India

Table 3 sets out the percentage shares of venture capital investments stage-wise in India. Start-up and expansion stages are the two main stages of investment of venture capital. Both of these stages account for 93 per cent of total venture capital investment in India.

Table No.4
Sector-wise Progress of Venture Capital Fund in India during March, 2010 – 2013 (Rs. Crores)

<table>
<thead>
<tr>
<th>Sector of the economy</th>
<th>Venture Capital Fund (VCF)</th>
<th>Percentage of change</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2010</td>
<td>2013</td>
</tr>
<tr>
<td>Information Technology</td>
<td>533 (2.32)</td>
<td>954 (2.69)</td>
</tr>
<tr>
<td>Telecommunication</td>
<td>858 (3.73)</td>
<td>1468 (4.15)</td>
</tr>
<tr>
<td>Pharmaceuticals</td>
<td>460 (2.00)</td>
<td>420 (1.19)</td>
</tr>
<tr>
<td>Biotechnology</td>
<td>187 (0.81)</td>
<td>222 (0.63)</td>
</tr>
<tr>
<td>Media / Entertainment</td>
<td>802 (3.48)</td>
<td>1148 (3.24)</td>
</tr>
</tbody>
</table>

Source: IVCS, 2011
Service sector & 1215 (5.28) & 2428 (6.86) & 99.84 \\
Industrial products & 783 (3.40) & 1252 (3.54) & 59.90 \\
Real estate & 8155 (35.42) & 11482 (32.44) & 40.80 \\
Others & 10029 (43.56) & 16026 (45.27) & 59.80 \\
Total & 23023 (100.00) & 35400 (100.00) & 53.76 \\

Note: Figures in brackets indicate the percentage to total.
Source: www.sebi.gov.in

Sector-wise venture capital investments in India are shown for two reference years – 2010 and 2013 in Table 4. The leading sector of Indian economy which attracted venture capital in 2010 are other sector 43.56 per cent share followed by real estate with 35 per cent share. The percentage shares are all other sectors are in single digits. Similarly picture is noticed in the year 2013. In terms of percentage increase in venture capital investments between the two reference years. The overall increase 54 per cent of all sector put together. Out of eight sectors, seven sector registered positive growth, the only exceptions being the pharmaceuticals which notice negative growth. The percentage growth is highest in service sector (100 per cent) followed by Information Technology (79 per cent), Telecommunication (71 per cent) and others and industrial product (each 59 per cent). Media/entertainment has 43 per cent and real estate 49 per cent. The lowest position growth is hosted in pharmaceuticals (-8.70 per cent).

<table>
<thead>
<tr>
<th>Sector of the economy</th>
<th>Foreign Venture Capital Investments (FVCI)</th>
<th>Percentage of change</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2010</td>
<td>2013</td>
</tr>
<tr>
<td>Information Technology</td>
<td>3016 (9.07)</td>
<td>4499 (10.02)</td>
</tr>
<tr>
<td>Telecommunication</td>
<td>7145 (21.49)</td>
<td>7013 (15.62)</td>
</tr>
</tbody>
</table>

Table No.5

Sector – wise Flow of Foreign Venture Capital Investments in India during 2010-13. (Rs. Crores)
Table 5 reveals foreign venture capital investments sector-wise in Indian for two reference years 2010 and 2013. Reading the table vertically for the 2010, it can notice the share of others in the highest are 45.8 per cent followed by Telecommunication at 21.5 per cent, real estate at 9.35 per cent and Information technology at 9.07 per cent. The lowest percentage shares are witnessed in pharmaceuticals 2.96 per cent, industrial products 2.67 per cent, media/entertainment 2.11 per cent and biotechnology 0.42 per cent.

Glancing over 2013 column for the percentage shares of Venture capital investment in different sector a picture similar to 2010 can be witnessed. Focusing on the last column of the table which shows percentage change of venture capital in across the sectors in 2013 over 2010 the following picture merges. Inter year percentage change in venture capital investments in all sector put together is 35 pre cent. The highest percentage change is noticed in other sectors 72 per cent followed by industrial products (63 per cent), information technology (49 per cent). The negative percentage growth rate is noticed in real estate (-43 per cent), pharmaceuticals (-34 per cent).

<table>
<thead>
<tr>
<th>Sector</th>
<th>2010</th>
<th>2013</th>
<th>Percentage Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pharmaceuticals</td>
<td>985 (2.96)</td>
<td>646 (1.44)</td>
<td>-34.42</td>
</tr>
<tr>
<td>Biotechnology</td>
<td>140 (0.42)</td>
<td>144 (0.32)</td>
<td>2.86</td>
</tr>
<tr>
<td>Media / Entertainment</td>
<td>701 (2.11)</td>
<td>827 (1.84)</td>
<td>17.97</td>
</tr>
<tr>
<td>Service sector</td>
<td>2039 (6.13)</td>
<td>2353 (5.24)</td>
<td>15.40</td>
</tr>
<tr>
<td>Industrial products</td>
<td>886 (2.67)</td>
<td>1444 (3.22)</td>
<td>62.98</td>
</tr>
<tr>
<td>Real estate</td>
<td>3107 (9.35)</td>
<td>1758 (3.92)</td>
<td>-43.42</td>
</tr>
<tr>
<td>Others</td>
<td>15223 (45.80)</td>
<td>26209 (58.38)</td>
<td>72.17</td>
</tr>
<tr>
<td>Total</td>
<td>33242 (100.00)</td>
<td>44889 (100.00)</td>
<td>35.04</td>
</tr>
</tbody>
</table>

Note: Figures in brackets indicate the percentage to total.
Source: www.sebi.gov.in
Table No.6
Sector-wise Investment of Venture Capital funds in India

<table>
<thead>
<tr>
<th>Sector of the economy</th>
<th>Venture Capital Investments 2010</th>
<th>Venture Capital Investments 2013</th>
<th>Percentage of change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Information Technology</td>
<td>3549 (6.31)</td>
<td>5453 (6.79)</td>
<td>53.65</td>
</tr>
<tr>
<td>Telecommunication</td>
<td>8003 (14.22)</td>
<td>8481 (10.56)</td>
<td>5.97</td>
</tr>
<tr>
<td>Pharmaceuticals</td>
<td>1445 (2.57)</td>
<td>1006 (1.25)</td>
<td>-30.38</td>
</tr>
<tr>
<td>Biotechnology</td>
<td>327 (0.58)</td>
<td>364 (0.45)</td>
<td>11.31</td>
</tr>
<tr>
<td>Media / Entertainment</td>
<td>1148 (2.04)</td>
<td>1975 (2.46)</td>
<td>72.04</td>
</tr>
<tr>
<td>Service sector</td>
<td>2428 (4.32)</td>
<td>4781 (5.95)</td>
<td>96.91</td>
</tr>
<tr>
<td>Industrial products</td>
<td>1252 (2.23)</td>
<td>2696 (3.36)</td>
<td>115.34</td>
</tr>
<tr>
<td>Real estate</td>
<td>11482 (20.41)</td>
<td>13240 (16.49)</td>
<td>15.31</td>
</tr>
<tr>
<td>Others</td>
<td>16026 (28.48)</td>
<td>42235 (52.60)</td>
<td>163.54</td>
</tr>
<tr>
<td>Total</td>
<td>56265 (100.00)</td>
<td>80289 (100.00)</td>
<td>42.70</td>
</tr>
</tbody>
</table>

Note: Figures in brackets indicate the percentage to total.
Source: www.sebi.gov.in

Sector – wise investment of venture capital funds in India by foreign and domestic sources is exhibited in Table 6. Reading two columns, 2010 and 2013 together, it can be seen that others account for 29 per cent and 53 per cent shares respectively. The other two sectors which registered double digit percentage share were real estate (20 per cent, 17 per cent) and telecommunication (14.2 per cent, 10.56 per cent). In the last column of table which shows percentage change of venture capital investment across the sector in the year 2013 over 2010 reveals the following facts. The aggregate venture capital investment as registered 43 per cent increase, sector-wise the percentage change is highest in other sector at 164 per cent followed by others 115 per cent, service sector at 60 per cent, media/entertainment at 72 per cent and information technology at 97 per cent. In contrary negative annual growth rate are registered in pharmaceuticals (-30 per cent ) only.

Table 7 align data relating industry wise investments by SEBI
registered VCFs and Foreign VCIs in year 2013. The aggregate investment in all sectors was Rs. 44,889 crores by FVCI as compared to Rs. 42,235 crores by VCF. Sector-wise investment both VCF and FVCI is highest in other Rs. 35,535 crores, followed by real estate (Rs. 13,240), Telecommunication (Rs. 8,481 crores) and Information Technology (Rs. 5,453 crores). Least amount of investments by VCF and FVCI are parked in biotechnology (Rs. 366 crores).

<table>
<thead>
<tr>
<th>Sector of the economy</th>
<th>Venture Capital</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>VCF</td>
<td>FVCI</td>
</tr>
<tr>
<td>Information Technology</td>
<td>954 (17.49)</td>
<td>4499 (82.51)</td>
</tr>
<tr>
<td>Telecommunication</td>
<td>1468 (17.31)</td>
<td>7013 (82.69)</td>
</tr>
<tr>
<td>Pharmaceuticals</td>
<td>420 (41.75)</td>
<td>646 (64.21)</td>
</tr>
<tr>
<td>Biotechnology</td>
<td>222 (60.99)</td>
<td>142 (39.06)</td>
</tr>
<tr>
<td>Media/Entertainment</td>
<td>1148 (58.13)</td>
<td>827 (41.87)</td>
</tr>
<tr>
<td>Service sector</td>
<td>2428 (50.78)</td>
<td>2353 (49.22)</td>
</tr>
<tr>
<td>Industrial products</td>
<td>1252 (46.44)</td>
<td>1444 (53.56)</td>
</tr>
<tr>
<td>Real estate</td>
<td>11482 (86.72)</td>
<td>1758 (13.28)</td>
</tr>
<tr>
<td>Others</td>
<td>16026 (37.94)</td>
<td>26209 (62.06)</td>
</tr>
<tr>
<td>Total</td>
<td>35400 (44.09)</td>
<td>44889 (55.91)</td>
</tr>
</tbody>
</table>

Note: Figures in brackets indicate the percentage to total.
Source: www.sebi.gov.in

Conclusion:
A quick glance at venture capital investment by domestic venture capital funds and foreign venture capital funds reveals marked differences. The favourite sector for venture capital investment by Indian VCFs is real estate sector. Unlike foreign
VCF which preferred making investment in telecommunication and information technology. A striking feature of venture capital investment by Indians and foreign venture funds is what most preferred sector is for investment by foreign VCF is least preferred investment for Indian VCFs. This implied the risk, growth and return perceptions are marked difference between Indian VCF and foreign VCIs. Another disturbing feature of venture capital is concentration of Indian VCF is few cities, which reflects uneven development of new ventures in all sectors in India.

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Role of Venture Capital for Growth of MSMEs – A Study of SIDBI Venture Capital Limited

Dr. Sujatha Susanna Kumari D*
Mr. Basavaraj**

Abstract
Micro, Small and Medium Enterprises (MSME) sector has emerged as a highly vibrant and dynamic sector of the Indian economy over the last five decades. MSMEs not only play crucial role in providing large employment opportunities at comparatively lower capital cost than large industries but also help in industrialization of rural & backward areas, thereby, reducing regional imbalances, assuring more equitable distribution of national income and wealth. MSMEs play a critical role in social and economic development, contributing more than 10 per cent of the country’s GDP, 45 percent of total manufacturing output and 40 percent of employment. Despite playing a crucial role in the nation’s industrial growth, the MSMEs were facing paucity of finances. Generally, banks are reluctant to finance due to the reasons like of lack of collaterals to back the loans, lack of adequate financial information due to non standardized financial statements submitted by the MSMEs and inability of the banks to determine technical and managerial expertise of the borrowers. Therefore, many measures adopted by governments ensure that the risks posed by the above shortfalls are adequately mitigated. One of such measure is the Venture capital. Venture capital is another finance option for entrepreneurs who are looking to grow and expand.

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** Research Scholar, Department of Commerce, SBS Central University of Karnataka, Gulbarga.
Venture Capital (VC) is a method of business funding for companies through a form of equity investment where the investing companies get partial ownership or control in the invested companies through shares. In this paper an attempt has been made to know the role SIDBI Venture Capital Limited for the growth of MSMEs.

**Key words:** Venture Capital, SIDBI Venture Capital Limited, MSMEs, Corpus, Disbursement

**Introduction:**

In order to provide financial support to entrepreneurial talent and business skills, the concept of venture capital emerged. Venture capital is a means of equity financing for rapidly-growing private companies. Finance may be required for the start-up, expansion or purchase of a company. Venture capitalists comprise of professionals in various fields. They provide funds (known as venture capital fund) to these firms after carefully scrutinizing the projects. Their main aim is to earn higher returns on their investments, but their methods are different from the traditional money lenders. They take active part in the management of the company as well as provide the expertise and qualities of a good bankers, technologist, planners and managers. The Ministry of MSME has been facilitating venture capital / risk capital assistance to micro, small and medium enterprises (MSMEs) by way of creation of separate funds for the purpose. Small Industries Development Bank of India (SIDBI)’s wholly owned subsidiary, ‘SIDBI Venture Capital Ltd. (SVCL)’ provides venture capital assistance to MSMEs under two funds - an exclusive Information Technology (IT) fund and an SME Growth Fund.

In addition, Technology Information, Forecasting and Assessment Council (TIFAC) under the Ministry of Science and Technology along with SIDBI have set up TIFAC-SIDBI Revolving Fund for Technology Innovation to provide venture capital (VC) assistance for demonstrating and scaling up of technology innovations by first generation entrepreneurs or
existing MSMEs. SIDBI also provides VC assistance to MSMEs by way of contributions to the corpus of various VC funds. In order to provide risk capital support to MSMEs, the Government has created a ‘Risk Capital Fund’ with SIDBI under which risk capital assistance is provided to MSMEs.

**Benefits of VC over other Funding Methods:**
Venture capitalist has a number of advantages over other forms of finance:
- It injects long term equity finance which provides a solid capital base for future growth
- The venture capitalist is a business partner, sharing both the risks and rewards. Venture capitalist rewarded by business success and the capital gain.
- The venture capitalist is able to provide practical advice and assistance to the company based on past experience with other companies which were in similar situations.
- The venture capitalist also has a network of contacts in many areas that can add value to the company, such as in recruiting key personnel, providing contacts in international, markets, introductions to strategic partners, and if needed co-investments with other venture capital firms when additional rounds of financing are required.

**Venture capital funds in India:**
In India, Venture capital funds (VCFs) can be categorized in to the following groups:-
- Promoted by the central government controlled development finance institutions.
- Promoted by the state government controlled development finance institutions.
- Promoted by public banks.
- Promoted by private sector companies.
- Overseas venture capital fund.
Venture capital for MSMEs in India:
Traditionally, Venture Capital in India has shied from the MSMEs sector. The non-corporate structure and small size of majority of MSMEs in India makes the venture capitalist and private equity players reluctant to investing in them due to higher transaction costs and difficulties in exist out of such investments. However, the VC scenario in India is rapidly changing. Moreover, the Venture Capitals are expanding their reach into areas besides the traditional Venture capital sectors like information technology (IT): nowadays interest in sectors like clean energy, healthcare, pharmaceuticals, retail, media, etc., is also growing. In recent years, the government controlled financial institutions have initiated positive and progressive measure to provide MSMEs access to funds at a reasonable and affordable costs and without any usual hurdles. Venture capital funding institutions have been floated to induct fund at low cost, share the risk and to provide management and technology up gradation support to these enterprises. Govt.-funded schemes exist at both the national and the state levels. They tend to be relatively small-they typically do not exceed US$ 5 million.

The Small Industries Development Bank of India (SIDBI) is the main public financial institution involved in Venture Capital funding operations. SIDBI operates through wholly owned subsidiary, SIDBI Venture Capital Limited (SVCL). It co-finances state-level funds and sometimes co-invests with private sector Venture Capital case-by-case basis.

Since 2006, some new Venture Capitals are also operating at the SME level, such as Helion Venture partners, Erasmic venture fund (Accel India venture fund), Seed Fund and Upstream Ventures. While technology remains the most sought after investment fields, interest has been shifting from internet companies to other types of operations- especially ICT enabled services and bio-technology. A few Venture Capitals also operate
at the early stage, including Erasmic Venture Fund, Seed Fund, Infinity Venture, IFI sponsored facilities such as Swiss Tech VCF, and the government schemes such as SIDBI Venture Capital and Gujarat VF. Early stage Venture capitals seek smaller deals, typically in the US $ 1 – 3 million range. However they rarely go below the half million dollar mark, where there is a strong appetite for financing but very few opportunities. Possible sources of smaller investments are represented by local public sector facilities, business angles, business incubators funds, and isolated cases of seed VCFs such as the micro venture schemes like Aavishkar India Micro Venture Capital Fund (AIMVCF).

SIDBI Venture Capital Limited:

SIDBI Venture Capital Limited (SVCL) is a wholly owned subsidiary of SIDBI, incorporated in July 1999. SIDBI Venture Capital Limited (SVCL) is an Investment Management Company for managing Venture Capital Funds. Over the years, SVCL has evolved into one of the leading venture capital companies in India. It is also the major institutional investment management company having a focus on the MSME sector in India. SVCL is managing three venture capital funds and one social alternative investment fund. SVCL was established with the Rs.100 crores, National Venture Fund for Software and IT Industry [NFSIT]. In 2004, the Rs.500 crores SME Growth Fund [SGF] was set up and India Opportunities Fund [IOF] was set up in the year 2012 with corpus of Rs.600 crores. During the year 2012-13 the fourth fund, Samridhi Fund [SF] was set up with a major contribution from Department for International Development (DFID), UK - £35 million and SIDBI – Rs.50 crores, with a focus on fostering inclusive growth in the 8 poorer states of India. SVCL has continued to be a source of growth capital to high-quality, growth-oriented, primarily micro, small and medium sized companies (MSMEs) across diversified sectors. It has so far invested in 59 early and growth stage knowledge based companies.
SVCL invest in companies engaged in wide range of growth sectors, such as life science, retailing, light engineering, food processing, information technology, infrastructure related services, healthcare, logistics and distribution etc. in the MSME sector. The company should have high growth potential so that it can scale up sufficiently within 3-5 years of investment so as to provide a profitable exit to investors by way an IPO, Strategic sale, mergers & Acquisition etc.

SVCL is focusing on all stages on investment. The company at the time of investment should be unlisted. It proposes to make investment on an all India basis and the investee company must be incorporated in India. Part of the investment can be utilised for investment in opening overseas branch offices/subsidiaries provided the investment is beneficial to the parent company in India.

SVCL provides “smart money” to entrepreneurs. Apart from finance, SVCL provides networking and management support as well with the objective to make the company grow rapidly. SVCL also assists investee companies to attract investment from other venture capitalist in subsequent rounds of financing.

**SIDBI Venture Capital Funds:**

1. **National Venture Fund for Software & Information Technology Industry (NFSIT):**

The National Venture Capital Fund for Software and Information Technology Industry (NFSIT) has been set up by Small Industries Development Bank of India (SIDBI) in association with Ministry of Information Technology (MIT), Govt. of India in 1999. NFSIT is a close ended 10 years fund with a corpus of Rs.100 crores. The Fund has a committed corpus of ‘100 crores, the contributors are SIDBI has contributed 50 crores, Ministry of Communications and Information Technology 30 crores and IDBI 20 crores. NFSIT has been launched by the Hon'ble Prime Minister of India, Shri Atal Behari
Vajapayee on December 10, 1999. The fund is almost fully divested. The main objective of establishing the Fund was to provide venture capital (VC) support by way of equity and equity-linked instruments to unlisted SME enterprises in the areas of software and information technology.

Table No.1
National Venture Fund for Software & Information Technology Industry
(Rs. in crores)

<table>
<thead>
<tr>
<th>Year</th>
<th>Corpus</th>
<th>Cumulative Sanctions</th>
<th>Cumulative Disbursements</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007-08</td>
<td>100</td>
<td>85.15</td>
<td>84.40</td>
</tr>
<tr>
<td>2008-09</td>
<td>100</td>
<td>84.40</td>
<td>84.40</td>
</tr>
<tr>
<td>2009-10</td>
<td>100</td>
<td>84.40</td>
<td>84.40</td>
</tr>
<tr>
<td>2010-11</td>
<td>100</td>
<td>84.40</td>
<td>84.40</td>
</tr>
<tr>
<td>2011-12</td>
<td>100</td>
<td>84.40</td>
<td>84.40</td>
</tr>
<tr>
<td>2012-13</td>
<td>100</td>
<td>84.40</td>
<td>84.40</td>
</tr>
</tbody>
</table>

Table 1 show that the Fund had invested Rs.84.40 crores out of its corpus Rs.100 crores in 31 companies. The Fund has divested a majority of its portfolio companies and has returned Rs.196.47 crores by way of redemption of units as well as profits to the contributors and yielded a portfolio IRR of 16.79% up to March 2013. The investors obtained a post-tax rate of return of 8.23% p.a. up to March 2013.

2. SME Growth Fund:

SME Growth Fund (SGF) is an eight-year close-ended Venture Capital Fund set up in 2004, with a corpus of Rs.500 crores, contributed by SIDBI and 8 scheduled commercial banks. It is a general fund with focus on the growth stage MSMEs in the areas of auto components, textiles, pharmaceuticals, renewable energy, light engineering, information technology, services, etc.
Table No.2
SME Growth Fund (Rs. in crores)

<table>
<thead>
<tr>
<th>Year</th>
<th>Corpus</th>
<th>Cumulative Sanctions</th>
<th>Cumulative Disbursements</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007-08</td>
<td>500</td>
<td>256.83</td>
<td>234.37</td>
</tr>
<tr>
<td>2008-09</td>
<td>500</td>
<td>209.09</td>
<td>208.19</td>
</tr>
<tr>
<td>2009-10</td>
<td>500</td>
<td>465.92</td>
<td>442.56</td>
</tr>
<tr>
<td>2010-11</td>
<td>500</td>
<td>465.92</td>
<td>456.09</td>
</tr>
<tr>
<td>2011-12</td>
<td>500</td>
<td>465.92</td>
<td>456.09</td>
</tr>
</tbody>
</table>

Table 2 shows that SGF has completed its investment phase and invested Rs.456.09 crores in 25 companies in diverse sectors. It has also started exiting from investments on getting suitable opportunities. As on March 31, 2012, SGF has made partial/full exits from 13 companies and has distributed aggregate amount of Rs.251.02 crores to its contributors.

3. India Opportunities Fund (IOF):
IOF is a close ended venture fund with a life of 10 years established in August 2011. The Fund has done a final closure in April 2012 with a corpus of Rs.671 crores. The contributors of IOF are SIDBI, LIC, Canara Bank, Technology Development Board (TDB) and other leading Indian commercial banks and insurance companies. IOF is a sector agnostic fund focused mainly on meeting growth capital needs of India’s growing and unlisted MSMEs operating in emerging sectors, such as, educational services, IT/ITES, light engineering, clean tech, agro-based industries, logistics, infrastructure etc.

Table No.3
India Opportunities Fund (Rs. in crores)

<table>
<thead>
<tr>
<th>Year</th>
<th>Corpus</th>
<th>Cumulative Sanctions</th>
<th>Cumulative Disbursements</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010-11</td>
<td>570.65</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>2011-12</td>
<td>600</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>2012-13</td>
<td>671</td>
<td>109.90</td>
<td>109.90</td>
</tr>
</tbody>
</table>
Table 3 shows that IOF has so far received aggregate commitments of Rs.570.65 crores in the year 2010 to11. The Fund has done a final closure in April 2012 with a corpus of Rs.671 crores. As of March 31, 2013, IOF has made commitments worth Rs.109.90 crores in 10 companies, out of which investment to the tune of Rs.18 crores in 3 companies has been completed.

4. Samridhi Fund (SF):
Department for International Development (DFID), UK has decided to provide support up to £ 65 million in India over 7 years under its Poorest States Inclusive Growth (PSIG) Programme through SIDBI (£ 30 million) and SVCL (£ 35 million). The primary investment focus of the fund will be early and growth stage investments in companies that are economically viable provide access to markets for the poor, socially relevant and impact the poor as producers / consumers and/or employees and have economic impact, with target beneficiaries in the 8 poorer states of India, viz. Bihar, Madhya Pradesh, Odisha, Uttar Pradesh, Rajasthan, Jharkhand, Chhattisgarh and West Bengal. SIDBI will contribute Rs.50 crores to the fund.

Conclusion:
Since inception, SVCL has continued to be a source of growth capital to high-quality, growth-oriented, primarily micro, small and medium sized companies (MSMEs) across diversified sectors. It has so far invested in 59 early and growth stage knowledge based companies. It has also fully or partially divested its investment in 40 of these 59 companies and returned Rs.447.49 crores by way of redemption of units as well as profits to the contributors of its first two funds. In the Union Budget for FY 2012–13, Government had announced the setting up of the India Opportunities Venture Fund [IOVF] with a corpus of
Rs.5,000 crores with the Bank, to enhance the availability of equity and similar financial products to MSMEs, including start-ups and early / growth stage enterprises. The IOVF has since been operationalized with effect from August 01, 2012. As on March 31, 2013, SIDBI has made a total commitment of over Rs.400 crores under the Fund. It can be concluded that SIDBI Venture Capital Limited contributing for the growth of MSMEs through their funds.

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Development of MSMEs Through Public Private Partnership

Dr. G. Vijaya Bharathi*
Ms. S. Masthani**
Mr. P. Harinatha Reddy***

Abstract

The present study is a theoretical frame work to know about the need and importance of public- private partnership and the benefits of the public- private partnership. The study also focused on the importance of the MSMEs. The Micro, Small & Medium enterprises (MSMEs) has often been termed as ‘engine of growth’ for all developing economies including India. MSMEs have been playing a momentous role in overall economic development of a country like India where millions of people are unemployed or underemployed & facing the problems of poverty. MSMEs are providing immediate large-scale employment, with lower investments and prove to be a second largest manpower employer, after agriculture and occupy a position of prominence in Indian economy. In India and other developing countries, sustainable growth of MSMEs can be achieved through PPPs, where the government delivers the minimum standard of quality for products and services; the private sector brings skills and core competencies, while government, donors and businesses jointly bring funding and other resources.

Key Words: MSMEs, Public-Private Partnership.

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**Introduction:**

Micro Small and medium enterprises (MSMEs) are vital to the economies of all countries, specifically developing countries. In present competitive and challenging global environment, an extremely viable and dynamic MSMEs sector is essential for the economic development of developing countries. MSMEs are engine of growth in prosperous and growing economy and play an important role in creating economic growth. MSMEs contribute to economic development by creating employment for rural and urban population, providing flexibility and innovation through entrepreneurship and increase international trade by diversifying economic activity. Their role in income generation and economic growth for developing countries is critical.

**MSMEs**

The definition of Micro, small and medium enterprises as per MSMEs Act, 2006 is based on their investment in plant and machinery (for manufacturing enterprise) and on equipment for enterprises providing or rendering services, as noted herein below.

<table>
<thead>
<tr>
<th>Classification</th>
<th>Manufacturing Enterprises</th>
<th>Service Enterprises</th>
</tr>
</thead>
<tbody>
<tr>
<td>Micro</td>
<td>Rs.2.5 million/ Rs.25 lakhs</td>
<td>Rs.1 Million/ Rs.10 lakhs</td>
</tr>
<tr>
<td>Small</td>
<td>Rs.50 million / Rs.5 crores</td>
<td>Rs.20 million / Rs.2 crores</td>
</tr>
<tr>
<td>Medium</td>
<td>Rs.100 million / Rs.10 crores</td>
<td>Rs.50 million / Rs.5 crores</td>
</tr>
</tbody>
</table>

The Micro, Small and Medium Enterprises (MSMEs) play a pivotal role in the economic and social development of the country. They also play a key role in the development of the economy with their effective, efficient, flexible and innovative entrepreneurial spirit. The MSMES sector contributes significantly to the country’s manufacturing output, employment and exports and is credited with generating the highest
employment growth as well as accounting for a major share of industrial production and exports.

MSMEs have been globally considered as an engine of economic growth and as key instruments for promoting equitable development. The major advantage of the sector is its employment potential at low capital cost. The labour intensity of the MSMEs sector is much higher than that of large enterprises. MSMEs constitute more than 90% of total enterprises in most of the economies and are credited with generating the highest rates of employment growth and account for a major share of industrial production and exports. In India too, MSMEs play an essential role in the overall industrial economy of the country. In recent years, the MSMEs sector has consistently registered higher growth rate compared with the overall industrial sector.

**Public-Private Partnership:**

Governments due to the current internationalization of economics and politics are indulged in more interaction with business world (Yates, Magnier and Ramirez 2008). PPPs are a popular source of developing business sector in developing countries. PPPs have now become a defining characteristic of developmental policies. However, many developing countries governments are currently not committing themselves to this approach. PPPs bring public and private sectors together in long term partnership for mutual benefit. PPPs enable the government to tap into the disciplines, incentives, skills and expertise which private sector MSMEs have developed in the course of their normal everyday business. PPPs also help governments to release the full potential of the people, knowledge and assets in the public sector. Further PPPs enables the government to deliver its objectives better and to focus on those activities, fundamental to the role of government, which are best performed by the public sector- procuring services, enforcing standards and protecting the public interest.
Though there is no perfect definition of PPP, but in the light of above discussion we proposed following definition for MSMEs sector. PPP - for MSMEs is an approach to addressing MSMEs growth problems through the combined efforts of public, private, and development organizations.

In India and other developing countries, sustainable growth of MSMEs can be achieved through PPPs, where the government delivers the minimum standard of quality for products and services; the private sector brings skills and core competencies, while government, donors and businesses jointly bring funding and other resources. Such collaborations can be especially productive in promoting poverty alleviation through micro-finance, enhancing MSMEs growth through partnerships.

PPP is the most efficient and effective mechanism in number of ways. PPP create a sense of co-responsibility and co-ownership for the promotion of small enterprises. Through PPP, the advantages of the private sector - dynamism, access to finance, knowledge of technologies, managerial efficiency and entrepreneurial spirit – are combined with the social responsibility, network of contacts, environmental awareness, local knowledge, and job generation concerns of the public sector. PPPs are initiated for the formation of business research centres and industrial parks, or other institutes to provide human, financial and technical help for small enterprises. Such institutions are usually financed and operated by both public and private sector.

**Review of Literature:**

The MSMEs sector consists of more than 90% of all firms outside the agricultural sector in the region (Wattanapruttipaisan 2003). They are the primary vehicles by which new entrepreneurs provide the economy with a continuous supply of ideas, skills, and innovations (Cacci 2003).

In addition, MSMEs are believed to be especially effective
job creators and enjoy the reputation of being sources of income, providing training opportunities as well as important basic services for disadvantaged people (UNIDO 2006).

Need for the Study:

As the MSMEs are acting as the backbone for the development of the nation it is necessary to about the MSMEs as well as public – private partnership which are acting as the key drivers for their development

Objectives:

The objective of this paper is just an attempt to know the following

- Need and importance of public-private partnership
- Benefits of the public-private partnership

Need and Importance of Public-Private Partnership:

PPP is an approach to cooperation that contributes to the development of MSMEs and economic advancement of developing countries through the vitality of the MSMEs sector. Supporting the MSMES sector of developing countries has the potential to stimulate economic growth, reduce unemployment, accelerate poverty reduction, and improve living standards in developing countries. Unless economic activities in the MSMEs sector advance, employment opportunities and incomes will remain limited, as a result, poverty will persist.

MSMES contribution in terms of tax revenues is also extremely important in developing countries. These taxes strengthen government's capacity to provide administrative services such as education, health, medical care, and welfare for societal development. In order to respond to international competitive environment which becomes more severe in today’s economic globalization, the competitiveness of local MSMEs in developing countries needs to be improved. This
improvement is not possible only through private sector's efforts. Governments in the developing countries also need to contribute and help MSMEs in private sector to improve their competitiveness. To achieve the objective of improving competitiveness, a public private mixed approach like PPP is needed. PPP provides support for MSMEs capacity development in a developing country and assistance that brings about competitiveness, intending for economic growth that benefits not only the entrepreneurial group but also the entire society of a developing country.

Many of the developing countries have not developed policies and systems to foster the MSMEs development. The lack of technical skills and management know-how on a business level has impeded the birth and growth of businesses. To overcome these obstacles, formulation of MSMEs development policies and capacity development of persons in the public as well as private sector who formulate and implement the policies appropriately are essential.

**Benefits of Public-Private Partnership:**

The benefits of PPP to MSMES sector development are numerous, especially for the developing countries. These include:

- Improves access to finance
- Availability of modern technology
- Sharing of each other’s competence
- Cost of product development
- Faster product development
- Facilitation of product acceptability by consumers
- The efficient use of resources
- Better project design and implementation
- Improved operations combine to deliver efficiency and effectiveness
- Increases accountability and incentives performance
- Maintenance of required service standards
Conclusion:
As the paper is a theoretical approach to know about the public-private partnership. There is a great importance of public private partnership, which in turn develops the MSMEs. As India is developing country there is great need for the development of the small scale sectors as the most of the people in India resides in rural areas.

References:
1. SMEs Development in Developing Countries through Public – Private Partnership
Venture Capital Investments in India During 2007-12

Dr. V. N. Jothi*

Abstract
This study aims to analyse the industry wise investment and their performance made by venture capitalists. Descriptive and correlation analysis were used to examine the relationship between various industries in SPSS 16.0 software. The results provide evidence that mean value of investments are driven by different factors. These explain minimal variance in industries like biotechnology, media/entertainment, pharmaceuticals and industrial products of investment by Indian venture capitalist from 2007 to 2013. Further, our results suggest that industry investment extremes the relationship between Information technology and telecommunication, industrial products, services sector, real estate and other industries.

Key Words: Venture Capital, India, descriptive, correlation, types of industries.

Introduction:
Venture capital is an investment in the form of equity, quasi-equity and sometimes, debt straight or conditional, made in new or untried technology, or high-risk venture, promoted by a technically or professionally qualified entrepreneur, where the venture capitalist, expects the enterprise to have a very high growth rate, provides management and business stalls to the enterprise, expects medium to long term gains and does not expect any collateral to cover the capital provided.

Venture capital can be defined as “an equity by which an investor supports an entrepreneurial talent with finance and

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business skills to exploit market opportunities and thus obtain long term market gains.” Venture capital is a form of intermediation particularly well suited to support the creation and growth of innovative, entrepreneurial companies.

Venture capital basically is a relationship among three participants i.e., investors, venture capitalists and the entrepreneurs. The investors like pension funds, insurance companies, financial institutions, wealthy individuals and others contribute to the pool of funds. The pooled funds from various investors are invested in opportunities by a venture capitalist. The entrepreneurial teams that supply these opportunities to the venture capitalists form another part of the venture capital process.

Venture Capital Fund (VCF) is a fund established in the form of a trust or a company including a body corporate and registered with Securities and Exchange Board of India (SEBI) under SEBI (Venture Capital Fund) Regulations 1996 and which (i) has a dedicated pool of capital (ii) raised in manner specified in regulations and (iii) which invests in venture capital unit (VCU) in accordance with the regulations.

**Venture Capital Company (VCC):**

It is a corporate entity established under the Companies Act, 1956. There are two types of venture capital companies.

i. Independent venture capital funds, which are commonly organized as individuals or partnerships or companies, although some quoted investment trusts exits, create one or more funds of a specified size, duration and investment focus, and then seek investors to invest in the fund. Generally, no single investor or shareholders has a dominant position in the fund’s ownership. The venture capital firm gets its return in two forms, partly as a fee for management services in the investment process, and partly as a share of the capital gains realized by the fund. Large venture capital firms may manage 3 to 5 funds at any point of time.
ii. Captive venture capital funds are the in-house venture capital subsidiaries of financial institutions. Finance is obtained from their parent companies. Many captive funds have evolved into semi-captive funds, subsequently rising outside finance from other sources, which may be managed in parallel with in-house funds, in addition to the finance originally provided by their parent organization.

**Salient Features of Venture Capital Funds:**

Venture capitals finance innovation and ideas, which have a potential for high growth but with inherent uncertainties; as a result, venture capital investments generally are high-risk investments but at the same time they offer the potential for above average returns. Generally, venture capital funding is provided to new firms or in some cases to existing firms, which exhibit potential for the exploitation of innovative business ideas and for above-average growth. Normally, venture capital finance is risk investment in small and medium-size companies. They do not make loans, except in cases where there are clauses guaranteeing the convertibility of the loans to equity. Far from being simply passive financiers, venture capitalists foster growth in companies through their hands-on involvement in the management, strategic marketing, and planning of their portfolio companies; venture capitalists themselves are entrepreneurs’ first and risk-taking financiers next.

Venture capital investment process consists of raising a fund, then screening, selecting, structuring and monitoring investments. Investments should be capable of being sold and the original capital repaid to investors. Venture capital firms generally are private partnerships or closely-held corporations funded by private and public pension funds, endowment funds, foundations, corporations, wealthy individuals, foreign investors, and the venture capitalists themselves. Moreover, venture capitalists are not permanent investors. They need to liquidate their investments to complete their investment cycle and move on to further investments to expand their role in the system.
The objective of a venture capital firm is to take their portfolio companies public or to sell them in order to realize their investment returns. A venture capital firm typically expects to have an intense involvement with each portfolio company for three to seven years. If the investee company is successful in creating a viable business, the preferred route of exit and realization of the investment returns is via an initial public offering of the investee company on a stock exchange. While a public listing is the most popular form of exit, a venture capital firm may also realize its investment returns and divest its stake through sale of stock to other shareholders or founders, or through mergers or acquisitions.

**Venture Capital Investment Process:**

The process of venture capital investment involves the following:

**Deal origination:**

In generating a deal flow, the venture capital investor creates a pipeline of deals or investment opportunities that he would consider for investing. Deal may originate in various ways, referral system, active search system, and intermediaries. Referral system is an important source of deals. Deals may be referred to venture capital funds by their parent organisations, trade partners, industry associations, friends etc. Another deal flow is active search through networks, trade fairs, conferences, seminars, foreign visits etc. Intermediaries are used by venture capitalists in developed countries like the United States, who match venture capital funds and the potential entrepreneurs.

**Screening:**

Venture capital funds, before going for an in-depth analysis, carry out initial screening of all projects on the basis of some broad criteria. The screening process may limit projects to areas in which the venture capitalist is familiar in terms of technology,
or product, or market scope. The size of investment, geographical location and stage of financing could also be used as the broad screening criteria. Only the proposals passing the screening test are considered for evaluation.

**Due Diligence:**

Due diligence is the process of investigation and evaluation, performed by investors, into the details of a potential investment, such as an examination of operations and management and the verification of material facts. The venture capitalists evaluate the quality of entrepreneur before appraising the characteristics of the product, market or technology. Most venture capitalists ask for a business plan to make an assessment of the perceived risk and expected return on the venture. Business plan contains detailed information about the proposed venture. The evaluation of ventures by venture capital funds in India includes: (a) Preliminary Evaluation: The applicant required to provide a brief profile of the proposed venture to establish prima facie eligibility. (b) Detailed Evaluation: Once the preliminary evaluation is over, the proposal is evaluated in greater detail. Venture capital funds expect the entrepreneur to have integrity, long term vision, urge to grow, managerial skills and commercial orientation.

Venture capital funds also make the risk analysis of the proposed projects which includes product risk, market risk, technological risk and entrepreneurial risk. The final decision is taken in terms of the expected risk-return trade-off.

**Deal Structuring:**

In this process, the venture capitalist and the proposed investment company negotiate the terms of the deals, namely the equity relinquished to the investor, the covenants which limit the risk of the investor minimising taxes, assuring investment
liquidity and price of the investment. The agreement also includes the venture capitalist's right to control the venture company and to change its management if needed, buyback arrangements, acquisition, making initial public offerings, etc.

**Post Investment Activities:**

Once the deal has been structured and agreement finalized, the venture capitalist generally assumes the role of a partner and collaborator. Venture capitalist also gets involved in shaping of the direction of the venture. The degree of the venture capitalist's involvement depends on his policy. It may not, however, be desirable for a venture capitalist to get involved in the day-to-day operation of the venture. If a financial or managerial crisis occurs, the venture capitalist may intervene and even install a new management team.2

**Exits from Investee Companies:**

Venture capitalists generally want to cash-out their gains in five to ten years after the initial investment. They play a positive role in directing the company towards particular exit routes. A venture capitalist may exist in one of the following ways:

a. Sale of the investee company's shares through an initial public offering;

b. Repurchase of shares by the investee company (company buyback);

c. Sale of shares to another company (trade sale); and

d. Liquidation of the investee company (write-off);

**Methodology of the Study:**

In the above context, the study has the following objectives:

1. To evaluate the development of Indian Venture Capital industry and investment pattern of venture capitalists in India;
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Data Collection:
This study made use of secondary sources of data. This was collected from statistical handbook of SEBI.

Period of Study:
The secondary data for analysis were collected for a period of six years from 2007 to 2012.

Techniques for Analysis:
The secondary data pertaining to industry-wise venture capital investment were analyzed with the help of statistical tools such as mean, standard deviation, variance and correlation.

Results:

<table>
<thead>
<tr>
<th>Year</th>
<th>Information Technology</th>
<th>Telecommunication</th>
<th>Pharmaceutical</th>
<th>Biotechnology</th>
<th>Media/Entertainment</th>
<th>Services Sector</th>
<th>Industrial Products</th>
<th>Real Estate</th>
<th>Others</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>8134</td>
<td>3877</td>
<td>4185</td>
<td>1510</td>
<td>1935</td>
<td>9351</td>
<td>6183</td>
<td>20069</td>
<td>65365</td>
<td>103470</td>
</tr>
<tr>
<td>2008</td>
<td>8769</td>
<td>4108</td>
<td>4531</td>
<td>1795</td>
<td>2722</td>
<td>9789</td>
<td>6844</td>
<td>22939</td>
<td>72792</td>
<td>115993</td>
</tr>
<tr>
<td>2009</td>
<td>11454</td>
<td>1307</td>
<td>4647</td>
<td>1916</td>
<td>3114</td>
<td>12196</td>
<td>6840</td>
<td>19723</td>
<td>82140</td>
<td>134103</td>
</tr>
<tr>
<td>2010</td>
<td>14857</td>
<td>30835</td>
<td>5819</td>
<td>1345</td>
<td>5381</td>
<td>11367</td>
<td>8247</td>
<td>42588</td>
<td>88630</td>
<td>208847</td>
</tr>
<tr>
<td>2011</td>
<td>16315</td>
<td>30324</td>
<td>4763</td>
<td>1127</td>
<td>4383</td>
<td>12233</td>
<td>7923</td>
<td>43026</td>
<td>106563</td>
<td>226656</td>
</tr>
<tr>
<td>2012</td>
<td>18677</td>
<td>29514</td>
<td>4460</td>
<td>1149</td>
<td>3781</td>
<td>12650</td>
<td>6870</td>
<td>42126</td>
<td>118462</td>
<td>239692</td>
</tr>
<tr>
<td>Total</td>
<td>78006</td>
<td>109965</td>
<td>28408</td>
<td>8842</td>
<td>21296</td>
<td>67886</td>
<td>44607</td>
<td>190479</td>
<td>533942</td>
<td>1028761</td>
</tr>
</tbody>
</table>

Source: SEBI Handbook of Statistics

The data provided in above table implies that there are considerable fluctuation and variation in the amount of investment. The industry level data on the descriptive statistics is presented. Variation which measures the dispersion of the
values in a series is a relative measure, since it takes into consideration both arithmetic mean and standard deviation of the given series.

**Mean:**

The mean value of an investment which is considered as the most representative value of investments for the study period. Such a value is of great significance because it depicts the characteristics of the year together individual industry. The mean values, by reducing the amount of investment to one single figure, enable comparisons to be made.

It can be observed from the Table that the mean amount of investment attracted by Industries over the period 2007-2012 like industrial products, pharmaceuticals, media/entertainment and biotechnology and their respective average investments were Rs. 7434.50, 4734.17, 3549.33 and 1473.67 crores. In the case of remaining industries, such as other industries, real-estate, telecommunication, information technology and services sector the mean amount of investment is below 10 crores and their percentage share of the industry in the total investment is very lower.

<table>
<thead>
<tr>
<th>Industries</th>
<th>Mean</th>
<th>Std. Deviation</th>
<th>Variance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Information Technology</td>
<td>1.30</td>
<td>4241.05</td>
<td>1.799</td>
</tr>
<tr>
<td>Telecommunications</td>
<td>1.83</td>
<td>13310.07</td>
<td>1.772</td>
</tr>
<tr>
<td>Pharmaceuticals</td>
<td>4734.17</td>
<td>566.27</td>
<td>3.207</td>
</tr>
<tr>
<td>Biotechnology</td>
<td>1473.67</td>
<td>329.36</td>
<td>1.085</td>
</tr>
<tr>
<td>Media/Entertainment</td>
<td>3549.33</td>
<td>1225.63</td>
<td>1.502</td>
</tr>
<tr>
<td>Services Sector</td>
<td>1.13</td>
<td>1447.81</td>
<td>20.96</td>
</tr>
<tr>
<td>Industrial Products</td>
<td>7434.50</td>
<td>944.09</td>
<td>8.913</td>
</tr>
<tr>
<td>Real Estate</td>
<td>3.17</td>
<td>11924.96</td>
<td>1.422</td>
</tr>
<tr>
<td>Others</td>
<td>8.90</td>
<td>20225.24</td>
<td>4.091</td>
</tr>
<tr>
<td>Total</td>
<td>1.71</td>
<td>60323.736</td>
<td>3.639</td>
</tr>
</tbody>
</table>
Standard Deviation:

Standard Deviation (SD) is by far the most important and widely used measure of studying dispersion. The SD measure the absolute variability of an investment; the greater amount of variability the greater the SD, for the greater will be the magnitude of the deviations of the investment values from their mean. A small SD intend a high degree of uniformity of the investments as well as homogeneity of industry, a large SD denotes just the opposite. When two or more comparable series with nearly identical means, it is the distribution with the smallest SD that has the most representative mean. Hence SD is extremely useful in judging the representativeness of the mean. They are: Biotechnology, Pharmaceuticals, Industrial Products and Media/Entertainment.

Variance:

The investment made in the industries like biotechnology, real-estate, media/entertainment, telecommunication and information technology are smaller the value of variance the lesser the variability of greater the uniformity in the investments. However the variance of the industrial products, miscellaneous industry, pharmaceuticals and services sector industries are higher the variability, if the means under consideration are not homogeneous.

This shows that industries like Biotechnology and Media/Entertainment industries have considerable amount of investment amount all the industries as these two industries have uniformity in their investment over the period.

Correlation:

Industries are inter-related by nature and a substantial growth in one will directly spur growth in another. Thus, when investment goes up in one industry, other industries which are related with that will also attract considerable investment, which
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indicates a close correlation among them. This is analysed with the application of correlation matrix on the investment among the industries which are examined below. The correlation matrix is presented in the following table:

<table>
<thead>
<tr>
<th>Table No.3</th>
</tr>
</thead>
<tbody>
<tr>
<td>Correlations</td>
</tr>
<tr>
<td>1</td>
</tr>
<tr>
<td>---</td>
</tr>
<tr>
<td>1</td>
</tr>
<tr>
<td>2</td>
</tr>
<tr>
<td>3</td>
</tr>
<tr>
<td>4</td>
</tr>
<tr>
<td>5</td>
</tr>
<tr>
<td>6</td>
</tr>
<tr>
<td>7</td>
</tr>
<tr>
<td>8</td>
</tr>
<tr>
<td>9</td>
</tr>
<tr>
<td>10</td>
</tr>
</tbody>
</table>

** Pearson Correlation is significant at the 0.01 level (2-tailed)
* Pearson Correlation is significant at the 0.05 level (2-tailed)


This suggests that as the amount of investment increased in one industry over the period, investment in the other industries too has gone up in a same manner. However, the table also implies that there is negative correlation in two cases. This has happened between Biotechnology and Real-estate (-0.878) and biotechnology and total industries (-0.835). This means that when the amount of investment has adverse effect on the above industries.

The above table indicates that there is a highly positive correlation significant at 1 per cent level between industries was information technology and telecommunication (0.940), industrial products (0.945), other industries (0.977), and total industries (0.982). The investment relationship between telecommunication industries was industrial products (0.945),
real estate (0.964), and total industries (0.978). Industrial products investments were significantly related to real estate (0.943) and investment between total industries were industrial products (0.965), Real-estate (0.964), and other industries (0.939).

The correlation between Venture Capital industries, which shows 5% level of significant, was as follows:

* Information Technology and Service Sector (0.881)
* Information Technology and Real-estate (0.898)
* Telecommunication and Media (0.900)
* Telecommunication and Other industries (0.859)
* Telecommunication and Total Industries (0.978)
* Pharmaceuticals and Media (0.870)
* Media and Industrial Products (0.849)
* Media and Real-estate (0.860)
* Media and Total Industries (0.815)
* Service Sectors and Other Industries (0.884)
* Industrial products and Other Industries (0.890)
* Real-estate and Other Industries (0.830)

The decline that has taken place in one industry has been caused by the opposite rise in the investment of the other. It can also be noted that though correlation exists between industries as well and it is statistically significant.

**Conclusion:**

Industries are inter-related by nature and a substantial growth in one will directly spur growth another. Thus, when investment goes up in one industry, other industries which are related with that will also attract considerable investment, which indicates a close correlation among them. This is analysed with the application of correlation matrix on the investment among the industries which are examined above. The descriptive analysis shows that industries like Biotechnology, Media/Entertainment, Pharmaceuticals and Industrial Products have considerable
amount of investment among all the industries as these four industries have mopped up more percent of the total investment over the period. However, there is negative significant correlation in two cases. This has happened between Biotechnology and Real Estate and Biotechnology and Other Industries. This means that when the amount of investment has increased in one industry, investment in the other industry has declined. In other words it can be stated that both industries investments were travelled in the opposite directions. It can also be noted that though correlation exists between various other industries as well, investments made to major industries by venture capitalist is statistically significant.

Reference


Venture Capital for MSMEs in India: A Review

S. Dilli*
Dr. K. Jayachandra Reddy**

Abstract

Venture capital is the individual fund which is to support the risky of new businesses and speculative ventures, usually businesses with high growth potential. Venture capital is an imperative industry; it can actually be the most influential part of any economy to determine a country’s future economy. Instead of funding for new factories to manufacture for other countries, smart economies will fund for the growth of entrepreneurs. The real employment growth will be created when the venture capital businesses become successful and start hiring. The SME Growth Fund (SGF) has been set up by Small Industries Development Bank of India (SIDBI) in association with other leading commercial banks such as Punjab National Bank, State Bank of India, Bank of Baroda, Bank of India, Central Bank of India, Union Bank of India, Oriental Bank of Commerce and Corporation Bank. Venture Capital is emerging as an important source for financing the micro, small and medium-sized business, particularly for starting-up the new business and expansion projects. An entrepreneur usually starts the business with his own funds (capital) and those funds borrowed from banks, financial institutions and money lenders. But for expansion projects that they find the difficult for rising required funds. MSMEs have been traditionally depends on Banking finance for expansion and working capital requirements. In order to provide the financial support to the entrepreneurial talent and business skills, the concept of venture capital is emerged. Venture capital is a fund of equity

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financing for rapidly-growing private companies. Finance may be required for the start-up, expansion or purchase of a company. Venture capitalists comprise of professionals in various fields. Traditionally, Venture Capitalists in India have shied from the MSME sector. The non-corporate structure and small size of majority of MSMEs in India makes the Venture Capitalists and Private Equity Players unwilling to investing in them due to higher transaction costs and difficulties in exits out of such investments. However, the Venture Capital is in Indian scenario rapidly changing from time to time. Alternative funding like Venture Capital is picking up in India, including in the MSME sector.

**Key Words:** Venture capital, MSME Sector, Growth, Financial Institutions, Funds etc.

**Introduction:**

Venture capital is the individual fund which is to support the risky of new businesses and speculative ventures, usually businesses with high growth potential. Venture capital is an imperative industry; it can actually be the most influential part of any economy to determine a country’s future economy. Venture Capital is emerging as an important source of finance for small and medium-sized firms, especially for starting the business and business expansion. An entrepreneur usually starts the business with his own funds, and those borrowed from banks. It is during expansion that they find it difficult to raise funds. SMEs have traditionally been dependent on Bank finance for expansion and working capital requirements. However, in the recent past, bankers have curtailed lending to SMEs due to the greater risk of non-performing assets (NPAs) in a downturn. Thus, even though many SMEs have profitable projects and expansion plans, they find it difficult to get finance for their projects, as bankers may not be willing to fund high risk projects. Venture Capital is emerging as an important source for financing the micro, small and medium-sized business, particularly for starting-up the new business and expansion projects. An
entrepreneur usually starts the business with his own funds (capital) and those funds borrowed from banks, financial institutions and money lenders. But for expansion projects that they find the difficult for rising required funds. MSMEs have been traditionally depends on Banking finance for expansion and working capital requirements. In order to provide the financial support to the entrepreneurial talent and business skills, the concept of venture capital is emerged.

Instead of funding for new factories to manufacture for other countries, smart economies will fund for the growth of entrepreneurs. The real employment growth will be created when the venture capital businesses become successful and start hiring. The SME Growth Fund (SGF) has been set up by Small Industries Development Bank of India (SIDBI) in association with other leading commercial banks such as Punjab National Bank, State Bank of India, Bank of Baroda, Bank of India, Central Bank of India, Union Bank of India, Oriental Bank of Commerce and Corporation Bank. In order to provide financial support to such entrepreneurial talent and business skills, the concept of venture capital emerged. Venture capital is a means of equity financing for rapidly-growing private companies. Finance may be required for the start-up, expansion or purchase of a company. Venture capitalists comprise of professionals in various fields. They provide funds (known as Venture Capital Fund) to these firms after carefully scrutinizing the projects. Their main aim is to earn higher returns on their investments, but their methods are different from the traditional moneylenders. They take active part in the management of the company as well as provide the expertise and qualities of a good bankers, technologists, planners and managers.

**Venture Capital for MSMEs in India:**

Traditionally, Venture Capitalists in India have shied from the MSME sector. The non-corporate structure and small size of majority of MSMEs in India makes the Venture Capitalists
and Private Equity Players unwilling to investing in them due to higher transaction costs and difficulties in exits out of such investments. However, the VC scenario in India is rapidly changing. Alternative funding like VC is picking up in the India, including in the MSME sector. Moreover, the VCs are expanding their reach into areas besides the traditional VC sectors like Information Technology (IT); nowadays interest in sectors like clean energy, healthcare, pharmaceuticals, retail, media, etc. is also growing. Venture Capital is emerging as an important source for financing the micro, small and medium-sized business, particularly for starting-up the new business and expansion projects. An entrepreneur usually starts the business with his own funds (capital) and those funds borrowed from banks, financial institutions and money lenders. But for expansion projects that they find the difficult for rising required funds. MSMEs have been traditionally depends on Banking finance for expansion and working capital requirements. In order to provide the financial support to the entrepreneurial talent and business skills, the concept of venture capital is emerged. Venture capital is a fund of equity financing for rapidly-growing private companies. Finance may be required for the start-up, expansion or purchase of a company. Venture capitalists comprise of professionals in various fields. Traditionally, Venture Capitalists in India have shied from the MSME sector. However, the Venture Capital is in Indian scenario rapidly changing from time to time. Alternative funding like Venture Capital is picking up in India, including in the MSME sector.

**Venture Capital Funds in India:**

In India, venture capital funds (VCFs) can be categorized into the following groups for promoting the MSMEs: Promoted by the Central Government controlled development finance institutions, for example:
Contemporary Issues in Venture Capital Financing in India

• SIDBI Venture Capital Limited (SVCL)
• IFCI Venture Capital Funds Limited (IVCF)

Promoted by State Government controlled development finance institutions, for example:
• Gujarat Venture Finance Limited (GVFL)
• Kerala Venture Capital Fund Pvt., Ltd.
• Punjab InfoTech Venture Fund
• Hyderabad Information Technology Venture Enterprises Limited (HITVEL)

Promoted by public sector banks, for example:
• Canbank Venture Capital Fund
• SBI Capital Markets Limited

Promoted by private sector companies, for example:
• IL&FS Trust Company Limited
• Infinity Venture India Fund

Overseas venture capital fund, for example:
• Walden International Investment Group
• SEAF India Investment & Growth Fund
• BTS India Private Equity Fund Limited

Financing Schemes from Various Banks

The venture capital firm will ask prospective investee companies for information concerning the product or service, the market analysis, how the company operates, the investment required and how it is to be used, financial projections and importantly questions about the management team. The Indian government was introduced various schemes for developing the MSMEs through linking with respective bank for providing needful financial assistance to new venture. Look around the various Schemes offered by various Banks in India, details are provided here for the purpose of general information. Some of the important government schemes are shown in the following table:
With the advent of Information Technology and latest development in agriculture and marketing, it was felt necessary that farmers should also be provided with the available latest technology in the banking industry to provide them “Anywhere Anytime Banking” like any other clientele and accordingly “BOI Shatabdi Krishi Vikas Card” was launched.

The main objective of Star Bhoomiheen Kisan Card (Star BKC) is to provide easy access to short term production and consumption credit to meet genuine requirements of tenant farmers, share croppers and oral lessees to help increase their income from agriculture production activities.
<table>
<thead>
<tr>
<th>Misc Schemes</th>
<th>Bank of India</th>
<th>Kisan Credit Card</th>
<th>Kisan Credit Card Scheme aims at providing need based and timely credit support to the farmers for their cultivation needs as well as non-farm activities and cost effective manner. Also to bring about flexibility and operational freedom in credit utilisation.</th>
<th>26th Aug 2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Misc Schemes</td>
<td>Bank of India</td>
<td>Kisan Samadhan Card</td>
<td>To meet/cover the entire credit needs of the farmer both of short term and long term nature for a period of maximum 5 years not only for farming alone but also for allied activities, repairs and maintenance of farm equipments, consumption needs, purchase of consumer durables, etc. This shall be in addition to the loans for housing and vehicles. Also to bring about flexibility and operational freedom in credit utilisation.</td>
<td>26th Aug 2013</td>
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<table>
<thead>
<tr>
<th>Term &amp; Working Capital Schemes</th>
<th>Bank of India</th>
<th>Star MSE Term/ Demand Loan</th>
<th>Loan for purchase of Plant &amp; Machinery/ Equipment/ Other Moveable Assets. <strong>Target Group:</strong> Micro &amp; Small Enterprises in rural, semi urban, urban and metro branches</th>
<th>26th Aug 2013</th>
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</thead>
<tbody>
<tr>
<td>Term &amp; Working Capital Schemes</td>
<td>Bank of India</td>
<td>Star SME Education Plus</td>
<td>Loan for Construction/ Renovation / Repair of building, Purchase of Computer, lab equipment, Furniture &amp; Fixtures, books etc. Approval for construction/addition/ alteration from all the concerned authorities must be in place for considering the credit facility <strong>Target Group:</strong> Educational Institutions viz., Universities, Colleges, Schools</td>
<td>26th Aug 2013</td>
</tr>
<tr>
<td>Term &amp; Working Capital Schemes</td>
<td>Bank of India</td>
<td>Star SME Contractor Credit Line</td>
<td>Line of Credit by way of fund based working capital limit, Bank Guarantee/ letters of credit for meeting working capital needs <strong>Target group:</strong> Civil Contractors, Mining</td>
<td>26th Aug 2013</td>
</tr>
</tbody>
</table>
### Contemporary Issues in Venture Capital Financing in India

| Scheme Type | Institution | Financial Institution | Description | Eligibility | Date
|-------------|-------------|-----------------------|-------------|-------------|------|
| Misc Schemes | Bank of India | Star SME Auto Express | To purchase transport vehicles for delivering their products / Services. Educational institutions also eligible for transport vehicles for providing transportation services to students / faculty / staff. Only new vehicles will be considered. Second hand vehicles not permitted under the scheme. | Contractors, Engineering Contractors, Transport Contractors etc established as Proprietorship / Partnership firms, Limited Companies | 26th Aug 2013
| Term & Working Capital Schemes | Bank of India | Star SME Liquid Plus | General purpose term loan for SME constituents Viz., for R & D activity, marketing and advertisement expenses Purchase of machineries / equipments, Preliminary expenses etc. **Target Group**: Proprietorship | | 26th Aug 2013
Partnership firms, Limited Companies falling within the new definition of SME, engaged in the business for the past 3 years with audited financial statement of accounts

| Construction Equipment Finance | State Bank of India | SME Construction Equipment Loan | Line of Credit for financing new machinery/ equipments/ vehicles for construction activities | 5th Sep 2013 |

These above mentioned schemes are linked to their respective bank at the time of inauguration of scheme.

**Conclusion:**

The Indian government was introduced various schemes for developing the MSMEs through linking with respective bank for providing needful financial assistance to new venture. The government has been controlled financial institutions have initiated positive and progressive measures to provide MSMEs access to funds at a reasonable and affordable costs and without any usual hurdles in recent years. VCF institutions have been floated to induct fund at low cost, share the risk and to provide management and technology up-gradation support to these enterprises. Govt. funded schemes exist at both national and state levels. The non-corporate structure and small size of majority of MSMEs in India makes the Venture Capitalists and Private Equity Players unwilling to investing in them due to higher transaction costs and difficulties in exits out of such investments. However, the Venture Capital is in Indian scenario
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rapidly changing from time to time. Alternative funding like Venture Capital is picking up in India, including in the MSME sector.

References:

14. www.sidbiventure.co.in/
Venture Capital Financing in India: Problems and Prospects

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Mr. Harinath. K**
Mr. Lakshminarayana. S***

Abstract

Venture Capital provides long-term, committed share capital, to help unquoted companies grow and success. According to SEBI regulations, venture capital fund means a fund established in the form of a company or trust, which raises money through loans, donations, issue of securities or units and makes or proposes, to make investments in accordance with these regulations. The funds so collected are available for investment in potentially highly profitable enterprises at a high risk of loss. A Venture Capitalist is an individual or a company who provides. Investment Capital, Management Expertise, Networking & marketing support while funding and running highly innovative & prospective areas of products as well as services. In India, presently, there are about a dozen institutions providing venture capital finance. There is an urgent need for encouragement of risk capital in India, as this will widen the industrial base of, high tech industries and promote the growth of technology. The present paper is an attempt to highlight the problems and prospects faced by Indian venture capital financing companies.

Key words: Venture capital, Domestic Funds, Offshore and Private Funds.

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*** Assistant Professor, Department of Commerce, Acharya Institute of Management & Sciences, Bangalore – 58
Introduction:
Venture Capital is a form of “risk capital”. In other words, capital that is invested in a business where there is a substantial element of risk relating to the future creation of profits and cash flows. Risk capital is invested as shares (equity) rather than as a loan and the investor requires a higher “rate of return” to compensate him for his risk. Venture Capital is money provided by professionals who invest and manage young rapidly growing companies that have the potential to develop into significant economic contributors. If an entrepreneur is looking to start-up, expand, buy-into a business, buy-out a business in which he works, turnaround or revitalize a company, venture capital could help do this. Obtaining venture capital is substantially different from raising debt or a loan from a lender. Lenders have a legal right to interest on a loan and repayment of the capital, irrespective of the success or failure of a business. As a shareholder, the venture capitalist's return is dependent on the growth and profitability of the business. This return is generally earned when the venture capitalist “exits” by selling its shareholding in the business.

Growth of Venture Capital in India:
Venture Capital in India was known since nineties era. It is now that it has successfully emerged for all the business firms that take up risky projects and have high growth prospects as well. In 1988, ICICI emerge as a venture capital provider with unit trust of India. And now, there are a number of venture capital institutes in India. Financial banks like ICICI have stepped into this and have their own venture capital subsidiaries. Apart from Indian investors, international companies too have settled in India as a financial institute providing investments to large business firms. It is because of foreign investors that financial markets have developed in India on a large scale.

The financial investment process has evolved a lot with time
Contemporary Issues in Venture Capital Financing in India

in India. Earlier there were only commercial banks and some financial institutes but now with venture capital investment institutes, India has grown a lot. Business forms now focus on expansion because they can get financial support with venture capital. The scale and quality of the business enterprises have increased in India now. With international competition, there have been a number of growth oriented business firms that have invested in venture capital. All the business firms that deal in information technology, manufacturing products as well as providing contemporary services can opt for venture capital investment in India.

What kinds of Businesses are Attractive to Venture Capitalists?

Venture capitalists prefer to invest in “entrepreneurial businesses”. This does not necessarily mean small or new businesses. Rather, it is more about the investment’s aspirations and potential for growth, rather by current size. Venture capital investors are interested in companies with high growth prospects, which are managed by experienced and ambitious teams who are capable of turning their business plan into reality.

Process of investment by VC investors:

VC funds receive the proposals for investment either directly or through financial intermediaries. The process of investment by a VC funds begins with desk research on a deal. In case the deal evinces interest of VC funds, the Management Team is requested to present the Business model of company, unique aspects of business, future prospects and the investment proposal. During interaction, VC fund assesses the quality & competence of Management team with a view to get perspective on overall business prospects of investment proposal. In case, after discussions with Management team, VC investor finds the deal as investible proposition, a document containing terms of proposed investment known as term sheet, is devised and negotiated with Promoters for their concurrence.
VC funds take up the venture for detailed due-diligence after getting final concurrence of Entrepreneurs on terms of proposed investment negotiated with them. The detailed due diligence of project is carried out by VC funds themselves or assigned to independent Advisors. The detailed due diligence of project is carried out to examine Business, financial and legal aspects of proposed investment. During the process of due diligence, VC funds also assess requirement of funds, stages & quantum of investment and related milestones for investment. The investee company is expected to provide all the cooperation to VC fund/independent Advisor carrying out due diligence of its venture and explain material transactions undertaken by the company in the past.

**Venture Capital Financing Stages:**

There are various developmental stages of an investee firms that a VC firm may choose to invest. The first professional investor to a deal at the start-up stage is referred to as the A-Series investor. This investment is followed by middle and later stage funding – the Series B, C, and D rounds. The final rounds include mezzanine, late stage and pre-IPO funding. A VC may specialize in provide just one of these series of funding, or may offer funding for all stages of the business life cycle. It’s important to know the preferences of the VC you’re approaching, and to clearly articulate what type of funding you’re seeking:

**i. Seed Capital:** If you’re just starting out and have no product or organized company yet, you would be seeking seed capital. Few VCs fund at this stage and the amount invested would probably be small. Investment capital may be used to create a sample product, fund market research, or cover administrative set-up costs.

**ii. Start-up Capital:** At this stage, your company would have a sample product available with at least one principal
working full-time. Funding at this stage is also rare. It tends to cover recruitment of other key management, additional market research, and finalizing of the product or service for introduction to the marketplace.

**iii. Early Stage Capital:** Two to three years into your venture, you’ve gotten your company off the ground, a management team is in place, and sales are increasing. At this stage, VC funding could help you increase sales to the break-even point, improve your productivity, or increase your company’s efficiency.

**iv. Expansion Capital:** The Company is well established, and now you are looking to a VC to help take your business to the next level of growth. Funding at this stage may help you enter new markets or increase your marketing efforts. You should seek out VCs that specialize in later stage investing.

**v. Profitable but cash poor stage:** It represents the third level where the venture has seen tremendous growth in sale values and these values have been translated into huge profit margins. However, the venture at this stage is regarded as cash poor because cash flow generated from operations could not satisfy huge capital requirement for rapid expansion (Sahlman, 1990). Financiers at this stage are VCs, banks and to a small extent, retained earnings.

**vi. Rapid growth stage:** It is the fourth on the investment and financing ladder where the venture’s marketing strategy is redefined because substantial growth has been achieved. The venture’s default risk is regarded to be much reduced because of sustainable growth and higher profit margin achieved at this stage. The venture would still require funds to maintain the growth levels form usually VCs and banks.

**vii. Late Stage Capital:** At this stage, your company has achieved impressive sales and revenue and you have a
second level of management in place. You may be looking for funds to increase capacity, ramp up marketing, or increase working capital.

A key factor for the VC will be risk versus return. The earlier a VC invests, the greater are the inherent risks and the longer is the time period until the VC’s exit. It follows that the VC will expect a higher return for investing at this early stage, typically a 10 times multiple returns in four to seven years. A later stage VC may be seeking a two to four times multiple returns within two years.

**Classification of Venture Capital Funds in India:**

The VCFs can be classified into domestic & offshore and private & public funds.

**Domestic Funds:**

The majority of domestic venture capital funds created their funds under the Indian Trust Act, 1882. The industry have either a two or three tier structure. In the two tier structure, an Asset Management Company (AMC) is formed which also acts as a trustee to the funds. The funds are settled as close ended funds. In the three tier structure, an asset management company and a separate Trustee Company are formed. The policy guidelines to the AMC for making investments and disinvestments are provided by the Board of Trustees. This facilitates launching of more funds, each with a different objective or focus by the VC companies which normally act as the AMC. Both the structures are very similar to the Limited Partnership Act which is the structure through which VC funds are operated in U.S.A. and U.K as well. IDBI operated its venture capital activities through a separate division. SIDBI, which also operated VC earlier through a separate division, has formed an asset management company and a Trustee Company in 1999 - 2000 to operate venture capital activities.
Offshore Funds:
Post liberalization, from 1991, mobility of international funds in India has steadily increased. The funds are set up outside India in many countries like U.S.A., Hong Kong, Singapore, and Mauritius etc. These are very large funds, and make large investments. They generally invest in existing big companies.

The fund is set up usually either with the sole contribution from one company or with contributions channelled through the foreign investors. Most of the funds have created the fund in Mauritius for investment exclusively in India. These offshore funds create an advisory board that makes investment and divestment decisions. The funds are routed through Mauritius for investment in Indian companies.

This is primarily done to save taxes under a double tax treaty between India and Mauritius. The Mauritius based companies are totally exempted from paying capital gains tax. Such investments are also subject to Foreign Investment Promotion Board (FIPB) approval.

Problems of Venture Capital Financing in India:
- Requirement of an experienced management team.
- Requiring of an above average rate of return on investment.
- Longer payback period
- Uncertainty regarding the success of the product in the market.
- Infrastructure details of production like plant location, accessibility, relationship with the suppliers & creditors, transportation facilities, labour availability etc.,
- The category of potential customers and hence, the packaging and pricing details of the product.
- The size of the market.
• Major competitors and their market share.
• Skill & training required and the cost of training.
• Financial considerations like return on capital employed (ROCE), cost of the project, the Internal Rate of Return (IRR) of the project, total amount of funds required, ratio of owners investment (personnel funds of the entrepreneur), borrowed capital, mortgage loans etc. in the capital employed.

Prospects of Venture Capital Financing in India:
The government is promoting growth in capacity utilization of available and acquired resources and hence, entrepreneurship development by liberalizing norms regarding venture capital. While only eight domestic venture capital funds were registered with SEBI during 1996-98, 14 funds have already been registered in 1999-2000. Institutional interest is growing and foreign venture investments are also on the rise. Many state governments have also setup venture capital funds for the Information Technology (IT) sector in partnership with the local state financial industries and SIDBI.

The following prospects can be considered as the herald of venture capital financing in India.
• Globally competitive human resource capital.
• Existence of globally competitive high technology.
• Second largest English speaking, scientific & technical manpower in the world.
• Vast pool of existing and ongoing scientific and technical research carried by large number of research laboratories.
• Initiatives taken by the government in formulating policies to encourage investors and entrepreneurs.
• Initiatives of the SEBI to develop a strong and vibrant capital market giving the adequate liquidity and flexibility for investors for entry and exist.
Conclusion:
The world is becoming increasingly competitive. Companies are required to be super efficient with respect to cost, productivity, labour efficiency, technical backup, flexibility to consumer demand, adoptability foresightedness. The Government of India in an attempt to bring the nation at par and above the developed nations has been promoting venture capital financing to new, innovative concepts & ideas, liberalising taxation norms providing tax incentives to venture firms, giving boost to the creation of local pools of capital and holding training sessions for the emerging VC investors.

References:
A Study on Role of Venture Capital in Indian Economy

Gajanethi Swathi Kumari*

Abstract
The Venture capital is the life blood of new industry in the financial market today. Venture capital is the money provided by professionals who invest alongside management in young, rapidly growing companies that have the potential to develop into significant economic contributors. Venture capital is an important source of equity for start-up companies. Venture capital can be visualized as “your ideas and our money” concept of developing business. The venture capital industry in India has really taken off in. Venture capitalists not only provide monetary resources but also help the entrepreneur with guidance in formalizing his ideas into a viable business venture. In order to promote innovation, enterprise and conversion of scientific technology and knowledge based ideas into commercial production, it is very important to promote venture capital activity in India. India’s success story in the area of information technology has shown that there is a tremendous potential for growth of knowledge based industries. The recent economic slowdown of IT Sector is provided a chance to Venture capitalist to consider investment opportunities in other sectors such as Manufacturing and Service Industry which will be necessary to have overall economic development and to reduce the economic dependency on a single sector. The current paper will concentrate on the different opportunities in Non-IT Sector as well the investment opportunities available for Venture capitalist which ensures better perspective for Indian economy.

Key Words: Life Blood, Economic Contributor, Entrepreneur, Business Venture, Information Technology.

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Introduction:
The Venture capital sector is the most vibrant industry in the financial market today. Venture capitalists are professional investors who specialize in funding and building young, innovative enterprises. Venture capitalists are long-term investors who take a hands-on approach with all of their investments and actively work with entrepreneurial management teams in order to build great companies which will have the potential to develop into significant economic contributors. Venture capital is an important source of equity for start-up companies. Venture capital can be visualized as your ideas and our money concept of developing business. Venture capitalists are people who pool financial resources from high net worth individuals, corporate, pension funds, insurance companies, etc. to invest in high risk - high return ventures that are unable to source funds from regular channels like banks and capital markets. The venture capital industry in India has really taken off in. Venture capitalists not only provide monetary resources but also help the entrepreneur with guidance in formalizing his ideas into a viable business venture.

Five Critical Success Factors have been identified for the Growth of VC in India, namely:

a. The regulatory, tax and legal environment should play an enabling role as internationally venture funds have evolved in an atmosphere of structural flexibility, fiscal neutrality and operational adaptability.

b. Resource raising, investment, management and exit should be as simple and flexible as needed and driven by global trends.

c. Venture capital should become an institutionalized industry that protects investors and invitee firms, operating in an environment suitable for raising the large amounts of risk capital needed and for spurring innovation through start-up firms in a wide range of high growth areas.
d. Venture capital should become an institutionalized industry that protects investors and invitee firms, operating in an environment suitable for raising the large amounts of risk capital needed and for spurring innovation through start-up firms in a wide range of high growth areas.

e. In view of increasing global integration and mobility of capital it is important that Indian venture capital funds as well as venture finance enterprises are able to have global exposure and investment opportunities.

**Indian Venture Capital Industry: A Brief Overview:**

The notion of venture capital is not very old in Indian Economy. It is catching up in India after it was introduced in the budget for the year 1986-87. A five percent tax was levied on all know-how import payments for the creation of a venture fund by IDBI (Industrial Development Bank of India). ICICI (Industrial Credit and Investment Corporation of India) also started venture capital activity in the same year. Many public and private sector firms have entered the venture capital industry now.

**Structure of Venture Capital Industry in India:**

The venture capital firms in India can be categorized into the following four groups:

1. **All-India DFIs (Development Financial Institutions) - sponsored VCFs** promoted by the all-India development financial institutions such as Technology Development and Information Company of India Limited (TDICI) by ICICI, Risk Capital and Technology Finance Corporation Limited (RCTFC) by IFCI and Risk Capital Fund by IDBI.

2. **SFCs (State Finance Corporation) - sponsored VCFs** promoted by the state-level development financial institutions such as Gujarat Venture Finance Limited (GVFL) by GIIC and Andhra Pradesh Venture Capital Limited (APVCL) by APSFC.
3. **Banks-sponsored VCFs** promoted by the public sector banks such as Can-finance and SBI caps.

4. **Private VCFs** promoted by the foreign banks / private sector companies and financial institutions such as Indus Venture Capital Fund, Credit Capital Venture Fund and Grindlay’s India Development Fund.

**Objectives of VCFs in India:**

VCFs in India have their stated objectives as the financing and development of high technology business. This is most significant, but the limited scope of venture capital has been influenced by the Government guidelines which makes tax concession available only for investment in high-technology businesses. The major players in the venture capital industry are public-owned development banks and commercial banks. Therefore, within high-technology ventures, their focus is more on development-oriented projects. Being public institutions, their concern in providing risk capital is employment, export, import substitution, energy saving, pollution control etc. India has a few private sector VCFs. They have clearly stated their objectives in commercial terms. VCFs in India do not so far seem favourably inclined to finance development of a new product/process from the laboratory stage. They are, however, ready to finance prototype projects or pilot plants which are ready for commercialization (Pandey, 1996).

**Venture Capital at a Take-off Stage in India:**

The venture capital industry in India is still at a nascent stage. With a view to promote innovation, enterprise and conversion of scientific technology and knowledge based ideas into commercial production, it is very important to promote venture capital activity in India. India’s recent success story in the area of information technology has shown that there is a tremendous potential for growth of knowledge based industries. This potential is not only confined to information technology but is
equally relevant in several areas such as bio-technology, pharmaceuticals and drugs, agriculture, food processing, telecommunications, services, etc. Given the inherent strength by way of its skilled and cost competitive manpower, technology, research and entrepreneurship, with proper environment and policy support, India can achieve rapid economic growth and competitive global strength in a sustainable manner.

A flourishing venture capital industry in India will fill the gap between the capital requirements of Manufacture and Service based start-up enterprises and funding available from traditional institutional lenders such as banks. The gap exists because such start-ups are necessarily based on intangible assets such as human capital and on a technology-enabled mission, often with the hope of changing the world. Very often, they use technology developed in university and government research laboratories that would otherwise not be converted to commercial use. However, from the viewpoint of a traditional banker, they have neither physical assets nor a low-risk business plan. Not surprisingly, companies such as Apple, Exodus, Hotmail and Yahoo, to mention a few of the many successful multinational venture-capital funded companies, initially failed to get capital as start-ups when they approached traditional lenders. However, they were able to obtain finance from independently managed venture capital funds that focus on equity or equity-linked investments in privately held, high-growth companies. Along with this finance came smart advice, hand-on management support and other skills that helped the entrepreneurial vision to be converted to marketable products.

An Indian venture capital industry is struggling to emerge and given the general global downturn, the handicaps existing in the Indian environment are threatening. As we have seen, many of the preconditions do exist, but the obstacles are many. Some of these can be addressed directly without affecting other aspects of the Indian political economy. Others are more deeply
rooted in the legal, political, and economic structure and will be much more difficult to overcome without having a significant impact on other parts of the economy. A number of these issues were addressed in a report submitted to SEBI in January 2000 from its Committee on Venture Capital. SEBI then recommended that the Ministry of Finance adopt many of its suggestions.

**India is Attractive for Risk Capital:**

India certainly needs a large pool of risk capital both from home and abroad. Examples of the US, Taiwan and Israel clearly show that this can happen. But this is dependent on the right regulatory, legal, tax and institutional environment; the risk-taking capacities among the budding entrepreneurs; start-up access to R & D flowing out of national and state level laboratories; support from universities; and infrastructure support, such as telecoms, technology parks, etc. Steps are being taken at governmental level to improve infrastructure and R&D. Certain NRI organizations are taking initiatives to create a corpus of US$150m to strengthen the infrastructure of IITs. More focused attempts will be required in all these directions. Recent phenomena, partly ignited by success stories of Indians in the US and other places abroad, provide the indications of a growing number of young, technically-qualified entrepreneurs in India. Already there are success stories in India. At the same time, an increasing number of savvy, senior management personnel have been leaving established multinationals and Indian companies to start new ventures. The quality of enterprise in human capital in India is on an ascending curve. The environment is ripe for creating the right regulatory and policy environment for sustaining the momentum for high-technology entrepreneurship. Indians abroad have leapfrogged the value chain of technology to reach higher levels. At home in India, this is still to happen. By bringing venture capital and other supporting infrastructure, this can certainly become a reality in India as well India is rightly poised for a big leap. What is needed is a vibrant venture capital
sector, which can leverage innovation, promote technology and harness the ongoing knowledge explosion. This can happen by creating the right environment and the mindset needed to understand global forces. When that happens we would have created not ‘Silicon Valley’ but the ‘Ind Valley’.

A viable venture capital industry depends upon a continuing flow of investment opportunities capable of growing sufficiently rapidly to the point at which they can be sold yielding a significant annual return on investment. If such opportunities do not exist, then the emergence of venture capital is unlikely. In the U.S. and Israel such opportunities occurred most regularly in the information technologies. Moreover, in every country, with the possible exception of the U.S., any serious new opportunity has to be oriented toward the global market, because few national markets are sufficiently large to generate the growth capable of producing sufficient capital gains.

**Critical Factors for Success of Venture Capital Industry:**

While making the recommendations the Committee felt that the following factors are critical for the success of the Venture Capital industry in India:

i. The regulatory, tax and legal environment should play an enabling role. Internationally, venture funds have evolved in an atmosphere of structural flexibility, fiscal neutrality and operational adaptability.

ii. Resource rising, investment, management and exit should be as simple and flexible as needed and driven by global trends.

iii. Venture capital should become an institutionalized industry that protects investors and investee firms, operating in an environment suitable for raising the large amounts of risk capital needed and for spurring innovation through start-up firms in a wide range of high growth areas.

iv. In view of increasing global integration and mobility of capital it is important that Indian venture capital funds as
well as venture finance enterprises are able to have global exposure and investment opportunities.

v. Infrastructure in the form of incubators and R&D need to be promoted using Government support and private management as has successfully been done by countries such as the US, Israel and Taiwan. This is necessary for faster conversion of R & D and technological innovation into commercial products.

The hassle free entry of such Foreign Venture Capitalists in the pattern of FIIs is even more necessary because of the following factors:

a. Venture capital is a high risk area. In out of 10 projects, 8 either fail or yield negligible returns. It is therefore in the interest of the country that FVCIs bear such a risk.

b. For venture capital activity, high capitalization of venture capital companies is essential to withstand the losses in 80% of the projects. In India, we do not have such strong companies.

c. The FVCIs are also more experienced in providing the needed managerial expertise and other supports.

**Venture Capital investment Process**
Venture Capital Financing Stages:

There are typically six stages of venture round financing offered in Venture Capital, which roughly correspond to these stages of a company’s development.

* **Seed Money:** Low level financing needed to prove a new idea, often provided by angel investors. Crowd funding is also emerging as an option for seed funding.

* **Start-up:** Early stage firms that need funding for expenses associated with marketing and product development.

* **Growth (Series A round):** Early sales and manufacturing funds.

* **Second-Round:** Working capital for early stage companies that are selling product, but not yet turning a profit.

* **Expansion:** Also called Mezzanine financing, this is expansion money for a newly profitable company.

* **Exit of venture capitalist:** Also called bridge financing, 4th round is intended to finance the “going public” process between the first round and the fourth round, venture-backed companies may also seek to take venture debt

There are basically four key elements in financing of ventures which are studied in depth by the venture capitalists. These are

- **Management:** The strength, expertise & unity of the key people on the board bring significant credibility to the company. The members are to be mature, experienced possessing working knowledge of business and capable of taking potentially high risks.

- **Potential for Capital Gain:** An above average rate of return of about 30 - 40% is required by venture capitalists. The rate of return also depends upon the stage of the business cycle where funds are being deployed. Earlier the stage, higher is the risk and hence the return.

- **Realistic Financial Requirement and Projections:** The venture capitalist requires a realistic view about the present health of the organization as well as future projections
regarding scope, nature and performance of the company in terms of scale of operations, operating profit and further costs related to product development through Research & Development.

- **Owner’s Financial Stake:** The financial resources owned & committed by the entrepreneur/ owner in the business including the funds invested by family, friends and relatives play a very important role in increasing the viability of the business. It is an important avenue where the venture capitalist keeps an open eye.

**Financing Process:**

The financing process outlines basic steps taken by CVCs from initial contact with potential start-up companies through the first round of financing.

- Start-up companies looking for financing make initial contact with CVCs. CVCs can also seek out potential start-ups looking for funding.
- Start-up management team presents a business plan to the CVC. If the reviewed business plan generates interest, the CVC will ask the start-up for more information including a product demonstration. Investors will also conduct their own due diligence to investigate and better understand the product, technology, market, and any other related issues.
- If the CVCs are interested in the proposed start-ups product or service, they will look to determine the value of the start-up. They communicate this valuation to the start-up, often via a term sheet. If the start-up is happy with the offer, a purchase price and investor equity is agree on. Negotiations can take place during this stage of investment valuation.
- Legal counsels from both sides agree to a finalized term sheet where business terms for the investment are
specification. A closed period, referred to as a lock-up time period, is also established during which the start-up company cannot discuss investing opportunities with other investment groups. This indicates that a pending deal is in the process of completion. Once a term sheet is finalized, both sides look to negotiate and finalize financing terms.

- Negotiations are conducted between the legal counsels from the CVC and the start-up company. The start-up legal team typically creates transaction documents that the CVC counsel reviews. Negotiations continue until all legal and business issues are addressed. During this time, the CVC conducts a more thorough investigation of the start-up company, understanding the start-up's books and records, financial statements, projected performance, employees and suppliers, and even its customer base.

- Closing of financing is the final step. This can take place immediately upon execution of the definitive agreements or after a few weeks. The additional time may be necessary if the CVC needs time to complete their due-diligence or based on the start-up company's financial needs.

**Problems of Venture Capital Financing:**

VCF is in its nascent stages in India. The emerging scenario of global competitiveness has put an immense pressure on the industrial sector to improve the quality level with minimization of cost of products by making use of latest technological skills. The implication is to obtain adequate financing along with the necessary hi-tech equipments to produce an innovative product which can succeed and grow in the present market condition. Unfortunately, our country lacks on both fronts. The necessary capital can be obtained from the venture capital firms who expect an above average rate of return on the investment. The financing firms expect a sound, experienced, mature and capable
management team of the company being financed. Since the innovative project involves a higher risk, there is an expectation of higher returns from the project. The payback period is also generally high (5 - 7 years). The various problems/queries can be outlined as follows:

* Requirement of an experienced management team.
* Requirement of an above average rate of return on investment.
* Longer payback period.
* Uncertainty regarding the success of the product in the market.
* Questions regarding the infrastructure details of production like plant location, accessibility, relationship with the suppliers and creditors, transportation facilities, labour availability etc.
* The category of potential customers and hence the packaging and pricing details of the product.
* The size of the market.
* Major competitors and their market share.
* Skills and Training required and the cost of training.
* Financial considerations like return on capital employed (ROCE), cost of the project, the Internal Rate of Return (IRR) of the project, total amount of funds required, ratio of owners investment (personnel funds of the entrepreneur), borrowed capital, mortgage loans etc. in the capital employed.

**Current Trends:**

* **Capital is Pouring Into Private Equity Funds:** The IPO boom and its exceptional returns to venture and other kinds of private equity investments have led institutional investors, pension funds and endowments to park their money in these investments.

* **Bigger is Better:** The most established venture funds now have more partners and therefore are able to put more
money to work effectively. Also, venture firms are doing less deal syndication, which enables them to put more money to work in a single deal.

* **First-time Firms Never Had it So Good:** During the 1989-91 downturn, new venture capital firms faced a problem in raising partnership capital, as there was a ‘flight to quality’ among investors who backed established funds in the private equity market. However, developments over the past few years have demonstrated that investing with an established firm is no more a sure-bet than an investment in a ‘first-time fund’.

* **Venture Firms are Being Run More Like Businesses:** One of the healthiest consequences of the growth in institutional funding has been increased scrutiny that venture firms have come under. Feedback from previous investments and suggestions from the investors in these funds are helping to increase the sense of professionalism in the industry.

* **Change in Fund Manager:** Another trend that is emerging slowly is the change in the profile of a fund manager. The venture capitalist is no longer a hybrid investment banker trying to cash in on another market boom while still keeping his cards close to his chest. The new-age venture capitalist is industry-bred and highly regarded in the business and is fairly at ease with the technologies and processes in the market.

* **Tomorrow is Coming Faster:** Rapid changes in technology have accelerated the pace and raised the efficiencies for getting from idea to market. Investors are specializing. Financing sources are becoming much more focused on their way to investment in today’s competitive environment.

* **More Venture Funds are Seeking Traditional Businesses:** More venture capital funds are going after low-tech or no-tech companies. For example, Draper International has
picked up a stake in Shoppers Stop and Indus League Clothing.

* Financing Sources are More Flexible: More companies are acquiring new ideas, products and complementary operations to capture growth and gain market share. This means financing must allow for covenants that permit mergers, acquisitions and continued investments.

* Financing Sources and Companies are Building Partnering Relationships: Companies need financing sources that allow them to move quickly and will tolerate risk, including acquisitions. Although financing sources are risking more, the rewards of such a partnering relationship can grow and be profitable for all concerned.

* Competition is Affecting Buyer Prices: Historically, there has been a big difference between strategic buyers who paid a premium for the potential of synergy and financial buyers and LBO houses. Today, the two factions are more directly competitive.

Prospects of Venture Capital Financing:

With the advent of liberalization, India has been showing remarkable growth in the economy in the past 10 - 12 years. The government is promoting growth in capacity utilization of available and acquired resources and hence entrepreneurship development capital. While only eight domestic venture capital funds were registered with SEBI during 1996-1998, 14 funds have already been registered in 1999-2000. Institutional interest is growing and foreign venture investments are also on the rise. Many state governments have also set up venture capital funds for the IT sector in partnership with the local state financial institutions and SIDBI. These include Andhra Pradesh, Karnataka, Delhi, Kerala and Tamil Nadu. The other states are to follow soon.

In the year 2000, the finance ministry announced the liberalization of tax treatment for venture capital funds to
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promote them & to increase job creation. This is expected to give a strong boost to the non resident Indians located in the Silicon Valley and elsewhere to invest some of their capital, knowledge and enterprise in these ventures. A Bangalore based media company, Graycell Ltd., has recently obtained VC investment totalling about $ 1.7 million. The company would be creating and marketing branded web based consumer products in the near future.

The Following Points can be considered as the Harbingers of VC Financing in India:

* Existence of a globally competitive high technology.
* Globally competitive human resource capital.
* Second Largest English speaking, scientific & technical manpower in the world.
* Vast pool of existing and ongoing scientific and technical research carried by large number of research laboratories.
* Initiatives taken by the Government in formulating policies to encourage investors and entrepreneurs.
* Initiatives of the SEBI to develop a strong and vibrant capital market giving the adequate liquidity and flexibility for investors for entry and exit.

Conclusion:

All businesses are not evaluated equally. Venture houses today are looking at what enhances the value of a company, with different ‘value drivers’ affecting various industry segments. For example, when evaluating a technology company, investors may care about a unique technology or process with great potential. They won’t necessarily worry whether the company lacks audited financial statements or an organization structure. In a non-technology area, however, there must be more than a new idea; ‘value drivers’ might include historical performance, gross margins and return on investment.
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Changing Scenario of Insurance Sector with the Entry in Private Equity– The Way Forward

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Abstract

Significance of organizations largely depends on the timely changes that would lead to sustenance in the long run. Indian Insurance sector, which is one of the growing service sectors, has a long history in terms of its entry and growth. The rising entry of private companies in Indian insurance sector has created competition as well as challenges for expansion of business. The recent decisions by Insurance Regulatory Authority of India (IRDA) with regard to investment approval in private equity have made a significant change in the investment pattern by the insurance companies. The allowance of insurer to invest in Alternative Funds in Category-I and Category-II would lead to flow of investment in small and medium enterprise (SME) entities and venture capital undertakings. Despite the limitations that will affect the growth of investment in venture capital funds, the pattern of flow of investment have a definite impact on the growth of venture funds as well as the profitability of the insurance companies. In view of this emerging scenario, the present paper will focus on the need and importance of entry of insurers in private equity, factors influencing the insurers to invest in private equity and further, the paper will critically examine the problematic areas for the insurers for moving ahead with the decision of entry in equity and

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debt funds. The paper is based on the secondary data analysis, further, it provides comprehensive analysis on the road ahead for insures after the step taken by IRDA.

Key words: IRDA, Alternative Investment fund (AIF), Private equity, SMEs, Venture capital.

Conceptual Overview of Private Equity:
Private equity is described as investments in private companies in privately negotiated transactions. This means that private equity is an asset class that is normally opaque, illiquid and very often difficult to analyse. Lerner (1999) broadly defines private equity organization as partnerships specializing in venture capital, leveraged buyouts (LBOs), mezzanine investments, build-ups, distressed debt and other related investments. Fenn, Liang and Prowse (1995) have described them as ‘financial sponsors’ acquiring large ownership stakes and taking an active role in monitoring and advising portfolio companies. Ljungqvist and Richardson (2003) describes private equity as an illiquid investment since there is no active secondary market for such investments, investors have little control over how capital is invested and the investment profile covers a long horizon. The European Venture Capital Association defines private equity as the provision of equity capital by financial investors – over the medium or long-term – to non-quoted companies with high growth potential. It is also called ‘patient capital’ as it seeks to profit from long term capital gains rather than short term regular reimbursements. Similarly, the International Financial Services, London calls any type of equity investment in an asset in which the equity is not freely tradable on a public stock market as private equity. Private equities are generally less liquid than publicly traded stocks and are thought of as a long-term investment.

Virtually, all private equity firms are organized as limited partnerships where private equity firms serve as general partners
and large institutional investors and high net worth individuals providing bulk of the capital serve as limited partners (Metrick & Yasuda; 2008). Typically such partnerships last for 10 years and partnership agreements signed at the fund’s inception clearly define the expected payments to general partners. Private equity investing offers many advantages compared to investing in public and liquid asset classes. The underlying companies can be acquired in a transaction that does not have to be publicly announced or explained, many times also using an inefficient process leading to an attractive investment. Privately owned companies can be developed without public scrutiny for long-term success. Public companies normally have quarterly reporting requirements and are therefore only targeting short-term benefits.

The fund managers who are active in private equity normally have much more information at hand when they take investment decisions compared to investing in public companies. The incentives to management can be fully aligned with the investors, and the fund managers can have tighter control of the companies and can deep them aggressively without having to worry about how every decision is understood by the public markets. Through private equity investments, investors can also possibly invest in industries or niches where there are no public companies.

Private equity is a very complex asset class. Private equity investing is more of an art than other investments that can be analyzed and compared quantitatively. Private equity is an asset class where manager selection plays the highest role of all asset classes. Normally, there are not several private equity managers who are in the same state of development of their own activities. Some have decades of experience and some have worked as part of a team for a long time. Some have made several investments in the same industry and some have realized a big portion of their investments. Private equity and venture capital
describe equity investment in unquoted companies. It is most
simply described as ‘not debt’ funding invested in private
companies. Private equity also provides ‘venture capital’ and
therefore PE funds are looked upon as ‘company builders’. They
favour build-up of absorptive capacity preparing firms with the
ability to identify, evaluate and absorb internally different forms
of know-how which have been generated outside the firm. By
investing in the build-up of absorptive capacity through in-house
R&D, companies may therefore increase their ability to generate
future innovations by remaining actively tuned on what others
are doing and ready to exploit opportunities that scientific and
technological advances create. In fact, a survey of firms receiving
private equity investments in Australia in 2006 has shown that
PE investors encourage collaboration with universities in R&D.
They shape portfolio companies innovative strategies by
investing at the right time and making them public at the right
moment (Rin and Penas; 2007) and thus freeing of capital to
reinvest it in new ventures (Michelacci and Suarez; 2004).
Incentivisation of management coupled with control function
of debt is prone to making executives rethink existing business
models and inspire new ideas. They stimulate management for
add-on acquisitions or for launch of new higher margin products
or markets.

Private equity helps companies to perform better in several
ways. Kaplan (1989) examined the post-buyout operating
performance of 48 LBOs completed during 1980 to 1986. His
results show that in comparison with the year before the buyout,
operating income has increased by 42 per cent over a 3-year
period after the buyout. Most of the studies have indicated that
the pressure of servicing a debt load coupled with changes in
incentive, monitoring and governance structure of firm also lead
to improved performance. It has also been found that post-IPOs,
majority ownership by a PE-sponsor is associated with better
long-term stock performance. A survey of PE-firms in Asia-
Pacific by KPMG has shown that in India, the average share price of PE-sponsored companies trading for 501-616 days rose by 195 per cent, while non-PE sponsored companies’ stock gained only 99 per cent. The term private equity covers many different types of private equity funds known as stages. These stages are described below:

**Buyout:**
These funds provide equity capital to mature firms in need of capital or ownership transition. Transactions tend to have a layer of debt in their financing. Small and mid-sized buyout transactions tend to have lower proportions of debt in their capital structure relative to their large and mega-sized counterparts.

**Venture Capital:**
These funds provide equity capital to start-ups and companies in the early stages of growth. Portfolio companies tend to be focused upon technology, healthcare or “green” technologies. These companies tend to exhibit high levels of growth, with the potential to become profitable businesses.

**Growth Capital:**
These funds provide expansion capital to enable a company to scale a business. Investments tend to be made after the early stages of a company’s life. Returns are largely dependent upon cash flow growth.

**Special Situations:**
These funds tend to invest in mezzanine or mid-layer debt capital, which provides more protection than equity financing in the event of default. These funds can aim to achieve equity-like returns via the use of warrants and equity-like features. Mezzanine debt tends to exhibit lower risk and return features.
than other, purely equity-based, private equity stages. The term special situations also include distressed debt and funds specializing in energy and turnaround investments.

**Generalists:**
These funds invest in a variety of different stages.

**Need and Importance of the Study:**
The present study involves the changing dimensions of insurance sector in India with special reference to the decision on entry in private equity. The study is important to analyze the pros and cons of entry of insurance business organizations with the entry in private equity. Further, the study will also provide the problems and prospects for insurance business organizations in India.

**Objectives of the Study:**
The paper will focus thoroughly on the following objectives.  
1. To present the overview of insurance business in India  
2. To analyse the overview of private equity in India with special reference to insurance sector.  
3. To examine the problems and prospects for insurance companies after the decision on entering in private equity. Finally, the paper will provide findings and suggestions on the basis of analysis.

**Methodology of the Study:**
The present paper is based on the secondary data sources which are collected from annual reports of IRDA and select life insurance which are operating in India. Further, various journal articles, published articles in books, magazines and news papers and internet sources were used for the collection of data.

**Analysis:**
The detailed analysis on the objectives of the study is given below.
Overview of Insurance Business in India:

Life insurance business in India has changed the dimensions of Indian economy. The beginning of the life insurance business in India was happened in the era of Britishers. The Oriental Life Insurance company in the year 1818 was regarded as the first life insurance company emerged in India. The favourable policy to Britishers and the restricted environment has witnessed slow growth to the life insurance sector. Though the Indian Insurance Act, 1938 contributed for the sector growth, but overall the life insurance industry in India has not been successful till the year 1956. The emergence of Life Insurance Corporation (LIC) of India through LIC Act, 1956 has showed tremendous improvement. Ever since, the life insurance industry has dominated by the monopoly status as the LIC remained as only life insurance Company in India. The liberalization policies by the government in early 1990s gave the boosting for the life insurance business. The enactment of IRDA Act, 1999 has resulted in the formation of regulatory body in the form of Insurance Regulatory Development Authority (IRDA) and the IRDA has opened the entry gates for the life insurance business.

The growth has opened an array of opportunities for global firms to either set-up their division in India or to enter into joint ventures with the private insurance companies in India. The industry has witnessed many alterations especially after 1999 when the Indian government allowed the privatization of the sector to promote insurance for attracting FDIs up to 26%. Since then the Indian insurance industry is regarded as a booming market amongst the international insurance firms. The entry of private life insurance companies in the market brought the market as competitive one and the life insurance companies in order to capture the market were started to increase its operations with variety of new policies and attractive packages to its insurance marketers. Growing competition made the marketers to offer variety of policies and the result of forced
selling of policies without caring for matching of life insurance products to the requirements of the policy holders played a vital role in lapse of policies in the first year of policy life. Further the rapid growth in the Unit Linked Insurance Plans (ULIPs) has encouraged private life insurance companies to depend heavily on market based policies. Further, lack of knowledge by the policy holders has also given a chance for the companies to tap the market with heavy selling of ULIP policies. This was happened due to the fact that beneficiaries are unaware about the insurance products and their comparative merits and limitations. In view of this scenario, the present paper will aim to analyse the factor contributing for myopia in life insurance business.

**Overview of Private Equity in India with Special Reference to Insurance Sector:**

Private equity and venture capital is an increasingly important source of finance for India especially for high-growth potential companies. The history of private equity in most of the South Asian regions begins with venture capital firms which later graduated into the indigenous private equity firms by broadening their sphere of activities. The seeds of the Indian private equity industry were laid in the mid 80’s. The first generation venture capital funds, which can be looked at as a subset of private equity funds were launched by financial institutions like ICICI and IFCI. In 1984, ICICI decided to launch its venture capital scheme to encourage start-up ventures in the private sector and emerging technology sectors. This was followed by the establishment of ‘Technology Development and Information Company Ltd’ and IFCI sponsored ‘Risk Capital and Technology Finance Corporation of India Ltd’. Commercial banks like Canara Bank also came up with their own venture capital funds. Subsequently, various regional venture capital funds came up in Andhra Pradesh and Gujarat. In late 80’s and
early 90’s, various private sector funds also came into being. Between 1995-2000, several foreign PE firms like Baring PE partners, CDC Capital, Draper International, HSBC Private Equity and Warburg Pincus also started coming in. Firms like Chrys Capital and West Bridge Capital set up by managers of Indian origin with foreign capital also embarked into India with a focus on IT and internet related investments in tune with the technology boom in US during the period (Venture Intelligence, 2005). During the mid 1990’s, laws for venture capital funds formally started taking shape. The Securities and Exchange Board of India issued the SEBI (Venture Capital Funds), Regulations, 1996. These regulations were amended in 2000 on the recommendations of K.B. Chandrasekhar Committee.

The PE industry slowed down between 2001-03 after the technology boom burst in US in 2000. Many foreign PE investors fled India during that period. Investment activity revived in 2004 with the upward trend in domestic stock market. Six PE-backed companies went public successfully. Investment focus also turned towards non-IT investments like manufacturing, healthcare and those dependent on domestic consumption growth. However, despite a long history, the penetration of PE capital into India remains a miniscule 0.61 per cent of GDP today. Global private equity investment showed no significant increase in 2012, continuing 2011’s trend towards flat growth. India saw deal activity fall from $14.8 billion in 2011 to $10.2 billion in 2012. The number of deals, however, increased from 531 to 551 over this period, highlighting a fall in average deal size.

Not surprising, limited partners (LPs) are showing increasing caution this year when allocating funds. In fact, 2012 saw 55 funds with a mandate to invest in India, but the total fund value allocated to India was only $3.5 billion, down from $6.8 billion in 2011. All this has been driven by the fact that 2012 was an uncertain year in India both politically and economically. Reported lapses in governance, coupled with a lack of clarity in
regulation, raised considerable concerns about India’s attractiveness as an investment destination. Despite these challenges, the market is showing signs of maturity with all key stakeholders becoming more comfortable with the idea of private equity (PE) funding. The latter half of 2012 also saw the government become more proactive and bring forward some key pieces of legislation to create greater transparency in the regulatory environment.

With reference to Fund-raising India received only $3.5 billion of the $320 billion funding raised globally in 2012, according to UK research firm Preqin. General partners (GPs) also adopted a cautious approach, holding back to observe the performance of existing investments in a turbulent environment. In 2012, 80% of funding came from overseas investors, a theme that has been observed since the early days of private equity investment in India. There are no indicators that this trend will change soon, with traditional sources of PE capital in India, such as insurance companies and pension funds, inhibited by regulation from participating in this asset class.

Nonetheless, while 2013 undoubtedly holds several challenges for PE firms, raising capital is unlikely to be one of them. The volume of deals grew slightly from 531 in 2011 to 551 in 2012. At 4%, this increase is very low, in line with the overall mood of caution in the market last year. This restraint, coupled with a decline in the total funds invested, saw deal size significantly impacted, with average deal size falling from $28 million in 2011 to $18.4 million in 2012. Early-stage growth and venture capital (VC) have played a critical role in deal making in 2012, with the number of early-stage deals under $10 million almost doubling to 244. Also, the top 25 deals made up only $4.3 billion, as opposed to $5.9 billion in 2011, and the average deal size at the top 25 dropped by almost a quarter to $175 million per deal last year. Sectors that attracted the most investment last year were healthcare and IT/ITES. The majority of deals under $10 million were made in the e-commerce space, which was a sector
highlighted in Bain's India Private Equity Report 2012. The subsector continues to grow in 2013, following on the nearly doubling of deals valued at less than $10 million in the e-commerce space, from 12% in 2011 to 23% in 2012 of the total deals.

**Insurance Sector in Private Equity:**

The Insurance Regulatory and Development Authority (IRDA) have allowed insurers to invest in category-II alternative investment funds (AIFs), including private equity funds, debt funds and funds of funds. While insurers agree this has resulted in more options, as category-I AIFs were restrictive, not many are looking at immediately investing in these categories. As per the instructions by IRDA, the life insurance companies in India is now allowed for investing in infrastructure funds, SME funds, venture capital funds and social venture funds. IRDA, however, said under category-II AIFs, at least 51 per cent of the funds should be invested in either infrastructure entities or small and medium enterprises (SME) or venture capital undertakings or social venture entities. Category-I AIFs include venture capital funds, SME funds, social venture funds, infrastructure funds and other specified AIFs. These funds are close ended, don't engage in leverage and follow the investment restrictions prescribed for each category. As per Category II, AIFs, the insurance companies in India are allowed for private equity funds and debt funds. Overall, the decision by IRDA with regard to AIFs is mainly aimed to pool the capital from Indian and overseas to be invested as per a pre-decided policy.

According to IRDA, a life insurer's overall exposure to private equity - venture fund interests plus AIFs - must not exceed 3% of funds under management. General insurers are capped at 5% of total investment assets. In terms of exposure to individual funds, both life and general insurers are prevented from accounting for more than 10% of a fund’s total corpus or
committing more than 20% of their overall allocation to the asset class, whichever is lower. For infrastructure vehicles, they can invest sums up to 20% of total fund size.

**Problems and Prospects for Insurers:**
Insurance companies in India, especially the life insurance sector has shown better growth rate after liberalization. The rising entry of private life insurance companies’ right from the year 2000-2010 has lead increasing density of the companies in life insurance sector. The rising gap and growth potential has created a tough environment to the insurance companies to face the problems that are arising especially in the post liberalization period. Some of the basic problems which all the insurance companies are facing at present are given below.

**Lack of Insurance Awareness and Education:**
Though the majority of the policies are sold to the educated Indians so far, but the lack of awareness about the insurance policies is the major problem faced in India. Especially a life insurance product requires careful understanding of various pros and cons which definitely require the need for the proper educator. So far, the life insurance service providers in India are using the services of agents and various marketing intermediaries. The major concern for these people (agents & marketing intermediaries) is to motivate the prospective customers to take the policies. But, the basic awareness and education is not been initiated by the companies. In very few cases, the IRDA which is a regulatory body is making effort to provide customer awareness through its promotion. But majority of the actions taken by the companies and as well as IRDA are restricted to print media. The awareness campaigns were not been implemented so far to the customers to gain knowledge about the various life insurance products that are available in the market. With reference to private equity, a policy holder having basic knowledge about economy and finance can only
create sufficient time for enquiring the company which is investing in private equity. Where as, the policy holders having less awareness will always be a problem for the companies.

**Poor Product Development:**

Every product development successfully passes several distinctive stages right from idea screening, idea generation to till concept testing and commercializing the product successfully in the market. Especially life insurance service products are the policies which are generally gives long term benefit and the customers while selecting the these products makes a long term estimation about their needs and forthcoming issues. But, the recent statistics of major life insurance companies clearly showing that the withdrawn life insurance policies are keep increasing. The following table shows the details of information on select life insurance companies.

<table>
<thead>
<tr>
<th>Period</th>
<th>LIC of India</th>
<th>ICICI Prudential</th>
<th>Bajaj Allianz</th>
<th>SBI Life</th>
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</tr>
<tr>
<td>2010-11</td>
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<td>1</td>
<td>1</td>
<td>1</td>
</tr>
</tbody>
</table>

Source: IRDA reports on life insurance products of life insurance companies

The above table clearly shows the list of policies which are withdrawn from offering in the market. For LIC, 2008-09 have shown highest number of policies lapsed. For ICICI Prudential,
2006-07 have shown majority of the policies lapsed. For Bajaj Allianz, 2009-10 have witnessed majority of the policies get lapsed and for SBI Life insurance company, majority of the policies were lost in 2006-07 and 2009-10 period. Overall, it is to understand that all the companies have shown number of polices withdrawn from the market. This is also suggesting that lack of proper life insurance product development may also effect in achieving the rising number in withdrawn policies. The growth prospects of life insurers are a tough task with the kind of trend that has been followed by the companies when it comes to withdrawing policies from the market. The rising withdrawal of plans will lead to less market coverage and this lead to lessening capital formation for the insurance companies to invest in private equity especially.

**Comparative Study on Lapse Ratio of Select Life Insurers**

One of the other problems, faced by both life and non-life industry is the lapse rate. The following table shows the statistics with reference to the lapse ratio in select life insurance companies for the period 2006-07 to 2010-11.

<table>
<thead>
<tr>
<th>Period</th>
<th>LIC of India</th>
<th>ICICI Prudential</th>
<th>Bajaj Allianz</th>
<th>SBI</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006-07</td>
<td>4</td>
<td>26</td>
<td>17</td>
<td>19</td>
</tr>
<tr>
<td>2007-08</td>
<td>6</td>
<td>40</td>
<td>19</td>
<td>16</td>
</tr>
<tr>
<td>2008-09</td>
<td>4</td>
<td>53</td>
<td>14</td>
<td>9</td>
</tr>
<tr>
<td>2009-10</td>
<td>4</td>
<td>81</td>
<td>17</td>
<td>7</td>
</tr>
<tr>
<td>2010-11</td>
<td>5</td>
<td>46</td>
<td>11</td>
<td>7</td>
</tr>
<tr>
<td>Average lapse ratio for 5 years</td>
<td>4.6</td>
<td>49.2</td>
<td>15.6</td>
<td>11.6</td>
</tr>
</tbody>
</table>

Source: IRDA Annual report from 2006-07 to 2010-11
The statistics on comparative study on lapse ratio for LIC as well as 3 other private life insurance companies have clearly showing that the lapse ratio for the LIC is steady as it recorded 4% in 2006-07 and reached to 5% for the period 2010-11. For ICICI Prudential, the lapse ratio is highly inconsistent as it has recorded 26% in 2006-07 and reached to 46% for the period ended in 2010-11 period. Further, Bajaj Allianz Life have shown declining rate of lapse ratio in the chosen 5 years period. It has reached to 11% for the period 2010-11 periods. For SBI, the lapse ratio is decreasing from 19% in 2006-07 periods to 7% in 2010-11 periods. Hence, from the statistics, it is to conclude that for majority of the life insurers the lapse ratio is steady except to ICICI Prudential life insurers. And the average lapse ratio is low for LIC with 4.6% compared to ICICI Prudential which has shown 49.2% recorded as highest in the select life insurance companies. Fro Bajaj Allianz, the average lapse ratio has recorded as 15.6% and for SBI, the average lapse ratio for 5 years is 11.6%.

The decision of IRDA is providing new opportunities and challenges to insurance companies. The asset procured through premiums now can be invested in private equity and this development is expected to achieve more returns for the insurers. From one side of the coin, insurance companies now are able to make more returns for the investments and this will lead to rise in the value of assets and thus give the companies to provide more returns after the maturity period to the policy holders. On the other side of the coin, the market fluctuations are always questions the returns and expectations. Rising gap between expected returns and actual performance in the era of market fluctuations will lead to unsecured future prospects for the insurers in India.

Findings and Suggestions:
Private equity industry in India has almost a bit of its shine in the past few years. PE funds are struggling to exit portfolio companies’ ore secure investments at good valuations. As
Insurance is gaining momentum in the recent past, the decision on private equity funds may turn the potential in both ways.

When it comes to Indian scenario, most of the private equity funds are finding it difficult to raise funds from foreign investors given the current global economic scenario and the declining performance of the Indian economy. Though the decision may have both impacts, it is to assume that private equity has definitely a big role to play in helping companies grow, increasing employment in the area of insurance sectors, raise productivity to the insurance companies which are struggling still now and further the impact will also be estimated in a positive way as private equity investments will contribute for fostering growth in economy and as well as encourage innovation and more entrepreneurship assignments.

The growth of life insurance sector in the post liberalized era has created opportunities and as well as shown its weaknesses in the Indian market. Lack of awareness by the policy holders is still a major problem for the insurers. Further, rising withdrawal policies in the market and further rising lapse rate is actually showing its negative efforts on the growth of insurers and this has created a serious impact on the growth of investments by the insurers. Finally, going forward with the decision in private equity is expected to achieve long term growth potential of development of insurance business as well as Indian economy.

References:
Market: Lessons, Implications and prospects for India”, article submitted to Reserve Bank of India
Performance Analysis on Venture Capital in Select Undertakings

Mr. D. Prem Kumar*
Mr. B. Naresh**

Abstract
Developing nations like India always encourages the opportunities for new businesses to enter and excel. The requirement of financing in the present competitive world is a risky affair which is influencing majority of the starters. Entrepreneurs in the modern business world having a good project or idea are suffering from limited sources of start-up capital. Venture capital is considered as financing of high and new technology based enterprises. In addition the Venture Company provides some value added in the form of management advise and contribution to overall strategy. The relatively high risks for the Venture Capitalists are compensated by the possibility of high return, usually through substantial capital gains in the medium-term. In view of the importance of venture capital, the present paper is a research based study critically examines the present venture capital environment in India with a special focus on select undertakings. Further, the study is also aimed to understand the problems and prospects for venture capital flow in India through the analysis of financing practices and opinion of the selected undertakings. The study is restricted to the period from 2004-05 to 2011-12.

Key Words: Asset Management, Investee, IVCA, VC funds.

Introduction:
The term venture capital comprises of two words “Venture” and “Capital”. Venture refers to a course of processing, the

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outcome of which is uncertain but to which is attended the risk of danger or loss. Capital means resources to start an enterprise. To connote the risk and adventure of such a fund, the generic name Venture Capital (VC) was coined. Venture capital is considered as financing of high and new technology based enterprises. The term Venture Capital is used to describe investments made by professional investors in exchange for owing a part of the business. According to Dr. Neil Cross a former chairman of European Venture Capital Association, “Venture Capital Investment is defined as the provision of risk bearing Capital, usually in the form of a participation in equity, to companies with high growth potential.

Venture Capital plays an important role in financing hi-tech projects, besides helping research and development projects to turn into commercial production. Venture Capital refers to an equity related investment in a growth-oriented small/medium business to enable the investors to accomplish corporate objectives, in return for monetary shareholding in the business or the irrevocable right acquires it. Venture Capital is a typical ‘private equity investment’. It is a popular method by which investors support entrepreneurial talent with finance and business skills to exploit market opportunities with a view to obtaining long-term capital gains. The different venture fund stages and the impact that it has on the risk, return can be summarized as below:

<table>
<thead>
<tr>
<th>Table No.1</th>
</tr>
</thead>
<tbody>
<tr>
<td>Typical Rates of Return VC's Expect</td>
</tr>
<tr>
<td>Stage</td>
</tr>
<tr>
<td>Seed</td>
</tr>
<tr>
<td>Start-up stage</td>
</tr>
<tr>
<td>Early Growth stage</td>
</tr>
<tr>
<td>Expansion stage</td>
</tr>
<tr>
<td>Mature stage</td>
</tr>
<tr>
<td>Turn around stage</td>
</tr>
</tbody>
</table>
Review of Literature

Several studies were made on venture capital industry worldwide. To provide the necessary background for the present study, an effort is made to thoroughly review the previous studies made in the area of venture capital industry.

Niranjan Rajadyaksha observed that India venture capital funds are gradually shifting from debt financing to equity. This is an encouraging trend as far as the healthy development of Indian Venture Capital is concerned. It is also noted that there is a major problem at the other end of any Venture Capital Scheme – the point of divestment.

Verma, J.C observed that Venture Capital is a good alternative for small firms for which a public issue is out of the question. This is equity funding provided by specialized institutions that usually also demand some degree of control over the management of the firm.

R.B.I Bulletin noted that an atmosphere of structural flexibility, fiscal neutrality and operational adaptability are crucial for the growth of Venture Capital Industry. It also suggested that the avenues for financing also need to be broadened through involvement of pension Funds, Insurance Funds, Mutual Funds etc., apart from high net-worth individuals.

Y.V. Reddy while discussing the importance of financing technology development in India, he explored the ways of accelerating the growth of Venture Capital especially in the context of technology development. The authors has opined that there are four pillars for the growth of Venture Capital in India which include (1) Venture Capitalists who come forward with flexible financing arrangement and ideas (2) people who come forward with high risk, potentially high return business opportunity (3) Size of the unit and (4) Initiative of the Government. He concluded that promoting Venture Capital along with strong technology is key to the growth of small and medium business, productivity, employment and overall growth of the economy.
Narendra V. Chowdery and Dr. G. Ramakrishna Reddy felt that the venture capitalist expects some qualities from an entrepreneur like passion and commitment, the ability to attract and retain a talented multi-functional team, a clear vision of the scalability of the business and its market. The authors also opined that the entrepreneurs are expected to be transparent and maintain ethical values, and they should have a well-researched business plan.

Hari. P. felt that traditional Venture companies have been reluctant to fund bio-tech ventures due to the long gestation period in industry. The bio technology venture fund, India's first biotech venture fund formed, is investing in three Indo-U.S. biotech companies. This is the first round of funding for each of these companies. Each of them is planning to use the investment to develop their Indian Operations.

Need for the Study:

Thus the problems pertaining to venture capital finance from different angles always highlight the need for a comprehensive study in the field of venture capital finance and to evaluate an in-depth study of financing by venture capital companies. The present study intends to function as a stop-gap for all those who wish to use venture capital for funding their business. The study assumes greater importance in the light of the fact that, there is no comprehensive project, covering all aspects that a potential investee/entrepreneur would like to know regarding venture capital. The present study may serve the needs concerning raising money through venture capital.

Objectives of the Study

The following are the objectives of the study:
1. To present the overview of venture capital environment in India with special reference to select undertakings.
2. To analyse the performance of select venture capital undertakings.
3. To examine the perceptions of investees of select undertakings.

Finally, the paper will present the conclusions derived from the study and offer suitable suggestions.

**Methodology of the Study:**

The primary data for the present research paper is based on the survey conducted through a structured questionnaire distributed to select undertakings. Secondary data is collected from the reports of select undertakings, reports issued by SEBI and other sources published in internet, news papers, magazines and articles from various journals and books. The primary data has collected during the period 2012-13.

**Overview of Venture Capital Environment in India with reference to select Undertakings:**

In 1972, a committee on Development of Small and Medium Enterprises highlighted the need to foster venture capital as a source of funding new entrepreneurs and technology. Due to various reasons the idea of venture capital gained momentum after it found mention in the budget of 1986-87. Later, a study was undertaken by the World Bank to examine the possibility of developing venture capital in the private sector, based on which the Government of India took a policy initiative and announced guidelines for venture capital funds (VCFs) in India in 1988. The following VC funds were the pioneers which laid the foundations of India’s VC industry:

<table>
<thead>
<tr>
<th>VC Fund</th>
<th>Set Up By</th>
<th>Year</th>
<th>Size (million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Venture Capital Fund</td>
<td>IDBI</td>
<td>1987</td>
<td>Rs.543.6</td>
</tr>
<tr>
<td>Scheme</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>India Investment Fund</td>
<td>Grindlay’s 3i Investment</td>
<td>1987</td>
<td>US$ 7.5</td>
</tr>
<tr>
<td>Services Ltd.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Venture Capital Unit</td>
<td>TDICI</td>
<td>1989</td>
<td>Rs.300</td>
</tr>
<tr>
<td>Scheme I</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Entry of foreign companies in Venture Capital funds emerged from 1995 with the initiative by Central Board of Direct Taxes (CBDT) and the guidelines specified to SEBI – framed the SEBI (Venture Capital Funds) Regulations, 1996. These guidelines were further amended in April 2000 with the objective of fuelling the growth of venture capital activities in India. The Government of India constituted a SEBI committee headed by K. B. Chandrasekhar to make recommendations to facilitate the growth of VC industry in India. This committee submitted its report in July 2000 with the salient recommendations, all of which were accepted and implemented.
Routes of VC Investments in India:
There are 4 major routes through which VC investments happen in India:
1. The investor can register with SEBI (Securities Exchange Board of India) as a Domestic or Foreign Venture Capital Fund. This route provides for certain pass through tax benefits (No capital gain or with-holding tax on dividend). But it comes with some disadvantages that certain services of such funds are restricted as per the SEBI Regulations.
2. Direct Investment in an Indian company from outside India. This is usually done through a Mauritius subsidiary. The Indian Mauritius Tax-treaty provides the benefit of charging no capital gain tax in either India or Mauritius on the sale of shares of the sale of shares of an Indian company by a Mauritius company.
3. Investment in an Indian subsidiary of a US company. This is mainly done by US companies or investors who have set up their back end systems or support processes to cater to the front-end business in the US. Funding comes through Foreign Direct Investment (FDI) through the automatic route in sectors where 100% FDI is permissible.
4. The 4th route is similar to that mentioned in point 2 where a US company invests in a subsidiary in India by routing the investment through a Mauritius subsidiary of the US company to avail tax benefits of the India-Mauritius Tax Treaty.

Performance Analysis of Venture Capital Funds:
4 Select undertakings are selected for the present study.
IFCI Venture Capital Funds Limited (IFCI VCL) was promoted as a Risk Capital Foundation (RCF) in 1975 by the IFCI Limited. IFCI Venture Capital Funds Limited is a subsidiary of IFCI Limited, established to provide financial assistance to
first generation professionals and technocrat entrepreneurs for setting up own ventures through soft loans, under the Risk Capital Scheme with a view to widen the entrepreneurial base by providing start-up capital for setting up Green Field projects.

ICICI Venture Funds Management Company Limited (ICICI VCL) is the second select undertaking for the present study which is oldest and one of the largest private equity fund managers in India with funds under management exceeding US$ 2.4 billion. It has a track record of undertaking some of the most diverse and well structured private equity deals in the country.

HDFC Venture Capital Limited (HDFC VCL) is a subsidiary of Housing Development Finance Corporation Limited (HDFC), acting as the Fund Manager to HDFC Property Fund which was established and registered on 21.12. 2004. It is managing two schemes of the Funds i.e., HDFC India Real Estate Fund (Corpus-Rs.1,000 crores) and IT Corridor Fund (Corpus-Rs.464 crores). HDFC Property Ventures Limited (HPVL) provides investment advisory services to HDFC VCL. It is a 100% subsidiary of HDFC Ltd.

KSK Venture Capital Limited is a wholly subsidiary of KSK Energy Ventures Limited (KSK). KSK Venture Capital Limited is a venture capital management company, acting as a trustee to the “Small is Beautiful Fund (SIB)” which is India’s first equity fund which mainly focused on investing in power generating assets.

Performance of Select Venture Capital Undertakings:

Comparison of Venture Capital Investment among the selected Undertakings:

Table No.3 shows a comparison of the amounts of venture investments made by the selected undertakings for the period of study.
Table No.3
Comparison of Venture Capital Investment among the selected Undertakings

<table>
<thead>
<tr>
<th>Year</th>
<th>IFCI VCL</th>
<th>ICICI VCL</th>
<th>HDFC VCL</th>
<th>KSK VCL</th>
</tr>
</thead>
<tbody>
<tr>
<td>2004-05</td>
<td>195.97</td>
<td>12.00</td>
<td>***</td>
<td>97.00</td>
</tr>
<tr>
<td>2005-06</td>
<td>203.12</td>
<td>223.59</td>
<td>585.66</td>
<td>102.40</td>
</tr>
<tr>
<td>2006-07</td>
<td>243.13</td>
<td>815.36</td>
<td>838.66</td>
<td>95.30</td>
</tr>
<tr>
<td>2007-08</td>
<td>217.71</td>
<td>1495.91</td>
<td>210.71</td>
<td>109.50</td>
</tr>
<tr>
<td>2008-09</td>
<td>951.35</td>
<td>940.00</td>
<td>310.03</td>
<td>150.75</td>
</tr>
<tr>
<td>2009-10</td>
<td>6561.35</td>
<td>999.60</td>
<td>200.00</td>
<td>164.03</td>
</tr>
<tr>
<td>2010-11</td>
<td>5271.44</td>
<td>1040.44</td>
<td>290.00</td>
<td>182.45</td>
</tr>
<tr>
<td>2011-12</td>
<td>6911.60</td>
<td>1266.36</td>
<td>527.85</td>
<td>198.66</td>
</tr>
<tr>
<td>Total</td>
<td>20555.67</td>
<td>6793.26</td>
<td>2963.91</td>
<td>1100.09</td>
</tr>
<tr>
<td>Average</td>
<td>2569.46</td>
<td>849.16</td>
<td>423.42</td>
<td>137.51</td>
</tr>
</tbody>
</table>

Source: Annual Reports of the Companies

Table No.3 shows that the investments of IFCI VCL were below the average annual investment for first 5 years of study and there is highest in the year 2011-12. And the amount of investment was increased year by year except in the years 2007-08 and 2010-11. There were a lot of changes in investments made by ICICI VCL. The table shows that the investments of first three years were below the average annual investment and for the remaining five years 2007-08 to 2011-12 they were above the average. In the year 2007-08 the highest investments was made by the company. In case of investments of HDFC VCL, the investments were high in the year 2006-07. For a period of four years 2007-08 to 2010-11 the investments were below the average annual investment and they were above the average for first two years 2005-06 to 2006-07 and in the last year 2011-12 for which data is available.

There is a constant increase in the investments of KSK VCL except in the year 2006-07. The investments of last four years...
of study period 2008-09 to 2011-12 were more than the average annual investment and for the first four years they were lower than the average.

Comparison of PAT earned by the Selected Undertakings

Table No.4
Comparison of PAT earned by the selected Undertakings

<table>
<thead>
<tr>
<th>Year</th>
<th>IFCI VCL</th>
<th>ICICI VCL</th>
<th>HDFC VCL</th>
<th>KSK VCL</th>
</tr>
</thead>
<tbody>
<tr>
<td>2004-05</td>
<td>236.52</td>
<td>3239.93</td>
<td>( - ) 9.26</td>
<td>34.70</td>
</tr>
<tr>
<td>2005-06</td>
<td>209.12</td>
<td>5029.75</td>
<td>908.39</td>
<td>78.55</td>
</tr>
<tr>
<td>2006-07</td>
<td>103.98</td>
<td>6986.68</td>
<td>1135.02</td>
<td>148.24</td>
</tr>
<tr>
<td>2007-08</td>
<td>120.46</td>
<td>9040.40</td>
<td>1246.45</td>
<td>128.46</td>
</tr>
<tr>
<td>2008-09</td>
<td>253.02</td>
<td>14805.00</td>
<td>1302.12</td>
<td>143.34</td>
</tr>
<tr>
<td>2009-10</td>
<td>494.12</td>
<td>5148.70</td>
<td>1272.58</td>
<td>154.50</td>
</tr>
<tr>
<td>2010-11</td>
<td>1314.05</td>
<td>7390.90</td>
<td>1221.47</td>
<td>144.65</td>
</tr>
<tr>
<td>2011-12</td>
<td>1450.50</td>
<td>6820.20</td>
<td>798.76</td>
<td>156.74</td>
</tr>
<tr>
<td>Total</td>
<td>4181.77</td>
<td>58461.56</td>
<td>7875.53</td>
<td>989.18</td>
</tr>
<tr>
<td>Average</td>
<td>522.72</td>
<td>7307.70</td>
<td>984.44</td>
<td>123.65</td>
</tr>
</tbody>
</table>

Source: Annual Reports of VC Companies.

Table No.4 shows that PAT of IFCI VCL was positive for all the 8 years of study period. It was highest at Rs. 1450.50 lakhs in 2011-12 and lowest at Rs.103.98 lakhs in 2006-07. The yearly average PAT for the entire period was Rs. 522.72lakhs. The PAT is above the average in the last two years 2010-11 and 2011-12 of the study period which shows that PAT for these years are very high comparatively the previous years. It is observed from the table that PAT of ICICI VCL was also positive for all the 8 years of study period. It was highest at Rs. 14805 lakhs in 2008-09 and lowest at Rs. 3239.93 lakhs in 2004-05. The yearly average PAT for the entire period of study was Rs. 7307.70 lakhs. The PAT is above the average in three out of
eight years of the study period. It is more than the average in the years 2007-08, 2008-09 and 2010-11. And for the remaining five years it is below the average PAT.

In case of investments of HDFC VCL, the table shows that PAT was negative in one out of 8 the years of the study period. It was highest at Rs. 1302.12 lakhs in 2008-09 and lowest at Rs. (-) 9.26 lakhs in 2004-05. The yearly average PAT for the entire period of study was Rs. 984.44 lakhs. In the years 2004-05, 2005-06 and 2011-12 the amount of PAT is less than the average. For rest of the 5 years they are more than the average amounts.

**Comparison of EPS of Selected Venture Capital Undertakings:**

<table>
<thead>
<tr>
<th>Year</th>
<th>IFCI VCL</th>
<th>ICICI VCL</th>
<th>HDFC VCL</th>
<th>KSK VCL</th>
</tr>
</thead>
<tbody>
<tr>
<td>2004-05</td>
<td>3.01</td>
<td>323.99</td>
<td>(-) 1.85</td>
<td>5.60</td>
</tr>
<tr>
<td>2005-06</td>
<td>2.66</td>
<td>502.98</td>
<td>181.68</td>
<td>12.67</td>
</tr>
<tr>
<td>2006-07</td>
<td>1.32</td>
<td>698.67</td>
<td>227.00</td>
<td>23.91</td>
</tr>
<tr>
<td>2007-08</td>
<td>1.53</td>
<td>904.04</td>
<td>249.29</td>
<td>20.72</td>
</tr>
<tr>
<td>2008-09</td>
<td>0.74</td>
<td>1480.50</td>
<td>260.42</td>
<td>23.12</td>
</tr>
<tr>
<td>2009-10</td>
<td>0.82</td>
<td>514.87</td>
<td>254.52</td>
<td>24.92</td>
</tr>
<tr>
<td>2010-11</td>
<td>2.18</td>
<td>739.09</td>
<td>244.29</td>
<td>23.33</td>
</tr>
<tr>
<td>2011-12</td>
<td>2.40</td>
<td>682.02</td>
<td>159.75</td>
<td>25.28</td>
</tr>
<tr>
<td>Total</td>
<td>14.66</td>
<td>5846.16</td>
<td>1575.37</td>
<td>159.55</td>
</tr>
<tr>
<td>Average</td>
<td>1.70</td>
<td>730.77</td>
<td>196.92</td>
<td>19.94</td>
</tr>
</tbody>
</table>

Source: Annual Reports of the Companies

Table No.5 shows that the EPS of IFCI VCL were above the average annual EPS in four years 2004-05, 2005-06, 2010-11 and 2011-12 and in remaining four years of the study they were below the average annual EPS. It was highest at Rs.3.01 in the
year 2004-05 and lowest at Rs.0.74 in 2008-09. EPS of ICICI VCL were above the average annual EPS in the years 2007-08, 2008-09 and 2010-11 and they were below the average annual EPS for the remaining five years 2004-05, 2005-06, 2006-07, 2009-10 and 2011-12 of the study. In the year 2008-09 the EPS of the company were highest at Rs.1480.50 and lowest at Rs.323.99 in 2004-05.

In case of investments of HDFC VCL, the table shows that the EPS were above the average annual EPS in five years 2006-07 to 2010-11 and they were below the average annual EPS for the remaining three years 2004-05, 2005-06, and 2011-12 of the study. In the year 2008-09 the company’s EPS were highest at Rs.260.42 and lowest at Rs. (-)1.85 in 2004-05. The table shows that the EPS of KSK VCL were above the average annual EPS in six years 2006-07 to 2011-12 and they were below the average annual EPS for the remaining two years 2004-05 and 2005-06 of the study. In the year 2011-12 the company earned highest EPS at Rs.25.28 and lowest at Rs.5.60 in 2004-05.

Management Fee collected by Select Undertakings as percentage of total Income:

<table>
<thead>
<tr>
<th>Year</th>
<th>Percentage of Management Fee</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>IFCI VCL</td>
</tr>
<tr>
<td>2004-05</td>
<td>15.76</td>
</tr>
<tr>
<td>2005-06</td>
<td>13.56</td>
</tr>
<tr>
<td>2006-07</td>
<td>16.19</td>
</tr>
<tr>
<td>2007-08</td>
<td>15.79</td>
</tr>
<tr>
<td>2008-09</td>
<td>5.19</td>
</tr>
<tr>
<td>2009-10</td>
<td>29.13</td>
</tr>
<tr>
<td>2010-11</td>
<td>33.18</td>
</tr>
<tr>
<td>2011-12</td>
<td>33.19</td>
</tr>
</tbody>
</table>

Source: Annual Reports of the Companies
Table No.6 reveals that the percentage of management fee collected by IFCI VCL is highest in the year 2011-12 and lowest in 2008-09. In case of ICICI VCL it is highest in the year 2006-07 and lowest in 2008-09 whereas the percentage of fee collected by HDFC VCL is highest in the year 2005-06 and lowest in 2011-12. In case of KSK VCL the management fee collected is highest in year 2006-07 and lowest in 2009-10.

**Comparison of Dividend earned by Selected Undertakings:**

<table>
<thead>
<tr>
<th>Year</th>
<th>IFCI VCL</th>
<th>ICICI VCL</th>
<th>HDFC VCL</th>
<th>KSK VCL</th>
</tr>
</thead>
<tbody>
<tr>
<td>2004-05</td>
<td>22.45</td>
<td>280.80</td>
<td>****</td>
<td>35.72</td>
</tr>
<tr>
<td>2005-06</td>
<td>39.22</td>
<td>433.40</td>
<td>21.77</td>
<td>52.17</td>
</tr>
<tr>
<td>2006-07</td>
<td>36.11</td>
<td>113.85</td>
<td>56.13</td>
<td>82.14</td>
</tr>
<tr>
<td>2007-08</td>
<td>37.56</td>
<td>265.60</td>
<td>76.11</td>
<td>75.02</td>
</tr>
<tr>
<td>2008-09</td>
<td>68.75</td>
<td>349.50</td>
<td>139.12</td>
<td>80.11</td>
</tr>
<tr>
<td>2009-10</td>
<td>92.45</td>
<td>429.70</td>
<td>42.05</td>
<td>85.12</td>
</tr>
<tr>
<td>2010-11</td>
<td>74.28</td>
<td>450.65</td>
<td>75.83</td>
<td>82.23</td>
</tr>
<tr>
<td>2011-12</td>
<td>97.39</td>
<td>365.30</td>
<td>102.50</td>
<td>87.35</td>
</tr>
</tbody>
</table>

Source: Annual Reports of the Companies

Table No.7 shows that the amount of dividend earned by IFCI VCL was highest in the year 2011-12 and lowest in 2004-05. In case of ICICI VCL, it earned highest dividend in the year 2010-11 and lowest in 2006-07. Likewise HDFC VCL earned highest dividend in 2008-09 and lowest in 2005-06 and the highest dividend recorded for KSK VCL is in the year 2011-12, lowest in 2004-05.
Perceptions of Investors with reference to Venture Capital:

Table No.8
Weighted Scores for ‘Investors Understanding about Venture Capital’

<table>
<thead>
<tr>
<th>Venture Capital Firms</th>
<th>Weighted scores</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Risk Capital</td>
</tr>
<tr>
<td>IFCI VCL</td>
<td>100</td>
</tr>
<tr>
<td>ICICI VCL</td>
<td>100</td>
</tr>
<tr>
<td>HDFC VCL</td>
<td>90</td>
</tr>
<tr>
<td>KSKVCL</td>
<td>100</td>
</tr>
<tr>
<td>Total</td>
<td>390</td>
</tr>
<tr>
<td>Average</td>
<td>97.5</td>
</tr>
</tbody>
</table>

Source: Questionnaire

From table No.8, the total of weighted score has shown high for the ‘Risk Capital’ with a total score of 390. The factor ‘Investment for Innovative Project’ has shown next highest with 360. The other factors ‘Investment for high technological projects’ and ‘investment for unexploited ideas’ have recorded 330 and 280 respectively. The percentage of the scores with reference to a maximum weighted score of 400, it was shown that ‘Risk Capital’ received 97.5% and the next highest is recorded for ‘Investment for innovative project’ with 82.5%. Hence from the survey results it is to conclude that the risk capital and investment for innovative projects were the most preferred options selected by the four select undertakings.


**Investors Philosophy regarding Venture Capital:**

**Table No.9**

**Weighted Scores for ‘Investors Philosophy regarding Venture Capital’**

<table>
<thead>
<tr>
<th>Venture Capital Firms</th>
<th>Seed Capital</th>
<th>Start-up Capital</th>
<th>Early growth stage Finance</th>
<th>Expansion Finance</th>
<th>Mature stage Finance</th>
<th>Turnaround Finance</th>
</tr>
</thead>
<tbody>
<tr>
<td>IFCI VCL</td>
<td>90</td>
<td>100</td>
<td>70</td>
<td>80</td>
<td>60</td>
<td>50</td>
</tr>
<tr>
<td>ICICI VCL</td>
<td>60</td>
<td>90</td>
<td>100</td>
<td>70</td>
<td>50</td>
<td>80</td>
</tr>
<tr>
<td>HDFC VCL</td>
<td>90</td>
<td>100</td>
<td>80</td>
<td>70</td>
<td>50</td>
<td>60</td>
</tr>
<tr>
<td>KSK VCL</td>
<td>100</td>
<td>90</td>
<td>80</td>
<td>70</td>
<td>50</td>
<td>60</td>
</tr>
<tr>
<td>Total</td>
<td>340</td>
<td>380</td>
<td>330</td>
<td>290</td>
<td>210</td>
<td>250</td>
</tr>
<tr>
<td>Average</td>
<td>85.0</td>
<td>95.0</td>
<td>82.5</td>
<td>72.5</td>
<td>52.5</td>
<td>62.5</td>
</tr>
</tbody>
</table>

Source: Questionnaire

From table No.9, the total of weighted scores has shown high for ‘Start-up Capital’ with a total score of 380. The factor ‘Seed Capital’ has shown next highest with 340. For the factor ‘Early growth stage finance’ has recorded 330. The remaining factors, i.e. Expansion Finance, Turnaround Finance and Mature stage Finance have recorded 290, 250 and 210 respectively. The percentage of scores with reference to a maximum weighted score of 400, it was shown that Start-up Capital has received 95% and the next highest is recorded for Seed Capital with 85%. Hence from the survey results it is to conclude that the ‘Start-up Capital’ and the ‘Seed Capital’ were the most preferred options selected by the four select organizations.
Various forms of financial assistance given by the Venture Capital Institutions:

Table No.10

Financial assistance given by the undertakings

<table>
<thead>
<tr>
<th>Venture Capital Firms</th>
<th>Equity</th>
<th>Preference</th>
<th>Conditional Loan</th>
<th>Convertible Instruments</th>
</tr>
</thead>
<tbody>
<tr>
<td>IFCI VCL</td>
<td>Yes</td>
<td>—</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>ICICI VCL</td>
<td>Yes</td>
<td>—</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>HDFC VCL</td>
<td>Yes</td>
<td>—</td>
<td>Yes</td>
<td>—</td>
</tr>
<tr>
<td>KSK VCL</td>
<td>Yes</td>
<td>Yes</td>
<td>—</td>
<td>Yes</td>
</tr>
<tr>
<td>Total</td>
<td>4</td>
<td>1</td>
<td>3</td>
<td>3</td>
</tr>
<tr>
<td>Percentage</td>
<td>100%</td>
<td>25%</td>
<td>75%</td>
<td>75%</td>
</tr>
</tbody>
</table>

Source: Questionnaire

Table No.10 shows the different forms of financial assistance given by the selected undertakings to their investees. It shows that almost all the four companies are providing equity finance where only one company is providing the finance through redeemable preference shares besides equity. And three of them have conditional loan financing and convertible instruments. The percentages with reference to a maximum score of 4, it shows that 100% of the select undertakings provide equity finance. 75% of the companies providing conditional loan and convertible instruments where as only 25% providing preference capital besides the equity finance.

The Non-financial contributions made by the Undertakings:

Besides the financial assistance, venture capital firms also extend their helping hand in providing some required services for the success of the beneficiaries. The data collected in this regard is shown in table No.11.
Table No.11
Non-financial contributions made by the Undertakings

<table>
<thead>
<tr>
<th>Venture Capital Firms</th>
<th>Operating Services</th>
<th>Net Works</th>
<th>Moral Support</th>
<th>General Business Knowledge</th>
</tr>
</thead>
<tbody>
<tr>
<td>IFCI VCL</td>
<td>—</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>ICICI VCL</td>
<td>Yes</td>
<td>Yes</td>
<td>—</td>
<td>Yes</td>
</tr>
<tr>
<td>HDFC VCL</td>
<td>—</td>
<td>Yes</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>KSK VCL</td>
<td>Yes</td>
<td>—</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>2</strong></td>
<td><strong>3</strong></td>
<td><strong>2</strong></td>
<td><strong>3</strong></td>
</tr>
<tr>
<td><strong>Percentage</strong></td>
<td><strong>50%</strong></td>
<td><strong>75%</strong></td>
<td><strong>50%</strong></td>
<td><strong>75%</strong></td>
</tr>
</tbody>
</table>

Source: Questionnaire

Table No.11 shows the services provided by the selected venture capital firms besides the money investing. It shows that 75% of the firms provide networks and general business knowledge where 50% of the firms provide operating services and moral support to their investees.

Size of Investment to an Individual Venture Investment (Portfolio Investment)

The maximum sizes of investment for individual ventures made by the selected firms are shown in table 12.

Table No.12
Size of investment to an Individual Venture Investment

<table>
<thead>
<tr>
<th>Venture Capital Firms</th>
<th>Size of Investment</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>0-10 percent</td>
</tr>
<tr>
<td>IFCI VCL</td>
<td>—</td>
</tr>
<tr>
<td>ICICI VCL</td>
<td>—</td>
</tr>
<tr>
<td>HDFC VCL</td>
<td>—</td>
</tr>
<tr>
<td>KSK VCL</td>
<td>—</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>0</strong></td>
</tr>
<tr>
<td><strong>Percentage</strong></td>
<td><strong>0</strong></td>
</tr>
</tbody>
</table>

Source: Questionnaire
The table No.12 shows that 50% of the selected firms used to invest their money in an individual organization by 10-20 percent of their funds and the remaining 50% of the firms invest 20-30 percent of their funds in an individual organization. Hence we may say that most of the venture capital firms invest their money in an individual organization in between 10-30 percent of their funds.

**Regional Preferences in the Area of Investment:**

The regional preferences for the investment of the venture capital firms is analysed and shown in the table No.13

<table>
<thead>
<tr>
<th>Venture Capital Firms</th>
<th>Weighted scores</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>South</td>
</tr>
<tr>
<td>IFCI VCL</td>
<td>90</td>
</tr>
<tr>
<td>ICICI VCL</td>
<td>80</td>
</tr>
<tr>
<td>HDFC VCL</td>
<td>80</td>
</tr>
<tr>
<td>KSK VCL</td>
<td>80</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>330</strong></td>
</tr>
<tr>
<td><strong>Average</strong></td>
<td><strong>82.5</strong></td>
</tr>
</tbody>
</table>

Source: Questionnaire

From table No.13, the total of weighted score has shown the highest score for the ‘West region’ with a total score of 370. The ‘Combination of the regions’ has shown next highest with 350 and ‘South region’ shows third position with a weighted score of 330 as per the preference of the selected undertakings is concerned. For the remaining regions ‘North’ and ‘East’, it is recorded as 310 and 240 respectively. The percentage of the scores with reference to a maximum weighted score of 400, it was shown that ‘West region’ received 92.5% and the next highest is recorded for the ‘Combination of the regions’ with
Contemporary Issues in Venture Capital Financing in India

87.5%. The ‘South region’ gets the average of 82.5%. Hence from the survey results it is to conclude that west region and south region were the most preferred options for venture capital investment by the select undertakings besides the combination of the regions.

**Investment Criterion of the Selected Undertakings:**

Every venture capitalist has some criterion to invest the money. Data collected in this regard is analysed and shown in table No.14.

**Table No.14**

*Weighted Scores for ‘Investment Criterion of the Selected Undertakings’*

<table>
<thead>
<tr>
<th>Venture Capital Firms</th>
<th>Weighted Scores</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Management</td>
</tr>
<tr>
<td>IFCI VCL</td>
<td>90</td>
</tr>
<tr>
<td>ICICI VCL</td>
<td>90</td>
</tr>
<tr>
<td>HDFC VCL</td>
<td>100</td>
</tr>
<tr>
<td>KSK VCL</td>
<td>100</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>380</strong></td>
</tr>
<tr>
<td><strong>Average</strong></td>
<td><strong>95</strong></td>
</tr>
</tbody>
</table>

Source: Questionnaire

From table No.14, the total of weighted score has shown the highest for the criterion ‘Management’ with a total score of 380. The criterion ‘Profitability’ has shown next highest with 360. The other criterion ‘Project’ and ‘Market’ have recorded 340 and 280 respectively. The percentage of the scores with reference to a maximum weighted score of 400, it was shown that ‘Management’ received 95% and the next highest is recorded for ‘Profitability’ with 90%. Hence from the survey results it is to conclude that the management and profitability of the investees were the most preferred options for the investment criterion by the four select undertakings.
Management Skills expected by the Investee Firms:

The selected venture capital firms give more preference to the management of the investees to invest in a particular organisation, the management skills like technical, financial, market, etc. expected by the venture capitalists in their investee units is analysed and shown in table No.15.

<table>
<thead>
<tr>
<th>Venture Capital Firms</th>
<th>Weighted scores</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Technical</td>
</tr>
<tr>
<td>IFCI VCL</td>
<td>90</td>
</tr>
<tr>
<td>ICICI VCL</td>
<td>90</td>
</tr>
<tr>
<td>HDFC VCL</td>
<td>80</td>
</tr>
<tr>
<td>KSK VCL</td>
<td>80</td>
</tr>
<tr>
<td>Total</td>
<td>340</td>
</tr>
<tr>
<td>Average</td>
<td>85</td>
</tr>
</tbody>
</table>

Source: Questionnaire

From table No.15, the total of weighted score has shown the highest for the factor ‘Balanced Team’ with a total score of 390. The factor ‘Financial Skills’ has shown next highest with 360. The other factors ‘Technical Skills’ and ‘Market Skills’ have recorded 340 and 280 respectively. The percentage of the scores with reference to a maximum weighted score of 400, it was shown that ‘Balanced Team’ received 97.5% and the next highest is recorded for ‘Financial Skills’ with 90%. Hence from the survey results it is to conclude that the balanced team and financial skills of the investees were the most preferred options for the investment criterion by the four select undertakings.
Managerial Strengths expected by the Venture Capitalists:

Table No.16
Weighted Scores for ‘Managerial Strength looking for by the Venture Capitalists’

<table>
<thead>
<tr>
<th>Venture Capital Firms</th>
<th>Ranks given by the Select Firms</th>
<th>Sincerity</th>
<th>Experience</th>
<th>Commitment</th>
</tr>
</thead>
<tbody>
<tr>
<td>IFCI VCL</td>
<td>80</td>
<td>90</td>
<td>100</td>
<td></td>
</tr>
<tr>
<td>ICICI VCL</td>
<td>80</td>
<td>90</td>
<td>100</td>
<td></td>
</tr>
<tr>
<td>HDFC VCL</td>
<td>80</td>
<td>90</td>
<td>100</td>
<td></td>
</tr>
<tr>
<td>KSK VCL</td>
<td>80</td>
<td>90</td>
<td>100</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>320</td>
<td>360</td>
<td>400</td>
<td></td>
</tr>
<tr>
<td>Average</td>
<td>80</td>
<td>90</td>
<td>100</td>
<td></td>
</tr>
</tbody>
</table>

Source: Questionnaire

From table No.16, the total of weighted score has shown the highest for the factor ‘Commitment’ with a total score of 400. The factor ‘Experience’ has shown next highest with 360 and they have given the last preference to sincerity. The percentage of the scores with reference to a maximum weighted score of 400, it was shown that ‘Commitment’ received 100% and the next highest is recorded for ‘Experience’ with 90%. Hence from the survey results it is to conclude that the committed management with experience is preferred option for the investment criterion by the four select undertakings.

Criterion of Market Evaluation Preferred by the Investors:

Table No.17
Weighted Scores for ‘Criterion of Market Evaluation Preferred by the investors’

<table>
<thead>
<tr>
<th>Venture Capital Firms</th>
<th>Weighted Scores</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>High Market Growth</td>
</tr>
<tr>
<td>IFCI VCL</td>
<td>90</td>
</tr>
<tr>
<td>ICICI VCL</td>
<td>100</td>
</tr>
</tbody>
</table>
From table No17, the total of weighted score has shown the highest for the factor 'High Market Growth' with a total score of 390. The factor ‘Little threat of competition during the starting stage’ has shown next highest with 350. The other factors ‘Easy Market Accessibility’ and ‘Large Size of the Market’ have recorded 340 and 280 respectively. The percentage of the scores with reference to a maximum weighted score of 400, it was shown that ‘High Market Growth’ received 97.5% and the next highest is recorded for ‘Little threat of competition during the starting stage’ with 87.5%.

Hence from the survey results it is to conclude that the high market growth is the most important market criterion followed by low level of competition during the starting stage. Perhaps venture capitalists think that a high-tech unique product with an entrepreneur having integrity, long term vision and urge to grow accompanied by high growth rate of the market, little competition and easy accessibility will prove to be a success.

**Investor's Evaluation Criterion of Financial Consideration**

**Table No.18**
**Weighted Scores for ‘Investors’ Evaluation Criterion of Financial Consideration’**

<table>
<thead>
<tr>
<th>Venture Capital Firms</th>
<th>Expected Return Over 25% in 5 Years</th>
<th>Expected Return Over 100% Over 5 Years</th>
<th>Opportunity for Exit</th>
<th>Tax Benefits</th>
</tr>
</thead>
<tbody>
<tr>
<td>IFCI VCL</td>
<td>80</td>
<td>90</td>
<td>100</td>
<td>70</td>
</tr>
<tr>
<td>ICICI VCL</td>
<td>80</td>
<td>90</td>
<td>100</td>
<td>70</td>
</tr>
<tr>
<td>HDFC VCL</td>
<td>80</td>
<td>90</td>
<td>100</td>
<td>70</td>
</tr>
</tbody>
</table>
From table No.18, the total of weighted score has shown the highest for the criterion ‘Opportunity for Exit’ with a total score of 390. The factor ‘Expected Return Over 100% over 5 Years’ has shown next highest with 370. The other factors ‘Expected Return Over 25% in 5 Yrs’ and ‘Tax Benefits’ have recorded 320 and 280 respectively. The percentage of the scores with reference to a maximum weighted score of 400, it was shown that ‘Opportunity for Exit’ received 97.5% and the next highest is recorded for ‘Expected Return Over 100% over 5 Years’ with 92.5%. Hence from the survey results it is to conclude that the opportunity for exit and expected return over 100% in over 5 years are preferred more for the investment criterion by the four select undertakings.

**Method of Evaluating a Project:**

Table No.19 shows the field survey results for the method of evaluating a project by the selected undertakings. The table shows the option wise ranking given by the 4 selected undertakings. To analyse the data, the weights are assigned for each option as rank 1=100, 2=90, 3=80 and 4=70. Hence the revised weighted scores are specified in table 4.21 as follows
From table No.19, the total of weighted score has shown the highest for the criterion ‘Market’ with a total score of 360. The factor ‘Product and Technology’ has shown next highest with 350. The other factors ‘Financial Projections’ and ‘Project Cost’ have recorded 340 and 320 respectively. The percentage of the scores with reference to a maximum weighted score of 400, it was shown that the option ‘Market’ received 90% and the next highest is recorded for ‘Product and Technology’ with 87.5%. Hence from the survey results it is to conclude that the selected undertakings give more preference to the market opportunity and the product and technology for the method of evaluating a project.

**Conclusions and Suggestions:**

The Indian venture capital industry, at the present, is at crossroads. Following are the major issues faced by this industry. VCFs in India are structured in the form of a company or trust fund and are required to follow a three-tier mechanism-investors, trustee company and asset management company (AMC). A proper tax-efficient vehicle in the form of ‘Limited Liability Partnership Act’ which is popular in USA is not made applicable for structuring of VCFs in India. In this form of structuring, investors’ liability towards the fund is limited to the extent of his contribution in the fund and also formalities in structuring of fund are simpler.

Presently, high net worth individuals and corporate are not providing with any investments in VCFs. In absence of any incentive, it is extremely difficult for domestic VCFs to raise money from this investor group that has a good potential.

<table>
<thead>
<tr>
<th></th>
<th>HDFC VCL</th>
<th>KSK VCL</th>
<th>Total</th>
<th>Average</th>
</tr>
</thead>
<tbody>
<tr>
<td>Score</td>
<td>70</td>
<td>90</td>
<td>80</td>
<td>80</td>
</tr>
<tr>
<td>Score</td>
<td>80</td>
<td>90</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>Total</td>
<td>350</td>
<td>360</td>
<td>340</td>
<td>320</td>
</tr>
<tr>
<td>Average</td>
<td>87.5</td>
<td>90</td>
<td>85</td>
<td>80</td>
</tr>
</tbody>
</table>
As VCFs normally structure the investments in venture capital finance by way of equity and convertible instruments such as optionally/ Fully Convertible Debentures, Redeemable Preference shares etc., they need tax breaks on the income from equity linked instruments. Harmonization of SEBI regulations and income tax rules of CBDT would provide much required flexibility to VCFs in structuring the investment instruments and also availing of the tax breaks. Thus investments by VCFs by instruments other than equity can also be qualified for Tax exemption.

The comparative analysis on the 4 select undertakings clearly shown that both IFICI VCL and ICICI VCL are below the average annual investment in first three years and KSK VCL has shown constant increase in investments. With reference to PAT earned by the select undertakings has clearly shown that PAT of IFIC VCL, ICICI VCL, KSK VCL shown positive in all the 8 years of the study period but for HDFC VCL, the PAT was negative in one of the years considered for the study. Comparative analysis on management fee collected by select undertakings has revealed that, all the four select undertakings are having different structure of management fee. Among those, HDFC VCL has shown highest among the 4 in terms of collection of Management fee. The comparative analysis on dividend earned by select undertakings has clearly proved that there is a significant difference in the performance of 4 select undertakings in terms of the performance on divided earned by them. The study on investors’ philosophy regarding Venture Capital has revealed that the start-up capital and the seed capital were the most preferred options selected by the four select organizations. The survey on various forms of financial assistance given by the venture capital institutions has shown that 100% of the select under takings provide equity finance and 75% of the companies are providing conditional loan and convertible instruments in addition to equity.
The analysis on the non-financial contribution made by the undertakings has shown clearly that besides the financial assistance, the venture capital firms also extend their helping hand in providing some required services for the success of the beneficiaries.

The size of investment to an individual venture investment (portfolio investment) shows that 50% of the select firms used to invest their money in an individual organization by 10-20% of their total funds and the remaining 50% of the firms invest 20-30% of the funds in an individual organization. Analysis on ‘regional preferences in the area of investment of venture capital investments’ have clearly showing that west region and south region are the most preferred options for venture capital investment by the select undertakings besides the combination of the regions. The study on ‘investment criterion of the venture capitalists’ are clearly showing that the management and the profitability of the investees were the most preferred options for the investment criterion by the fours elect undertakings.

From the study on ‘management skills of beneficiaries expected by the venture capitalists’, it is to observe that, balanced team and financial skills of the investees were the most preferred options for the investment criterion by the four select undertakings.

Analysis on ‘management strengths expected by the venture capitalists’ has shown that the committed management with experience is preferred option for the investment criterion by the four select undertakings. The criterion of ‘market evaluation preferred by the investors’ has shown that, the high market growth is the most important market criterion followed by low level of competition during the starting stage. Further, the study on ‘investor’s evaluation criterion of financial consideration’ has shown clearly that the opportunity for exit and expected return over 100% in over 5 years are preferred more for the investment criterion by the four select undertakings. Further, the ‘method of evaluating a project’ has shown that, the selected undertakings
give more preference to the market opportunity and the product and technology for the method of evaluating a project. Hence, from the survey results, it is clear that all 4 select undertakings are still not in perfection in terms of their performance in terms of investments, management fee and dividend. All the four firms are still unable to build up their returns due to huge dependence on equity finance and condition loans. Allowing pension funds, insurance companies to invest in the VCFs would enlarge the possibility of setting up of domestic VCFs. Further, if mutual funds are allowed to invest up to 5 percent of their corpus in VCFs by SEBI, it may lead to increased availability of fund for VCFs. All the four undertakings are still to open their account in east and north regions; it shows that, the investors are still concentrating on the other two locations. Strengthening the present operations to higher and efficient management of investments and selection of profitable projects by studying the market fluctuations will lead to better performance of the all the four select undertakings.

Select References:
Venture Capital Investments in India

Dr. K. Ekambaram*
Sk. Rameez Raja**

Abstract
India has become one of the fastest developing nations in the new millennium. It is one of the hotspots for investments with reaping rich benefits. Beside from the successful information technology, there is a enormous potential for investment, growth and development in several other sectors like Pharmaceuticals, Telecommunications, Healthcare, Electronics, Food Processing and Business Process Outsourcings (BPOs). The competitive edge of India over other developing nations like China, Russia etc., lies in its huge skilled human capital and knowledge entrapped in the research laboratories. There should be a form of finance that links all the available resources for exploration and effective utilization. This link is available in numerous forms such as bank loans, private debt, equity, bonds etc. However each of them has their own pros and cons which leads to inapplicability under different contexts. Development in the high growth sector needs not only high technology and huge capital but also the ability to take huge risks. Venture capital is the vehicle that suits this role. Venture capital is a means of equity financing for rapidly-growing private companies. Finance may be required for the start-up, development/expansion or purchase of a company. Venture capital firms invest funds on a professional basis, often focusing on a limited sector of specialization (e.g. Information Technology Infrastructure, Health/Life Sciences, Clean Technology, etc).

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** Academic Consultant, Dept. of Management, VSUPG Centre, Kavali, SPSR Nellore District.
Concept of Venture Capital:

The term ‘Venture Capital’ is understood in many ways. In a narrow sense, it refers to investment in new and untried enterprises that are lacking a stable record of growth. Venture Capital refers to the commitment of capital as shareholding, for the formulation and setting up of small firms specializing in new ideas or new technologies. It is not merely an injection of funds into a new firm, it is a simultaneous input of skill needed to setup the firm, design its marketing strategy and organize and manage it. It is an association with successive stages of firm’s development with distinctive types of financing appropriate to each stage of development.

Venture Capital is long-term risk capital to finance high technology projects which involve risk but at the same time has strong potential for growth. Venture Capitalist pools their resources including managerial abilities to assist new entrepreneurs in the early years of the project. Once the project reaches the stage of profitability, they sell their equity holdings at high premium.

International Finance Corporation. Washington, (IFC) defines Venture Capital as equity or equity-featured capital seeking investment in new ideas, new companies, new products, new process or new services that offer the potential of high returns on investment. It may also include investment in turnaround situations.

Venture Capitalists:

A venture capitalist is a person or investment firm that makes venture investments, and these venture capitalists are expected to bring managerial and technical expertise as well as capital to their investments. A venture capital fund refers to a pooled investment vehicle that primarily invests the financial capital of third party investors in enterprises that are too risky for the standard capital markets or bank loans. Venture capital firms typically comprise small teams with technology backgrounds (scientists, researchers) or those with business training or deep industry experience.
Contemporary Issues in Venture Capital Financing in India

**Literature Review:**

Researcher reviewed the studies done by some of our Indian eminent researchers on venture capital financing, some of the important studies are Pandey (1996), Kumar, Asim (1996), Verma (1997), Pandey (1998), Mitra (2000), Kumar, Vinay (2002), Dr. A.K.Mishra (2004), Dheeraj Pandey, Thillai Rajan (2011), Dr. A. Amruth Prasad Reddy and Dr. M Venkata Subbaiah (2011) etc, and most of them concentrated on Investments Criteria, Investment Process etc.

**Research Gap:**

Researcher found in the review of literature that, majority of the studies on venture capitalists investment criteria’s and venture capital investment process in India. So in present study researcher made an attempt to know the investments of domestic venture capital fund as well as foreign venture capital fund in India for the growth of the economy.

**Objective:**

To look into the investment of SEBI Registered Venture Capital Funds and Foreign Venture Capital funds in India

**Scope of the Study:**

The present study is confined to SEBI registered domestic venture capital fund and SEBI registered foreign venture capital fund as on 31 Dec 2012 and also data analysed for the period of six years i.e. from 31 Dec 2007 to 31 Dec 2012.

**Data Collection and Methodology:**

To achieve the above said objectives researcher gathered the data from secondary sources and researcher observed that as on May 31, 2012 registered domestic Venture Capital Funds and foreign venture capital funds in India are 208 and 154 respectively.
Present Scenario:

Table No.1
Top Five Sectors attracted more Investments by VCS during Jan to Dec 2012

<table>
<thead>
<tr>
<th>Sectors of Economy</th>
<th>Amount (Rs. In Millions)</th>
<th>Deals/Investments</th>
</tr>
</thead>
<tbody>
<tr>
<td>IT and ITES</td>
<td>381</td>
<td>133</td>
</tr>
<tr>
<td>Health and Life Science</td>
<td>98</td>
<td>18</td>
</tr>
<tr>
<td>Education</td>
<td>53</td>
<td>14</td>
</tr>
<tr>
<td>Financial Services</td>
<td>55</td>
<td>10</td>
</tr>
<tr>
<td>Energy</td>
<td>62</td>
<td>9</td>
</tr>
</tbody>
</table>

Source: Venture intelligence

Venture capital firms have invested around $762 million over 206 deals in India during the 12 months ended December 2012. With 133 investments worth about $381 million, the Information Technology and IT-Enabled Services (IT & ITES) industry retained its status as the favourite among VC investors during 2012 accounting for 65% of the investments (50% in value terms). The volume of investments in IT & ITES rose by 8% over that in 2011.

Healthcare & Life Sciences industry emerged as the second favourite destination for VC investors, attracting 18 investments worth $98 million during the year. Education industry came in third attracting 14 investments worth $53 million. Financial services and Energy industry were the fourth and fifth favourite industries attracting 10 investments (worth $55 million) and 9 investments ($62 million) respectively.

Investment by Stage & Region:

Early Stage investments accounted for 82% of all VC investments in volume terms and 58% in value terms during 2012.

- Companies based in South India accounted for 45% of all VC investments (56% by value) during 2012.
Their peers in Western India accounted for 25% of the pie in 2012 (12% by value).
Companies based in North India accounted for 23% of the investments in 2010 (22% by value).

<table>
<thead>
<tr>
<th>Region</th>
<th>Investments / Deals</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bangalore</td>
<td>62</td>
</tr>
<tr>
<td>National Capital Region (including New Delhi, Gurgaon and Noida)</td>
<td>45</td>
</tr>
<tr>
<td>Mumbai</td>
<td>39</td>
</tr>
<tr>
<td>Chennai</td>
<td>14</td>
</tr>
<tr>
<td>Hyderabad</td>
<td>12</td>
</tr>
</tbody>
</table>

Source: Venture intelligence

Among cities, companies headquartered in Bangalore were the favourite among VC investors during 2012 attracting 62 investments, followed by National Capital Region (including New Delhi, Gurgaon and Noida) based companies that accounted for 45 investments and Mumbai based companies with 39 investments. Chennai and Hyderabad followed with 14 deals and 12 deals.

<table>
<thead>
<tr>
<th>Sectors of Economy</th>
<th>As on 31 Dec 2007</th>
<th>As on 31 Dec 2008</th>
<th>As on 31 Dec 2009</th>
<th>As on 31 Dec 2010</th>
<th>As on 31 Dec 2011</th>
<th>As on 31 Dec 2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Information technology</td>
<td>779</td>
<td>871</td>
<td>782</td>
<td>533</td>
<td>578</td>
<td>770</td>
</tr>
<tr>
<td>Telecommunications</td>
<td>118</td>
<td>275</td>
<td>767</td>
<td>858</td>
<td>1185</td>
<td>1182</td>
</tr>
</tbody>
</table>
### Table No. 3

<table>
<thead>
<tr>
<th>Industry</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pharmaceuticals</td>
<td>716</td>
<td>581</td>
<td>802</td>
<td>460</td>
<td>469</td>
<td>550</td>
</tr>
<tr>
<td>Biotechnology</td>
<td>354</td>
<td>603</td>
<td>389</td>
<td>187</td>
<td>188</td>
<td>216</td>
</tr>
<tr>
<td>Media/Entertainment</td>
<td>401</td>
<td>622</td>
<td>965</td>
<td>802</td>
<td>911</td>
<td>1101</td>
</tr>
<tr>
<td>Services Sector</td>
<td>1134</td>
<td>1618</td>
<td>1991</td>
<td>1215</td>
<td>143</td>
<td>2137</td>
</tr>
<tr>
<td>Industrial Products</td>
<td>735</td>
<td>1095</td>
<td>1301</td>
<td>783</td>
<td>1110</td>
<td>1224</td>
</tr>
<tr>
<td>Real Estate</td>
<td>4207</td>
<td>4887</td>
<td>6753</td>
<td>8155</td>
<td>9373</td>
<td>10159</td>
</tr>
<tr>
<td>Others</td>
<td>8881</td>
<td>10664</td>
<td>11143</td>
<td>10029</td>
<td>12336</td>
<td>14218</td>
</tr>
<tr>
<td>Total</td>
<td>17325</td>
<td>21216</td>
<td>24893</td>
<td>23023</td>
<td>27592</td>
<td>31556</td>
</tr>
</tbody>
</table>

Source: www.sebi.gov.in

### Graph. 1

**Graphical Representation of Industry-wise Cumulative Investment Details of SEBI Registered Venture Capital Funds (VCFs) in India (Rs. in crores)**

![Graphical Representation of Industry-wise Cumulative Investment Details of SEBI Registered Venture Capital Funds (VCFs) in India](image)

Table No. 3 along with the graph represents the total investments of domestic venture capital firms made in India as
on 31 Dec 2007 to as on 31 Dec 2012. Total investments made by domestic venture capital funds are 31,556 Crores. And also we can observe that, the investments made in Information technology is drastically decrease in 2009 because of the global recession and bad economic condition and same is continued till 2010. After that it recovered 2011 and IT sector again started attract good investments in 2011 onwards. And pharmaceuticals and biotechnology sectors also bears up and down of investments by VCs, where as telecommunications, media/entertainment, service sector, industrial products, real estate and other sectors of economy gaining lot of prominence in terms of investments made by venture capitalists year by year. This leads create a lot of employment opportunities, increase in the standard of leaving and economic growth of the country.

<table>
<thead>
<tr>
<th>Sectors of Economy</th>
<th>As on 31 Dec 2007</th>
<th>As on 31 Dec 2008</th>
<th>As on 31 Dec 2009</th>
<th>As on 31 Dec 2010</th>
<th>As on 31 Dec 2011</th>
<th>As on 31 Dec 2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Information technology</td>
<td>1390</td>
<td>1649</td>
<td>2082</td>
<td>3016</td>
<td>3813</td>
<td>3787</td>
</tr>
<tr>
<td>Telecommunications</td>
<td>872</td>
<td>801</td>
<td>3502</td>
<td>7145</td>
<td>6778</td>
<td>6352</td>
</tr>
<tr>
<td>Pharmaceuticals</td>
<td>360</td>
<td>648</td>
<td>675</td>
<td>985</td>
<td>775</td>
<td>713</td>
</tr>
<tr>
<td>Biotechnology</td>
<td>31</td>
<td>31</td>
<td>72</td>
<td>140</td>
<td>140</td>
<td>100</td>
</tr>
<tr>
<td>Media/Entertainment</td>
<td>69</td>
<td>284</td>
<td>469</td>
<td>701</td>
<td>720</td>
<td>209</td>
</tr>
</tbody>
</table>
Graph.2
Graphical Representation of Industry-wise Cumulative Investment details of SEBI Registered Foreign Venture Capital Funds (FVCFs) in India (Rs. in crores)

<table>
<thead>
<tr>
<th>Sector</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Services</td>
<td>1341</td>
<td>1358</td>
<td>1538</td>
<td>2039</td>
<td>2256</td>
<td>1596</td>
</tr>
<tr>
<td>Industrial</td>
<td>1312</td>
<td>856</td>
<td>1043</td>
<td>886</td>
<td>1217</td>
<td>1211</td>
</tr>
<tr>
<td>Real Estate</td>
<td>2141</td>
<td>1424</td>
<td>1432</td>
<td>3107</td>
<td>2725</td>
<td>1091</td>
</tr>
<tr>
<td>Others</td>
<td>7868</td>
<td>1274</td>
<td>1601</td>
<td>2032</td>
<td>2307</td>
<td>18716</td>
</tr>
<tr>
<td>Total</td>
<td>15384</td>
<td>19800</td>
<td>26827</td>
<td>33241</td>
<td>38730</td>
<td>33773</td>
</tr>
</tbody>
</table>

Source: www.sebi.gov.in

Table No.4 besides graphical representation depicts the total investments made by foreign venture capital funds (FVCF) in India as on 31 Dec 2007 to as on 31 Dec 2012. Total investments made by foreign venture capital funds are 33,773 Crores. Along with it also depicts total investments made by FVCF in different sectors of economy. It clearly indicates that telecommunications, information technology, service sector, industrial products, real estate, and others got more magnitude by FVCF for their investments compare to biotechnology, pharmaceuticals, and media/entertainment during 2007 to 2012.
Conclusion:

India is one of world’s fastest budding economies, apart from China; no other country has as high an economic growth rate as India. Our country offers several fiscally feasible advantages to domestic venture capitalists as well as foreign venture capitalists. In spite of this, there is slow growth of venture capital industry compare to some of the advanced countries like USA, UK etc. In India the growth of VC industry is slow, because of Multiplicity of regulations, tax policy, IPO norms, lack of Flexibility in investment ceiling, sectoral restrictions and other regulatory mechanism etc.

At last no doubt, the growth of venture capital market in India is not so bad but scope for further improvement is plenty. In this context there is an urgent need by our government to take appropriate steps for the growth of venture capital industry to attract good investments for different sectors of the economy for the balanced regional development of the economy through knowledge intensive industries.

References:

12. www.VentureIntelligence.com
Venture Capital - A Theoretical Perspective,
Growth and Challenges in India

Dr. P. Subbaiah*
Mr. V. Harikrishna**
Mr. P.V.L. Narasimha Rao***

Abstract
Capital venturing means Money provided by investors to start-up firms and small businesses with perceived long-term growth potential. This is a very important source of funding for start-ups that do not have access to capital markets. It typically entails high risk for the investor, but it has the potential for above-average returns. Venture capital can also include managerial and technical expertise. Most venture capital comes from a group of wealthy investors, investment banks and other financial institutions that pool such investments or partnerships. This form of raising capital is popular among new companies or ventures with limited operating history, which cannot raise funds by issuing debt. The downside for entrepreneurs is that venture capitalists usually get a say in company decisions, in addition to a portion of the equity. Contemporary issues in venture capital is to understand the private equity environment, the evolution and changing nature of market terms, and changes in regulation. By combining those issues with an outlook that calls for more modest funding levels, it is easy to understand the pressure points on various terms of investment for private equity, including carried interest, distribution methodologies, and management fees.

Key words: Venture Capital, Entrepreneur, Equity, Investor, Capitalist.

* Professor
** Assistant Professor
*** Assistant Professor, Dept., of Business Management, SSN College of Engineering and Technology, Ongole, A.P.
**Introduction:**

Starting and growing a business always require capital. There are a number of alternative methods to starting and growing a business. These include the owner or proprietor’s own capital, arranging debt finance, or seeking an equity partner, as is the case with private equity and venture capital. Private equity is a broad term that refers to any type of non-public ownership equity securities that are not listed on a public exchange. Venture capital is a means of equity financing for rapidly-growing private companies. Finance may be required for the start-up, development/expansion or purchase of a company. Venture Capital firms invest funds on a professional basis, often focusing on a limited sector of specialization (e.g. IT, infrastructure, health/life sciences, clean technology etc). The goal of venture capital is to build companies so that the shares become liquid (through IPO or acquisition) and provide a rate of return to the investors (in the form of cash or shares) that is consistent with the level of risk taken. With venture capital financing, the venture capitalist acquires an agreed proportion of the equity of the company in return for the funding. Equity finance offers the significant advantage of having no interest charges. It is “patient” capital that seeks a return through long-term capital gain rather than immediate and regular interest payments, as in the case of debt financing. Given the nature of equity financing, venture capital investors are therefore exposed to the risk of the company failing. As a result the venture capitalist must look to invest in companies which have the ability to grow very successfully and provide higher than average returns to compensate for the risk. When venture capitalists invest in a business they typically require a seat on the company’s board of directors. They tend to take a minority share in the company and usually do not take day-to-day control. Rather, professional venture capitalists act as mentors and aim to provide support and advice on a range of management, sales and technical issues to assist the company to develop its full potential.
Growth of Venture Capital in India:

Venture capital, the new-age finance, is gaining importance in the Indian economy as traditional financial institutions and commercial bank share hamstrung by inadequacy of equity capital, focus on low-risk ventures, conservative approach, and delays in project evaluation. Venture capital is also often described as “the early stage financing of new and young enterprises seeking to grow rapidly”.

Venture Capital Scenario in India since 1972:

The Committee on Development of Small and Medium Entrepreneurs, under the chairmanship of Mr. R. S. Bhatt, first highlighted venture capital financing in India.

* 1975: Venture capital financing was introduced in India by the financial institutions with the inauguration of Risk Capital Foundation (RCF), sponsored by IFCI with a view to encouraging technologists and professionals to promote new industries.

* 1976: The seed capital scheme was introduced by IDBI.

* 1983: The Technology Policy statement of the Government set the guidelines for technological self-reliance by encouraging the commercialization and exploitation of technologies developed in the country.

* Till 1984 venture capital took the form of risk capital and seed capital.

* 1986: ICICI launched a venture capital scheme to encourage new technocrats in the private sector in emerging fields of high-risk technology.

* 1986-87: The Government levied a 5 percent cess on all know-how payments to create a venture capital fund by IDBI. ICICI also became a partner of the venture capital industry in the same year.

The first scheme floated by Canara Bank with the participation by World Bank. About the same time, two State
level corporations, viz., Andhra Pradesh and Gujarat also took initiatives to promote venture capital funds and could obtain World Bank assistance. A foreign bank set up a Venture Capital Fund in 1987. In addition, other public sector banks have participated in the equity share capital of venture capital companies or invested in schemes of venture capital funds. Several venture capital firms are incorporated in India and they are promoted either by financial institutions, such as IDBI, ICICI, IFCI, State-level financial institutions and public sector banks, or promoted by foreign banks/private sector financial institutions such as Indus Venture Capital Fund, Credit Capital Venture Fund, and so on. Hence, the total pool of Indian venture capital today stands over Rs 5,000 crores.

**Advantages of Venture Capital:**

Venture capital has made significant contribution to technological innovations and promotion of entrepreneurs. Many of the companies like Apple, Lotus, Intel, Micro etc. have emerged from small business set up by people with ideas but no financial resources and supported by venture capital. There are abundant benefits to economy, investors and entrepreneurs provided by venture capital.

**Economy Oriented:**

* Helps in industrialization of the country.
* Helps in the technological development of the country.
* Generates employment.
* Helps in developing entrepreneurial skills.

**Investor Oriented:**

* Benefit to the investor is that they are invited to invest only after company starts earning profit, so the risk is less and healthy growth of capital market is entrusted.
* Profit to venture capital companies.
* Helps them to employ their idle funds into productive avenues.

**Entrepreneur Oriented:**

Finance - The venture capitalist injects long-term equity finance, which provides a solid capital base for future growth.

* The venture capitalist may also be capable of providing additional rounds of funding should it be required to finance growth.

**Review of Literature:**

Venture capital investments are an important engine of innovation and economic growth, but extremely risky from an individual investor’s point of view. Sahlman (2010) reported that 85% of returns come from just 10% of investments. And from 1987 until 2012 only 12.8% of investments have achieved an initial public offering. Furthermore, there are large differences in fund performance between top quartile and bottom quartile venture capital funds. In spite of the rarity of top investments, Kaplan and Schular (2005) report persistence in fund performance. They show that in contrast to other asset classes such as mutual funds, venture capital firms that have a fund that outperforms the industry are likely to outperform with their next fund.

Bertrand and Schular (2003) employ a similar idea when they examine CEOs who move firms and separate out manager effects on firm policies, while Graham, Li and Qiu (2012) use executives who move to determine the relative importance of firm and person in executive compensation. Employ the method developed by Abowd, Kramarz and Margolis (1999) (hence forth AKM) and Abowd, Creecy and Kramarz (2002) to separate out partner and firm effects on the performance of
venture capital investments. Estimates of the VC partner and firm fixed effects provide evidence of the relative importance of VC partner human capital and VC firm organizational capital. Across different specifications one can find that the partner fixed effects are more likely to be jointly significant than the VC firm fixed effects and that the partner fixed effect estimates explain two to five times the variation in exit values relative to VC firm fixed effects. Thus, our estimates suggest that both the partner and the VC firm can affect performance but that the partner’s human capital is more important.

**Trends of Venture Capital in India:**
Venture capital is continuously growing in India. The venture capital sector in India is still at the crossroads and striving hard to take off.

- 31% of all investments fell into the US $10-25 million category.
- Capital investments accounted for 25% to 30% of the private equity deals (in volume terms).
- Late stage deals accounted for 35% of all deals PE firms obtained exit routes in 65 companies, Including 16 via initial public offering (IPO).
- While companies based in South India attracted a higher number of investments, their peers in Western India attracted a far higher share of the pie in value terms.
- Among cities, Mumbai-based companies retained the top slot with 108 private equity investments worth almost US$6 billion in 2007, followed by Delhi/National Capital Region with 63 investments worth almost US $ 2.7 billion and Bangalore with 49 investments worth US $ 700 million.
- Citigroup was the most active investor, with a portfolio across energy, engineering & construction, manufacturing. Other active investors include: ICICI Ventures, Goldman Sachs and Helion Ventures, etc.
Table No. 1

Top Cities attracting PE Investments (2007)

<table>
<thead>
<tr>
<th>City</th>
<th>No. of Deals</th>
<th>Value (US$ M)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mumbai</td>
<td>109</td>
<td>5995</td>
</tr>
<tr>
<td>Delhi</td>
<td>63</td>
<td>2668</td>
</tr>
<tr>
<td>Bangalore</td>
<td>49</td>
<td>685</td>
</tr>
<tr>
<td>Chennai</td>
<td>32</td>
<td>824</td>
</tr>
<tr>
<td>Ahmedabad</td>
<td>14</td>
<td>492</td>
</tr>
<tr>
<td>Kolkata</td>
<td>12</td>
<td>339</td>
</tr>
<tr>
<td>Hyderabad</td>
<td>41</td>
<td>1380</td>
</tr>
</tbody>
</table>

Sectors of Interest in India:

IT & ITES companies continue to corner the majority share of VC investments accounting for about 70% in terms of number of investments. Within IT & ITES, vertically focused BPO companies have emerged as the favourite sectors in 2007, followed by Internet-based Services (the 2006 favourite), IT Services and Mobile Value-Added Services (M-VAS). Nevertheless, gone are the days when Venture Capital was something that was meant only for IT & ITEs companies. Companies with in the Health care and Life Sciences industry, for example, Clinical Research Outsourcing (CRO) and Biotech have gained momentum. Especially interesting to VCs are sectors that tap the rising consumer spending in India. While means that they are more than willing to listen to pitches from start-ups in sectors like Media, Financial Services, Food & Beverages and Retail.

Challenges and Prospects:

VCF is in its nascent stages in India. The emerging scenario of global competitiveness has put an immense pressure on the industrial sector to improve the quality level with minimization.
of cost of products by making use of latest technological skills. The implication is to obtain adequate financing along with the necessary hi-tech equipments to produce an innovative product which can succeed and grow in the present market condition. Unfortunately, our country lacks on both fronts. The necessary capital can be obtained from the venture capital firms who expect an above average rate of return on the investment. The financing firms expect a sound, experienced, mature and capable management team of the company being financed. Since the innovative project involves a higher risk, there is an expectation of higher returns from the project. The payback period is also generally high (5-7 years). The various problems are as follows:

- Requirement of an experienced management team.
- Requirement of an above average rate of return on investment.
- Longer payback period.
- Uncertainty regarding the success of the product in the market.
- Questions regarding the infrastructure details of production like plant location, accessibility, relationship with the suppliers and creditors, transportation facilities, labour availability etc.
- The category of potential customers and hence the packaging and pricing details of the product.
- The size of the market.
- Major competitors and their market share.
- Skills and Training required and the cost of training.
- Financial considerations like return on capital employed (ROCE), cost of the project, the Internal Rate of Return (IRR) of the project, total amount of funds required, ratio of owners investment (personnel funds of the entrepreneur), borrowed capital, mortgage loans etc. in the capital employed.
The following points can be considered as the harbingers of VC financing in India:

- Existence of a globally competitive high technology.
- Globally competitive human resource capital.
- Second Largest English speaking, scientific & technical manpower in the world.
- Vast pool of existing and ongoing scientific and technical research carried by large number of research laboratories.
- Initiatives taken by the Government in formulating policies to encourage investors and entrepreneurs.
- Initiatives of the SEBI to develop a strong and vibrant capital market giving the adequate liquidity and flexibility for investors for entry and exit.

Conclusion:

The world is becoming increasingly competitive. Companies are required to be super efficient with respect to cost, productivity, and labour efficiency, technical back up, flexibility to consumer demand, adaptability and foresightedness. There is an impending demand for highly cost effective, quality products and hence the need for right access to valuable human expertise to guide and monitor along with the necessary funds for financing the new projects. The Government of India in an attempt to bring the nation at par and above the developed nations has been promoting venture capital financing to new, innovative concepts & ideas, liberalizing taxation norms providing tax incentives to venture firms, giving a Philip to the creation of local pools of capital and holding training sessions for the emerging VC investors. There are large sectors of the economy that are ripe for VC investors, like, I.T, Pharmacy, and Manufacturing, Telecom, Retail franchises, food processing and many more. The nation waits for the burgeoning VC business in India in spite of the existing shortcomings in the Indian infrastructure.
References:
Introduction:
Venture Capital is a capital invested in a project where there is a substantial element of risk relating to the future creation of profits and cash flows. It provides long-term, committed share capital, to help unquoted companies grow and succeed. Venture capital helps an entrepreneur to start-up, expand, buy-into a business, buy-out a business in which he works, turnaround or revitalize a company. The venture capital investment helps for the growth of innovative entrepreneurship in India. Venture capital has developed as a result of the need to provide non-conventional, risky finance to new ventures based on innovative entrepreneurship. Venture capital is an investment in the form of equity, quasi-equity and sometimes debt - straight or conditional, made in new or untried concepts, promoted by a technically or professionally qualified entrepreneur. Venture
capital means many things to many people. It is a partnership with the entrepreneur in which the investor can add value to the company because of his knowledge, experience and contact base.

**Objectives of the study:**

This paper studies about the issues and perspectives of Venture Capital financing in India. The purpose of present study is to analyse issues and challenges of Venture Capitalist which effects on the growth and development of India. The data have been collected from the secondary sources like various journals, books, bulletins, websites and reports of agencies, which are related to the study.

**Origin of Venture Capital:**

In the 1920's & 30's, the wealthy families of and individuals investors provided the start up money for companies. Eastern Airlines and Xerox are the more famous ventures they financed. Among the early VC funds set up by the Rock feller Family which started a special fund called VENROCK in 1950, to finance new technology companies. General Doriot, a professor at Harvard Business School, in 1946 set up the American Research and Development Corporation (ARD), the first firm, as opposed to private individuals, at MIT to finance the commercial promotion of advanced technology developed in the US Universities. ARD's approach was a classic VC in the sense that it used only equity, invested for long term, and was prepared to live with losers. ARD's investment in Digital Equipment Corporation (DEC) in 1957 was found one of the landmarks in the history of VC financing. While in its early years VC may have been associated with high technology, over the years the concept has undergone a change and as it stands today it implies pooled investment in unlisted companies.

**Venture Capital in India:**

In India the Venture Capital plays a vital role in the development and growth of innovative entrepreneurships.
Venture Capital activity in the past was possibly done by the developmental financial institutions like IDBI, ICICI and State Financial Corporations. These institutions promoted entities in the private sector with debt as an instrument of funding. For a long time funds raised from public were used as a source of Venture Capital. This source however depended a lot on the market vagaries. And with the minimum paid up capital requirements being raised for listing at the stock exchanges, it became difficult for smaller firms with viable projects to raise funds from public.

In India, the need for Venture Capital was recognized in the 7th five year plan and long term fiscal policy of GOI. In 1973 a committee on Development of small and medium enterprises highlighted the need to faster VC as a source of funding new entrepreneurs and technology. VC financing really started in India in 1988 with the formation of Technology Development and Information Company of India Ltd. (TDICI) - promoted by ICICI and UTI. The first private VC fund was sponsored by Credit Capital Finance Corporation (CFC) and promoted by Bank of India, Asian Development Bank and the Commonwealth Development Corporation viz. Credit Capital Venture Fund. At the same time Gujarat Venture Finance Ltd. and APIDC Venture Capital Ltd. were started by state level financial institutions. Sources of these funds were the financial institutions, foreign institutional investors or pension funds and high net-worth individuals.

**Need for Venture Capital Industry in India:**

India possesses a pool of young educated and technically qualified ‘entrepreneurs with real innovative mind. Venture capital provides the required initial funding facilities for the advancement of technology. This new financing scheme would remove the constraints like inadequate funds, lack of encouragement to our young entrepreneurs etc. The changing
economic scenario and the liberalization of capital market would bring greater depth to the capital market as a whole, introducing more genuine investors of substance with long time horizons, provide avenues for the institutions to realize their equity portfolios more easily and generally improve market liquidity.

Venture Capital funds are potential instruments of growth and sustenance. Venture capital is required for innovative products and services to prosper in an extremely competitive market. The main aim of venture capital is to provide seed capital investments for broadening entrepreneurial skills in the country by providing finance to technology oriented projects. A Venture Capital Fund (VCF) strives to provide entrepreneurs with the support they need to create up-scalable business with sustainable growth, while providing their contributors with outstanding returns on investment, for the higher risks they take. Venture Capital Fund can provide the following needed support for a robust growth of industry in India:

- Finance new and rapidly growing companies.
- Typically knowledge-based, sustainable, up scaleable companies.
- Purchase equity / quasi-equity securities.
- Assist in the development of new products or services.
- Add value to the company through active participation.
- Take higher risks with the expectation of higher rewards.
- Have a long-term orientation.

**Venture Capital – Indian Environment:**

From its inception, the Indian venture capital industry has been affected by international and domestic developments; its current situation is the result of the evolution of what initially appeared to be unrelated historical trajectories. The creation of a venture capital industry in India through transplantation required the existence of a minimal set of supportive conditions. They need not necessarily be optimal, because, if the industry
survived, it would likely set in motion a positive feedback process that would foster the emergence of successful new firms, encourage investment of more venture capital, and support the growth of other types of expertise associated with the venture capital industry. Small and medium-sized enterprises have a long history and great importance to India. The leaders of the Independence movement were supporters of small businesses as an alternative to “exploitation” by multinational firms. And yet, despite the emphasis upon and celebration of small enterprises, the Indian economy was dualistic. It was dominated by a few massive private-sector conglomerates, such as the Tata and Birla groups, and various nationalized firms, even while there was an enormous mass of small shopkeepers and local industrial firms. As anywhere else, these small firms were in traditional industries and were not relevant for the emergence of venture capital, but they do indicate a culture of private enterprise. This entrepreneurial propensity also has been demonstrated by the willingness of Indians emigrating in other countries to establish shops, restaurants, hotels and enterprises of all sorts.

Already, under the British, Indians valued education very highly. After Independence, the Indian government invested heavily in education, and Indian universities attracted excellent students. In the 1960s, the Ford Foundation worked with the Indian government to establish the Indian Institutes of Technology (IIT), which adopted MIT's undergraduate curriculum. These Institutes and other top Indian educational institutions very quickly became the elite Indian engineering schools with extremely competitive entrance examinations and to which only the most intelligent students could gain entry. The excellent Indian students were much desired by overseas university graduate programs, generally, and in engineering, particularly. After graduating from overseas programs many of these Indian students did not return to India. However, many other Indian graduates remained in India working in the large
family conglomerates, the many Indian universities, and various
top-level research institutes such as those for space research
(Bhaskaran 2000). This meant that there remained in India a
large pool of capable engineers and scientists that were underpaid
(by global standards), and potentially mobile. Despite these
strengths, India had many cultural rigidities and barriers to
entrepreneurship and change, beginning with an extremely
intrusive bureaucracy and extensive regulations.

Until recently the labour market was quite rigid. For well-
educated Indians the ideal career path was to enter the
government bureaucracy, a lifetime position; enter the family
business, which was then a lifetime position; or join one of the
large conglomerates such as Tata and Birla, which also
effectively guaranteed lifetime employment. The final career
path was to emigrate; not surprisingly, among the immigrants
were many seeking better opportunities and release from the
rigidities at home.

In summation, the institutional context discouraged
investment and entrepreneurship. The next sections examine
the features of the Indian economy that would evolve to make
the creation of the Indian venture capital industry possible.

**VCs Financing:**

Venture capitalists look for businesses that have the potential
to grow quickly to a significant size, yielding a significant return
on the VC’s investment in a relatively short period of time. VCs
are not just interested in start-ups. There’s no single determinant
for a successful portfolio company, but a VC tends to focus on
the following factors:

Venture capitalists are typically very selective in deciding
what to invest in; as a rule of thumb, a fund may invest in one
in four hundred opportunities presented to it. Funds are most
interested in ventures with exceptionally high growth potential,
as only such opportunities are likely capable of providing the
financial returns and successful exit event within the required timeframe (typically 3-7 years) those venture capitalists expect. Venture capitalists also are expected to nurture the companies in which they invest, in order to increase the likelihood of reaching an IPO stage when valuations are favourable.

Venture capitalists typically assist at four stages in the company’s development:

- Idea generation;
- Start-up;
- Ramp up; and
- Exit.

There are typically six stages of financing offered in Venture Capital that correspond to these stages of a company’s development.

- **Seed Money**: Low level financing needed to prove a new idea (Often provided by “angel investors”).
- **Start-up**: Early stage firms that need funding for expenses associated with marketing and product development.
- **First-Round**: Early sales and manufacturing funds.
- **Second-Round**: Working capital for early stage companies that are selling product, but not yet turning a profit.
- **Third-Round**: Also called Mezzanine financing, this is expansion money for a newly profitable company.
- **Fourth-Round**: Also called bridge financing, 4th round is intended to finance the “going public” process.

Like a banker, a VC will also consider factors such as results of past operations, amount of funds needed and their intended use, future earnings projections and conditions. But unlike a banker, a VC is a part owner rather than a creditor, so it’s looking for potential long-term capital, rather than interest income. A common rule of thumb is that a VC looks for a return of three to five times its investment in a five- to seven-year time period. A lot may also depend on the relationship between you and the VC. Often, the firm will have you meet with every one of its
individual partners to determine whether there's a consensus on how the company will be co-managed. Don't underestimate the value of mutual respect, teamwork, and understanding.

**Types of Venture Capital Firms:**

Depending on business type, the venture capital firm approach differs. When approaching a VC firm, consider their portfolio:

- Business Cycle: Do they invest in budding or established businesses?
- Industry: What is their industry focus?
- Investment: Is their typical investment sufficient for your needs?
- Location: Are they regional, national or international?
- Return: What is their expected return on investment?
- Involvement: What is their involvement level?
- Targeting specific types of firms will yield the best results when seeking VC financing.

The National Venture Capital Association segments dozens of VC firms into ways that might assist you in your search. Many VC firms have diverse portfolios with a range of clients. If this is the case, finding gaps in their portfolio is one strategy that might succeed.

**Venture Capitalists Investing In India:**

For a very long time, Silicon Valley venture capitalists only invested locally. However, throughout the years, they expanded their investments worldwide. Matrix Partners, a leading American venture capitalist firm, had announced a $150 million India fund, where they will provide internet, mobile, media, entertainment, leisure, and travel services to customers in Mumbai. Sequoia Capital, a Silicon Valley-based VC firm, wanted to take advantage of investing in start-up companies and had acquired West bridge Capital, an Indian firm, for $350
million. It is no wonder that venture capitalist investments in India have risen dramatically within the past few years. Some important Venture Capital Funds in India:

1. APIDC Venture Capital Limited, 1102, Babukhan Estate, Hyderabad 500 001
2. Canbank Venture Capital Fund Limited, IInd Floor, Kareem Towers, Bangalore
3. Gujarat Venture Capital Fund 1997, Ashram Road, Ahmedabad 380 009
4. Industrial Venture Capital Limited, Thyagaraya Road, Chennai 600 017
5. Auto Ancillary Fund Opp. Signals Enclave, New Delhi 110 010
7. Karnataka Information Technology Venture Capital Fund Cunningham Rd Bangalore
8. India Auto Ancillary Fund Nariman Point, Mumbai 400 021
9. Information Technology Fund, Nariman Point, Mumbai 400 021
10. Tamilnadu InfoTech Fund Nariman Point, Mumbai 400 021
11. Orissa Venture Capital Fund Nariman Point Mumbai 400 021
12. Uttar Pradesh Venture Capital Fund Nariman Point, Mumbai 400 021
13. SICOM Venture Capital Fund Nariman Point Mumbai 400 021
14. Punjab InfoTech Venture Fund 18 Himalaya Marg, Chandigarh 160 017
15. National venture fund for software and information technology industry Nariman.
Regulatory Guidelines & Framework:
A study was undertaken by the World Bank, to examine the possibility of developing Venture Capital in the private sector, based on which the Government of India took a policy initiative and announced guidelines for Venture Capital Funds (VCFs) in India in 1988. However, these guidelines restricted setting up of VCFs by the banks or the financial institutions only. Thereafter, the Government of India issued guidelines in September 1995, for overseas investment in Venture Capital in India. For tax-exemption purposes, guidelines were also issued by the Central Board of Direct Taxes (CBDT) and the investments and flow of foreign currency into and out of India have been governed by the Reserve Bank of India’s (RBI) requirements. Further, as a part of its mandate to regulate and to develop the Indian capital markets, the Securities and Exchange Board of India (SEBI) framed the SEBI (Venture Capital Funds) Regulations, 1996. These guidelines were further amended in April 2000 with the objective of fuelling the growth of Venture Capital activities in India.

Institutionalization & Regulation of Venture Capital:
It is important that the concept of venture capital funding came to be institutionalized and regulated. This funding requires different skills in assessing the proposal and monitoring the progress of the fledging enterprise. In 1996, the Securities and Exchange Board of India (SEBI) came out with guidelines for venture capital funds has to adhere to, in order to carry out activities in India. This was the beginning of the second phase in the growth of venture capital in India. The move liberated the industry from a number of bureaucratic hassles and paved the path for the entry of a number of foreign funds into India. Increased competition brought with it greater access to capital and professional business practices from the most mature markets.

There are a number of funds, which are currently operational
in India and involved in funding start-up ventures. Most of them are not true venture funds, as they do not fund start-ups. What they do is provide mezzanine or bridge funding and is better known as private equity players. However, there is a strong optimistic undertone in the air. With the Indian knowledge industry finally showing signs of readiness towards competing globally and awareness of venture capitalists among entrepreneurs higher than ever before, the stage seems all set for an overdrive.

The Indian Venture Capital Association (IVCA) is the nodal centre for all venture activity in the country. The association was set up in 1992 and over the last few years, has built up an impressive database. According to the IVCA, the pool of funds available for investment to its 20 members in 1997 was Rs25.6bn. Out of this, Rs.10 bn had been invested in 691 projects.

Certain venture capital funds are Industry specific (i.e., they fund enterprises only in certain industries such as pharmaceuticals, InfoTech or food processing) whereas others may have a much wider spectrum. Again, certain funds may have a geographic focus - like Uttar Pradesh, Maharashtra, Kerala, etc whereas others may fund across different territories. The funds may be either close-ended schemes (with a fixed period of maturity) or open-ended.

**Investment Philosophy:**

Early stage funding is avoided by most funds apart from ICICI ventures, Draper, SIDBI and Angels. Funding growth or mezzanine funding till pre IPO is the segment where most players operate. In this context, most funds in India are private equity investors.

**Size of Investment:**

The size of investment is generally less than US$1mn, US$1-5mn, US$5-10mn, and greater than US$10mn. As most funds
of a private equity kind, size of investments has been increasing. IT companies generally require funds of about Rs30-
40mn in an early stage which fall outside funding limits of most funds and that is why the government is promoting schemes to
fund start ups in general, and in IT in particular.

**Value Addition:**
The venture funds can have a totally “hands on” approach
towards their investment like Draper or “hands off” like Chase.
ICICI Ventures falls in the limited exposure category. In general,
venture funds who fund seed or start ups have a closer
interaction with the companies and advice on strategy, etc while
the private equity funds treat their exposure like any other listed
investment. This is partially justified, as they tend to invest in
more mature stories.

In addition to the organized sector, there are a number of
players operating in India whose activity is not monitored by
the association. Add together the infusion of funds by overseas
funds, private individuals, ‘angel’ investors and a host of financial
intermediaries and the total pool of Indian Venture Capital today,
stands at Rs50bn, according to industry estimates!

The primary markets in the country have remained depressed
for quite some time now. In the last two years, there have been
just 74 initial public offerings (IPO’s) at the stock exchanges,
leading to an investment of just Rs14.24bn. That’s less than
12% of the money raised in the previous two years. That makes
the conservative estimate of Rs36bn invested in companies
through the Venture Capital/Private Equity route all the more
significant.

Though the InfoTech companies are among the most favoured
by venture capitalists, companies from other sectors also feature
equally in their portfolios. The healthcare sector with
pharmaceutical, medical appliances and biotechnology industries
also get much attention in India. With the deregulation of the
Contemporary Issues in Venture Capital Financing in India

telecom sector, telecommunications industries like Zip Telecom and media companies like UTV and Television Eighteen have joined the list of favourites. So far, these trends have been in keeping with the global course.

However, recent developments have shown that India is maturing into a more developed marketplace; unconventional investments in a gamut of industries have sprung up all over the country. This includes:

1. Indus League Clothing, a company set up by eight former employees of readymade garments giant Madura, who set up shop on their own to develop a unique virtual organization that will license global apparel brands and sell them, without owning any manufacturing units. They dream to build a network of 2,500 outlets in three years and to be among the top three readymade brands.
2. Shoppers Stop, Mumbai’s premier departmental store innovates with retailing and decides to go global. This deal is facing some problems in getting regulatory approvals.
3. Airfreight, the courier-company which has been growing at a rapid pace and needed funds for heavy investments in technology, networking and aircrafts.
4. Pizza Corner, a Chennai based pizza delivery company that is set to take on global giants like Pizza Hut and Dominos Pizza with its innovative servicing strategy.
5. Car designer Dilip Chhabria, who plans to turn his studio, where he remodels and overhauls cars into fancy designer pieces of automation, into a company with a turnover of Rs1.5bn (up from Rs40mn today).

Problems of Venture Capital Financing:

VCF is in its nascent stages in India. The emerging scenario of global competitiveness has put an immense pressure on the industrial sector to improve the quality level with minimization of cost of products by making use of latest technological skills.
The implication is to obtain adequate financing along with the necessary hi-tech equipments to produce an innovative product which can succeed and grow in the present market condition. Unfortunately, our country lacks on both fronts. The necessary capital can be obtained from the venture capital firms who expect an above average rate of return on the investment.

The financing firms expect a sound, experienced, mature and capable management team of the company being financed. Since the innovative project involves a higher risk, there is an expectation of higher returns from the project. The payback period is also generally high (5 - 7 years).

The various problems/queries can be outlined as follows:

• Requirement of an experienced management team.
• Requirement of an above average rate of return on investment.
• Longer payback period.
• Uncertainty regarding the success of the product in the market.
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• Skills and Training required and the cost of training.
• Financial considerations like return on capital employed (ROCE), cost of the project, the Internal Rate of Return (IRR) of the project, total amount of funds required, ratio of owners investment (personnel funds of the entrepreneur), borrowed capital, mortgage loans etc. in the capital employed.

The Indian venture capital (VC) industry has witnessed
considerable turmoil in the last two years. Consider this: At least seven VC funds (VCFs) shut shop. Many others simply ran out of funds. A few set up high-cost Indian operations, with no funds raised or allocated for investment. The rest of the industry appears to be busy, ‘restructuring’ their investment focus, making very few new investments.

**Prospects of Venture Capital Financing:**

With the advent of liberalization, India has been showing remarkable growth in the economy in the past 10 - 12 years. The government is promoting growth in capacity utilization of available and acquired resources and hence entrepreneurship development capital. Institutional interest is growing and foreign venture investments are also on the rise. Many state governments have also set up venture capital funds for the IT sector in partnership with the local state financial institutions and SIDBI. These include Andhra Pradesh, Karnataka, Delhi, Kerala and Tamil Nadu. The other states are to follow soon.

In the year 2000, the finance ministry announced the liberalization of tax treatment for venture capital funds to promote them & to increase job creation. This is expected to give a strong boost to the non resident Indians located in the Silicon Valley and elsewhere to invest some of their capital, knowledge and enterprise in these ventures.

A Bangalore based media company, Graycell Ltd., has recently obtained VC investment totalling about $ 1.7 man. The company would be creating and marketing branded web based consumer products in the near future.

**Harbingers of VC Financing in India:**

* Existence of a globally competitive high technology.
* Globally competitive human resource capital.
* Second Largest English speaking, scientific & technical manpower in the world.
* Vast pool of existing and ongoing scientific and technical research carried by large number of research laboratories.
* Initiatives taken by the Government in formulating policies to encourage investors and entrepreneurs.
* Initiatives of the SEBI to develop a strong and vibrant capital market giving the adequate liquidity and flexibility for investors for entry and exit.

Developing economies like India and China continue to attract investments; early stage finance is becoming increasingly globalized. Investors are backing consumer and retail firms that benefit from the rise of the Indian middle class, as well as business services that cater to the nation’s growing economic sector. The other transition is that the capital flowing to India is designed to expand existing companies. By contrast, venture capital in the United States, Europe and Israel is usually dedicated to backing new technologies or services.

In Asia, venture capitalists are still in the process of developing common evaluation criteria for investment, unlike in mature markets, where a common criterion is the level of attention paid to the entrepreneur’s personality and experience. In Asia, different classes of stocks with different voting rights are relatively uncommon. Asian investors thus have to rely mostly on common stocks and other means to manage their portfolio risk. Traditional venture capitalists are expected to actively assist their portfolio companies in what are termed value-added activities. Most of the Asian venture capitalists’ assistance remains restricted to providing advice on financial matters. The dynamics in emerging venture capital markets differ from those in developed venture capital markets. The emerging private equity markets focus primarily on growth capital investments through minority equity participation. Emerging venture capital markets, although not without challenges, present a host of opportunities.
India still attracts venture capital funds

Venture capitalists raising new funds dedicated to the Indian market are not finding the going tough despite a global slowdown impacting availability of capital. For instance, Clearstone Venture Advisors, a global venture capital fund with over $650 million of committed capital for investment globally, plans to close its fourth fund soon. The fund, which could be over $200 million, will also have a larger share of investments in India. The company had raised $210 million for its third fund, of which 20 to 25 per cent was dedicated for investments in India.

Similarly, Seed Fund, which invests in early start-ups, is in the process of raising its second fund. The fund, which will be in the range of $50-60 million, will be closed by the end of this year. It all depends on who is raising the funds. Firms like us who invest in early-stage companies will be least impacted as we are not looking at immediate gains,” said Pravin Gandhi, Partner, Seed Fund. The strong India story is probably the reason why several funds are strengthening their India focus. These include names such as Walden International and Accel India Venture Fund. Walden International recently announced its plans to raise a $500 million global fund early next year to step up its investment in China and India. Over the next 12-18 months, the global VC fund will invest close to $150 million (around Rs.650 crores) in India.

Mohit Bhatnagar, operating partner at Sequoia Capital, said the firm has not seen any major drop in either the investments or the pipeline of deals they examine. A lot of good companies get started globally during economic downturns and India should be no different. Of course, deals might take longer to close accounting for valuation corrections, different exit strategies, etc., says Bhatnagar. Not everyone is bullish on the future as some VCs said the subsequent rounds of funding will get impacted.
Conclusion:

The world is becoming increasingly competitive. Companies are required to be super efficient with respect to cost, productivity, and labour efficiency, technical back up, flexibility to consumer demand, adaptability and foresightedness. There is an impending demand for highly cost effective, quality products and hence the need for right access to valuable human expertise to guide and monitor along with the necessary funds for financing the new projects. The Government of India in an attempt to bring the nation at par and above the developed nations has been promoting venture capital financing to new, innovative concepts & ideas, liberalizing taxation norms providing tax incentives to venture firms, giving a Philip to the creation of local pools of capital and holding training sessions for the emerging VC investors. There are large sectors of the economy that are ripe for VC investors, like, I.T, Pharmacy, and Manufacturing, Telecom, Retail franchises, food processing and many more. The nation waits for the burgeoning VC business in India in spite of the existing shortcomings in the Indian infrastructure.

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Private Equity – Opportunities and Challenges

M. Saritha*

Abstract
The emergence of Private Equity investment in India can be traced back to the early 90s, and the same is showing growth trajectory over the last decade. The past decade have been especially favourable for investors, with improving profitability levels of Indian corporate, an empowering regulatory framework and enhanced investment climate all together contributing towards making India an attractive haven for private equity investment. It has emerged to cater to the needs of yet-to-be-formed companies, newly formed companies, private companies not listed on stock exchanges. The present article examines the origin and growth, opportunities, challenges and future outlook of PE investments in India.

Keywords: High-net Worth Individuals, Private Equity, PIPE, Leverage Buyout, Mezzanine

Introduction:
There is a wide difference in the interpretation of the term Private Equity (PE) globally and in India. Globally, PE constitutes taking over a company generally public and pumping the investment through instruments called PIPEs, i.e., Private Investment in Public Equity, or simply purchasing equity shares in the stock market and striving to improve its performance through a blend of operational and financial engineering and then selling it to another investor or back to the public. In India, PE usually connotes Growth Capital which is provided to

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emerging companies to enable them to build and streamline scale using the capital and other management inputs and eventually exit going public or by simply through strategic scale. However, due to its aggressive growth it has broadened its spectrum to include venture capital, leveraged buyout (LBO) and mezzanine investments. These are considered as forms of PE.

Private equity (PE) is a kind of alternative investment which involves investing in privately held companies. It is like the equity capital that is not quoted on a public exchange. Private equity firms establish investment funds that collect capital from high net worth investors, who are known as limited partners, or LPs. The private equity firms themselves known as general partners, or GPs use this capital, along with their own equity and funds borrowed from banks and other lenders, to buy companies that they believe could be significantly more successful with the right infusion of capital, talent, and strategy.

Private equity investment firms typically own companies for three to five years (although this period can vary anywhere from one to ten years, depending on market conditions and other variables). Eventually, the firms sell some or their entire stake in the company, hoping to realize a gain on the sale as a result of the increased value they have created as owners.

**Origin and Growth of Private Equity:**

The entrepreneurship and wealth creation in India was kindled with the entrance of PE. In the decades prior to liberalization, Development Banking was playing a pivotal role in industrial finance. Public financial institutions, especially meant to cater to the needs of industries helped entrepreneurs who lacked the capital to invest and grow by providing low cost debt and liberal financing. However, they had strict terms of lending and the assessment was primarily based on the repayment capacity of the borrower.

The lending institution's success in getting back its loan was dependent upon the progress and profitability of the borrower
company. In case of bad loans, the former has to obviously write off. Of course, this was not a workable model for the institution for its sustenance. Once, development banking had taken a setback and ceased to operate, there was a gap felt and need arouse for sustainable finance and entrepreneurial support to trigger entrepreneurship and then PE stepped in to create a new trend of entrepreneurship to those with a vision, is ambitious, has a unique proposal and is able to gear up rapidly if provided with capital support. PEs through their strong network of investment nationally and internationally is able to provide support to the business.

The first set of PE funds started investing in Indian corporate since about early 90s. The entry of several funds is lured by the opportunity offered by the Indian economy and today there are around 500 funds operating in the Indian market.

**Growth of Private Equity:**

Private equity investment in India started growing steadily since 2004 and sky rocketed in 2007 with a whooping investment of US$ 12,821 in 497 deals (See Table 1). Since then there are no big deals to break the 2007 peak. The credit crisis had a devastating impact on PE investment. Aftermath the credit fiasco left the Q4 2008 saw the lowest deal value (See fig.1) in a year’s comparison. The year 2009 recorded the lowest deal value and volumes. As the recovery started regaining there was an increase in the value of deals by 47% in 2010 compared to previous year. The years 2011 and 2012 remained moderately equivalent in terms of number and volume of deals.

**Table No.1**

<table>
<thead>
<tr>
<th>Period</th>
<th>Deal value (US $ in millions)</th>
<th>No. of Deals (Volume)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2004</td>
<td>1,720*</td>
<td>95*</td>
</tr>
<tr>
<td>2005</td>
<td>2,277</td>
<td>189</td>
</tr>
<tr>
<td>2006</td>
<td>6,366</td>
<td>363</td>
</tr>
<tr>
<td>2007</td>
<td>12,821</td>
<td>497</td>
</tr>
</tbody>
</table>
Contemporary Issues in Venture Capital Financing in India

<table>
<thead>
<tr>
<th>Year</th>
<th>Value (in million USD)</th>
<th>Volume</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008</td>
<td>9,264</td>
<td>478</td>
</tr>
<tr>
<td>2009</td>
<td>3,621</td>
<td>281</td>
</tr>
<tr>
<td>2010</td>
<td>7,773</td>
<td>374</td>
</tr>
<tr>
<td>2011</td>
<td>9,464</td>
<td>477</td>
</tr>
<tr>
<td>2012</td>
<td>9,297</td>
<td>478</td>
</tr>
<tr>
<td>2013 up to Q3</td>
<td>5,076</td>
<td>282</td>
</tr>
</tbody>
</table>

*consolidated figures of four quarters in a year.

Figure 1
Private Equity Investment in Value and Volume (No. of Deals) through 2004 - Q3 2013

Source: http://www.pwc.com/in/en/publications/moneytree.jhtml

Sectors Attracting PE Investment:
Private equity investment in India is broad based and caters to all sectors in a uniform manner. The distribution of investment appears to be less skewed. The attractiveness of a particular industrial sector in a particular year depends upon the prevailing global and domestic conditions surrounding the industry. For e.g. prior to 2008, IT and ITES was the most preferred sector for PE investment but aftermath the global crisis affecting the IT sector in an adverse manner resulting in drastic
fall in the percentage of total investment to 11.67% while the same was 42.66% in 2004. Another sector facing the undesirable consequences of 2008 fiasco was financial services which fell drastically by 88% in 2008. Of late the 2G spectrum scam had adversely hit telecom sector which recorded a negative growth of 89% in 2010-2011 according to Bain PE deal database. According to the India Venture Capital and Private Equity report 2009, the IT and ITES was the preferred sector in 2004 followed by manufacturing in 2005. The IT sector again occupied a prominent position in 2006. Consecutively for three years 2007-2009 real estate and infrastructure bagged the highest number of deals and largest deal values. Power and energy and real estate sector zoomed in 2010 and 2011 respectively. Thanks to the strong fundamentals and crisis sustenance power of India that IT sector had fully gained its lost sheen in 2012 and stood as the hot pick for PE investment. With 25 deals worth 582 million USD in Q3 2013, the information technology (IT) and IT-enables services (ITES) sector is yet again the leader in terms of both value and volume.

Opportunities Beckoning in India:

Undoubtedly India is one of the most preferred investment destinations for many of the domestic as well as international investors. According to the Global Private Equity Report 2012 by Bain and Company, among the BRIC countries, India is next to China being the first as the emerging market destination for global PE. A host of factors appear to provide enabling environment for investment. The foremost being the strong economic fundamentals coupled with improving regulatory environment which insulates from the external contagions. The other factors favouring are sprouting domestic consumer market providing ample opportunities for reinventing the existing business models and commercializing the new ones. Well knitted
components of the financial system and established public equity market provide liquidity thereby enabling easy exits. The increasing pool of human capital with greater adaptability skills and talents is an added advantage.

In addition to it, the burgeoning younger generation bestowed with enriching entrepreneurial skills find it difficult to fund their naïve and yet to succeed projects with the conventional sources of finance available. PE investors can capitalize the inherent potential of the young class by providing financial and as well as operational support required. To improvise upon the regulatory system, a strong political and stable government is inevitable. Our country has an edge among emerging countries in terms of oldest and stable democracy. The political will of the government in clearing the bottlenecks surrounding the private and foreign investment is commendable in the recent times. The steps taken in this direction are the liberalizing the retail sector, boosting the infrastructure sector by encouraging private-public partnership, and last by not the least it has come out with a substantial legal framework, distinguishing Private equity as a separate alternative asset class (Securities and Exchange Board of India (Alternative Investment Funds) Regulations, 2012.). The Indian Health care sector provides good number of opportunities for corporate and financial investors. Among the BRIC nations, India has the lowest bed-to-population ratio.

**Challenges:**

1. With the continuing signs of recovery, the growth of the economy had remained flat thereby creating problems of exit options. The prevailing tough macro environment conditions domestically and internationally is leading to weak IPO markets. IPO being the most preferred exit option for PE investors. According to Bain research, 71%
of the capital deployed between 2003 and 2007 on the largest deals in India has yet to be returned to Private equity investors. In Q2 2012, there was only one IPO exit of US $20 million according to PwC Money Tree India Report – Q2 2012. In Q3 2013, the IT and ITEs sector tops the list of PE exits in terms of value and volume, with five deals worth 242 million USD.

2. As the economy started embarking on a new growth trajectory, there is fierce competition prevailing among PE houses chasing the same deals thereby enhancing the valuations and making the deals costly.

3. General Partners (GPs) are becoming more selective in choosing deals and are applying stringent criteria for the selection of deals.

4. On the other hand, even the LPs are becoming much choosy in selecting GPs. Those GPs with successful track records and exit histories could hit the market. This means that fund managers who are seeking to raise funds for the first time will find the job even more difficult than their competitors.

5. The corporate governance issues between the investee company promoters and GPs could cripple the process of investment. Lack of transparency and mutual understanding would entail losing even the most promising deals.

6. Since Indian businesses are predominantly family owned, they restrict the entrance of PE. The minority stakes of PE investors could not garner the full benefits of fresh capital.

7. The regulatory bottlenecks come in the way of development. The existing uncertainty in the tax treatment of foreign entities would keep the LPs worried.
Future Outlook:
1. In the last quarter of the calendar year, i.e., Q4 ’13, PE firms have invested 2.12 billion USD across 76 deals. It is being estimated that PE funds have a target of infusing $17 billion in the coming years.
2. The new regulatory framework on Alternative Investment fund would bring about transparency and helps in building cordial relationships among the stakeholders of investment process which is indispensable throughout the deal process.
3. According to the survey conducted by the Bain & Company, it is estimated that more than two-thirds of funds in the next two years will come from foreign venture capital investors and foreign direct investment.
4. It is expected that about 75% of Indian entrepreneurs will become more acquainted with PE value proposition over the next two years. There is greater understanding coming upon in aligning promoter interests and PE interests.
5. Besides Healthcare and Education, the IT and ITES sector, especially the e-commerce has become the favourite destination for PE investment.

Conclusions:
Due to the limitations of conventional sources of financing PE has evolved as an alternative asset class catering to the financial needs of wide variety of industrial sectors of an economy. With the robust economic growth and strong sustainability from global crisis, India has emerged as one of the preferred spot for PE investment. The growth of PE industry is tremendous reaching its peak in 2007 and grappling to achieve the same post downturn. The opportunities for investment appear to be bright with the government giving the required fillip. There are untapped and partially covered sectors such as e-commerce in the IT and ITES sector, transport, shipping and healthcare which have lot more to be accomplished by PE industry.
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A Study on Venture Capital Challenges in India: Conceptual Approach

Mr. A. Sreenivasulu*
Mr. M. Suresh**

Abstract
Modern man made machine to live but machine operates with the adequate fund. Financial exports carryout the fund to run any organization towards the growth and profits. Whereas, at present every corporate firm in middle of journey, they have to acquire pool of funds with possible sources these practices are listed as part of venture capital. In other words, it is general practice to reduce the risk portion of the firm. The present study enlightening the challenges carried out by the venture capitalist in India. This is descriptive in nature with secondary data and collected from the published journals, research works and official websites. The major constrains are management involvement, potential for capital gain, realistic atmosphere to procuring the projections in all over the world after it look into the India prospect with the available ways to understand. In India SEBI have the high level of involvement to raise the fund and monitoring the fund in right way. Even though India having the remarkable movement to generate the fund still it bagged several challenges to arrange the resources and finally, we recommended several ways to improve the capital venture movement in India.

Key Words: Venture Capital, Indian Venture Capital, Payback Period, Market Share, IRR.

Introduction:
The term ‘Venture Capital’ is understood in many ways. In a narrow sense it refers to, investment in new and tried enterprises

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that are lacking a stable record of growth. In a broader sense, venture capital refers to the commitment of capital as shareholding for the formulation and setting up of small firms specializing in new ideas or new technologies. The emerging scenario of global competitiveness has put an immense pressure on the industrial sector to improve the quality level with minimization of cost of products by making use of latest technological skills. The implication is to obtain adequate financing along with the necessary hi-tech equipments to produce an innovative product which can succeed and grow in the present market condition. Venture Capital is money provided by professionals who invest and manage young rapidly growing companies that have the potential to develop into significant economic contributors. According to SEBI regulations, venture capital fund means a fund established in the form of a company or trust, which raises money through loans, donations, issue of securities or units and makes or proposes, to make investments in accordance with these regulations. The funds so collected are available for investment in potentially highly profitable enterprises at a high risk of loss. A Venture Capitalist is an individual or a company who provides, Investment Capital, Management Expertise, Networking & marketing support while funding and running highly innovative & prospective areas of products as well as services. Thus, the investments made by Venture Capitalists generally involves Financing new and rapidly growing companies, purchasing equity securities, taking higher risk in expectation of higher reward, Having a long frame of time period, generally of more than 5 - 6 years. Actively working with management to devise strategies pertaining for overall functioning of project. Networking and marketing of the product/service being offered

**Venture Capital Financing:**

It generally involves start up financing to help technically sound, globally competitive and potential projects to compete
in the international markets with the high quality and reasonable cost aspects. The growth of South East Asian economies especially Hong Kong, Singapore, South Korea, Malaysia along with India has been due to the large pool of Venture Capital funds from domestic / offshore arenas.

Venture Capitalists draw their investment funds from a pool of money raised from public and private investors. These funds are deployed generally as equity capital (ordinary and preference shares) and sometimes as subordinated debt which is a semi secured investment in the company (through debenture) ranking below the secured lenders that often requires periodic repayment. Today, a VC deal can involve common equity, convertible preferred equity and subordinated debt in different proportions.

The Venture Capital funding varies across the different stages of growth of a firm. The various stages are:

1. **Pre seed Stage:** Here, a relatively small amount of capital is provided to an entrepreneur to conceive and market a potential idea having good future prospects. The funded work also involves product development to some extent.

2. **Seed Stage:** Financing is provided to complete product development and commence initial marketing formalities.

3. **Early Stage / First Stage:** Finance is provided to companies to initiate commercial manufacturing and sales.

4. **Second Stage:** In the Second Stage of Financing working capital is provided for the expansion of the company in terms of growing accounts receivable and inventory.

5. **Third Stage:** Funds provided for major expansion of a company having increasing sales volume. This stage is met when the firm crosses the breakeven point.

6. **Bridge / Mezzanine finance or Later Stage Financing:** Bridge / Mezzanine Financing or Later Stage Financing is financing a company just before its IPO (Initial Public Offer). Often, bridge finance is structured so that it can be repaid, from the proceeds of a public offering.
There are basically four key elements in financing of ventures which are studied in depth by the venture capitalists. These are:

1. **Management**: The strength, expertise & unity of the key people on the board bring significant credibility to the company. The members are to be mature, experienced possessing working knowledge of business and capable of taking potentially high risks.

2. **Potential for Capital Gain**: An above average rate of return of about 30 - 40% is required by venture capitalists. The rate of return also depends upon the stage of the business cycle where funds are being deployed. Earlier the stage, higher is the risk and hence the return.

3. **Realistic Financial Requirement and Projections**: The venture capitalist requires a realistic view about the present health of the organization as well as future projections regarding scope, nature and performance of the company in terms of scale of operations, operating profit and further costs related to product development through Research & Development.

4. **Owner's Financial Stake**: The financial resources owned & committed by the entrepreneur/ owner in the business including the funds invested by family, friends and relatives play a very important role in increasing the viability of the business. It is an important avenue where the venture capitalist keeps an open eye.

**Problems of Venture Capital Financing**

VCF is in its nascent stages in India. The emerging scenario of global competitiveness has put an immense pressure on the industrial sector to improve the quality level with minimization of cost of products by making use of latest technological skills. The implication is to obtain adequate financing along with the necessary hi-tech equipments to produce an innovative product which can succeed and grow in the present market condition.
Unfortunately, our country lacks on both fronts. The necessary capital can be obtained from the venture capital firms who expect an above average rate of return on the investment. The financing firms expect a sound, experienced, mature and capable management team of the company being financed. Since the innovative project involves a higher risk, there is an expectation of higher returns from the project. The payback period is also generally high (5 - 7 years). The various problems/queries can be outlined as follows:

1. Requirement of an experienced management team.
2. Requirement of an above average rate of return on investment.
3. Longer payback period.
4. Uncertainty regarding the success of the product in the market.
5. Questions regarding the infrastructure details of production like plant location, accessibility, relationship with the suppliers and creditors, transportation facilities, labour availability etc.
6. The category of potential customers and hence the packaging and pricing details of the product.
7. The size of the market.
8. Major competitors and their market share.

Financial considerations like return on capital employed (ROCE), cost of the project, the Internal Rate of Return (IRR) of the project, total amount of funds required, ratio of owners investment (personnel funds of the entrepreneur), borrowed capital, mortgage loans etc. in the capital employed.

The Indian venture capital (VC) industry has witnessed considerable turmoil in the last two years. Consider this: At least seven VC funds (VCFs) shut shop. Many others simply ran out of funds. A few set up high-cost Indian operations, with no funds raised or allocated for investment. The rest of the
industry appears to be busy, ‘restructuring’ their investment focus, making very few new investments.

After a period of hectic investing, from 1998 to 2000, the Indian VC industry appears to be going through difficult times. This is a time for the industry to engage in some serious reflection. Managers in the industry may possibly disagree with me. They might argue that the developments in the Indian industry are a mere reflection of a larger global phenomenon. After all, have the American and European VC industries not slowed down? That comparison though, is inappropriate. The slow down and the poor performance of many funds in the Western world are part of a cyclical phenomenon. The Indian industry, on the contrary, faces issues of a fundamental nature. Let us examine four issues of concern.

First, there is a serious mismatch between the kind of venture capital available in India and what the market demands. Almost all VCFs in India have been targeting their capital at companies in the information technology, pharmaceuticals and some services industries, looking for expansion financing of Rs 15 crores or more. Now, this is a limited market segment. Most of the industries mentioned above are relatively young. There are very few firms in these sectors, seeking large amounts of capital for expansion financing. At the same time, a large number of aspiring entrepreneurs, start-ups, early-stage companies and Old Economy firms, which are fundamentally sound businesses, are unable to attract the VC financing that they badly need in order to grow. Apart from the relatively smaller amounts of funding that they seek, on average start-ups require considerable post-funding support from the investor to grow their businesses. That is painstaking work, for which Indian VCF managers have demonstrated neither experience nor training nor temperament. Old Economy firms do not provide the quick or glamorous exits that VCFs often desire.

Second, most VCFs in India are an extended arm or a division
of global investment institutions. International funds represent more than 95 per cent of the VC invested in India. Two consequences follow from this near-total dependence on foreign capital. One, the investment mandates of these VCFs are often driven by the parent institutions' global world view, which often ignores local market needs. The homogenous investment preferences of VCFs outlined earlier follow from the parent institutions' global investment strategies. Two, at a portfolio level, every international VC investor in India has been a victim of the depreciation of the rupee against the dollar. The returns produced by Indian VCFs, measured in US dollars or other Western currencies, turn out to be considerably less attractive than that measured in Indian currency. Many nations such as the Netherlands, Portugal, Finland, Norway and Israel recognized the limitations of depending on foreign funds at the time of evolving a policy for developing a local VC industry. Their first step was to kick start VCFs in the private sector with funds from domestic institutions. Over a decade, or even less, they succeeded in creating a local VC industry that depended less and less on government support and international investors.

The third issue is the poor quality of corporate governance and lack of sensitivity among entrepreneurs and investors, to each other’s legitimate business aspirations. This is a universal problem and not unique to India. What is however unique to India is the hopeless system of legal redress of grievances when partners renege on contractual obligations. Often, aggrieved parties in India agree to settlements that are unfair to them, apprehending that litigation in Indian courts could be dysfunctional. This situation may not change in the foreseeable future. The alternative to litigation and unfair bad investments would be to invest more effort in better identification and selection of investments and supervision of the portfolio. Indian VCF managers need to ask themselves if they are prepared to put in that extra effort to minimize prospects for litigation in the first place.
Last, but not the least, the industry lacks a broad-based and effective trade association. The Indian Venture Capital Association (IVCA) does not represent a large proportion of the VCFs who are active in India. I am not sure of the IVCA’s contributions to the VC industry either, in the ten years since it was formed. For some years initially, the IVCA used to produce a delightfully uninformative annual report, many months after the end of the year. For the past four years even those reports do not appear to have been published! Venture capital has been a remarkable catalyst of entrepreneurial activity, after the Second World War, in many developed countries. It has led to significant growth in industry and innovation. The prospects for the Indian VC industry are no less humongous. It is up to the industry to reflect on its current predicament and evolve a strategy to seize the opportunity.

**Prospects of Venture Capital Financing:**

With the advent of liberalization, India has been showing remarkable growth in the economy in the past 10 - 12 years. The government is promoting growth in capacity utilization of available and acquired resources and hence entrepreneurship development capital. While only eight domestic venture capital funds were registered with SEBI during 1996-1998, 14 funds have already been registered in 1999-2000. Institutional interest is growing and foreign venture investments are also on the rise. Many state governments have also set up venture capital funds for the IT sector in partnership with the local state financial institutions and SIDBI. These include Andhra Pradesh, Karnataka, Delhi, Kerala and Tamil Nadu. The other states are to follow soon.

In the year 2000, the finance ministry announced the liberalization of tax treatment for venture capital funds to promote them & to increase job creation. This is expected to give a strong boost to the non resident Indians located in the
Silicon Valley and elsewhere to invest some of their capital, knowledge and enterprise in these ventures. A Bangalore based media company, Graycell Ltd., has recently obtained VC investment totalling about $1.7 man. The company would be creating and marketing branded web based consumer products in the near future.

In a recent survey it has been shown that the VC investments in India’s I.T. - Software and services sector (including dot com companies) - have grown from US $ 150 million in 1998 to over US $ 1200 million in 2002. The credit can be given to setting up of a National Venture Capital Fund for the Software and I.T. Industry (NFSIT) in association with various financial institutions of Small Industries and Development Bank of India (SIDBI). The facts reveal that VC disbursements as on September 30, 2002 made by NFSIT totalled Rs 254.36 man.

The paper further points out that venture capital investment is undergoing some interesting transitions. Developing economies like India and China continue to attract investments; early stage finance is becoming increasingly globalized. Investors are backing consumer and retail firms that benefit from the rise of the Indian middle class, as well as business services that cater to the nation’s growing economic sector. The other transition is that the capital flowing to India is designed to expand existing companies. By contrast, venture capital in the United States, Europe and Israel is usually dedicated to backing new technologies or services.

In Asia, venture capitalists are still in the process of developing common evaluation criteria for investment, unlike in mature markets, where a common criterion is the level of attention paid to the entrepreneur’s personality and experience. In Asia, different classes of stocks with different voting rights are relatively uncommon. Asian investors thus have to rely mostly on common stocks and other means to manage their portfolio risk. Traditional venture capitalists are expected to
actively assist their portfolio companies in what are termed value-added activities. Most of the Asian venture capitalists’ assistance remains restricted to providing advice on financial matters.

The dynamics in emerging venture capital markets differ from those in developed venture capital markets. The emerging private equity markets focus primarily on growth capital investments through minority equity participation. Emerging venture capital markets, although not without challenges, present a host of opportunities.

**India Still Attracts Venture Capital Funds:**

Venture capitalists raising new funds dedicated to the Indian market are not finding the going tough despite a global slowdown impacting availability of capital. For instance, Clearstone Venture Advisors, a global venture capital fund with over $650 million of committed capital for investment globally, plans to close its fourth fund soon. The fund, which could be over $200 million, will also have a larger share of investments in India. The company had raised $210 million for its third fund, of which 20 to 25 per cent was dedicated for investments in India.

Similarly, Seed Fund, which invests in early start-ups, is in the process of raising its second fund. The fund, which will be in the range of $50-60 million, will be closed by the end of this year. It all depends on who is raising the funds. Firms like us who invest in early-stage companies will be least impacted as we are not looking at immediate gains,” said Pravin Gandhi, Partner, Seed Fund.

**Conclusion:**

The world is becoming increasingly competitive. Companies are required to be super efficient with respect to cost, productivity, and labour efficiency, technical back up, flexibility to consumer demand, adaptability and foresightedness. The
Government of India in an attempt to bring the nation at par and above the developed nations has been promoting venture capital financing to new, innovative concepts & ideas, liberalizing taxation norms providing tax incentives to venture firms, giving a Philip to the creation of local pools of capital and holding training sessions for the emerging VC investors. There are large sectors of the economy that are ripe for VC investors, like, I.T, Pharmacy, Manufacturing, Telecom, Retail franchises, food processing and many more.

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Evolution of Global Private Equity Market-Implications and Prospects for India

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Abstract

Financial globalization and increasing risk appetite among global investors has given birth to a new genre of financial intermediaries such as the private equity (PE). Growth in savings, abundant liquidity propelled by petrodollars, sovereign wealth funds as well as hedge funds and an accommodative monetary policy that enabled a low interest rate environment accelerated this process further. Moreover, regulatory changes such as pension fund reforms and financial innovations like securitization motivated the growth of alternative asset classes like private equity and more particularly, the leveraged buyout industry since 2000. However, the rapid growth of the private equity industry, of late, has raised concerns relating to the regulation of the sector. The secretive nature of private equity firm activity, limited research and dearth of regulatory control on the industry has raised several questions about the quality of the capital flowing in, the activities of private equity funds, impact on the firms’ fundamentals and possibility of systemic risks emerging from the operations of private equity funds. Although, there is a rich literature illuminating the impact of venture capital financing on the firm’s earnings, management, financial reporting practices, post IPO performance, etc., due to institutional differences between venture

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capital firms and PE sponsors, the findings of such research cannot be completely extrapolated to assess the impact of private equity on the fundamentals of the firm. For example, while venture capital firms invest in early stage, low profitable firms and rarely use bank debt, PE sponsors, generally, buy mature, profitable businesses via leveraged/management buyout transactions, finance the transactions with large portion of bank debt and assume control of board of directors but are less likely to assume operational control. Further, these studies look into firm specific effects. Hence, the questions pertaining to private equity impact on the economic fundamentals, its benefits and systemic risks has remained more or less unanswered. This study makes an attempt to look into these aspects.

Introduction:
In finance, private equity is an asset class consisting of equity securities and debt in operating companies that are not publicly traded on a stock exchange. A private equity investment will generally be made by a private equity firm, a venture capital firm or an angel investor. Each of these categories of investor has its own set of goals, preferences and investment strategies; however, all provide working capital to a target company to nurture expansion, new-product development, or restructuring of the company’s operations, management, or ownership. Bloomberg Business week has called private equity a rebranding of leveraged buyout firms after the 1980s. Among the most common investment strategies in private equity are: leveraged buyouts, venture capital, growth capital, distressed investments and mezzanine capital. In a typical leveraged buyout transaction, a private equity firm buys majority control of an existing or mature firm. This is distinct from a venture capital or growth capital investment, in which the investors (typically venture capital firms or angel investors) invest in young, growing or emerging companies, and rarely obtain majority control. Private equity is also often grouped into a broader category called private capital, generally used to describe capital supporting any long-term, illiquid investment strategy.
Strategies:
Among the strategies of the private equity firms, leveraged buyout (LBO) being the most important.

Leveraged buyout:
LBO or Buyout refers to a strategy of making equity investments as part of a transaction in which a company, business unit or business assets is acquired from the current shareholders typically with the use of financial leverage. The companies involved in these transactions are typically mature and generate operating cash flows. Private equity firms view target companies as either Platform companies which have sufficient scale and a successful business model to act as a stand-alone entity, or as add-on or tuck-in acquisitions, which would include companies with insufficient scale or other deficits. Leveraged buyouts involve a financial sponsor agreeing to an acquisition without itself committing all the capital required for the acquisition. To do this, the financial sponsor will raise acquisition debt which ultimately looks to the cash flows of the acquisition target to make interest and principal payments. Acquisition debt in an LBO is often non-recourse to the financial sponsor and has no claim on other investments managed by the financial sponsor.

Therefore, an LBO transaction’s financial structure is particularly attractive to a fund’s limited partners, allowing them the benefits of leverage but greatly limiting the degree of recourse of that leverage. This kind of financing structure leverage benefits an LBO’s financial sponsor in two ways: (1) the investor itself only needs to provide a fraction of the capital for the acquisition, and (2) the returns to the investor will be enhanced (as long as the return on assets exceeds the cost of the debt). As a percentage of the purchase price for a leverage buyout target, the amount of debt used to finance a transaction varies according to the financial condition and history of the
acquisition target, market conditions, the willingness of lenders to extend credit (both to the LBO’s financial sponsors and the company to be acquired) as well as the interest costs and the ability of the company to cover those costs. Historically the debt portion of a LBO will range from 60%–90% of the purchase price, although during certain periods the debt ratio can be higher or lower than the historical averages. Between 2000 –2005, debt averaged between 59.4% and 67.9% of total purchase price for LBOs in the United States.

**Growth Capital:**

Growth Capital refers to equity investments, most often minority investments, in relatively mature companies that are looking for capital to expand or restructure operations, enter new markets or finance a major acquisition without a change of control of the business. Companies that seek growth capital will often do so in order to finance a transformational event in their life cycle. These companies are likely to be more mature than venture capital funded companies, able to generate revenue and operating profits but unable to generate sufficient cash to fund major expansions, acquisitions or other investments. Because of this lack of scale these companies generally can find few alternative conduits to secure capital for growth, so access to growth equity can be critical to pursue necessary facility expansion, sales and marketing initiatives, equipment purchases, and new product development. The primary owner of the company may not be willing to take the financial risk alone. By selling part of the company to private equity, the owner can take out some value and share the risk of growth with partners. Capital can also be used to affect a restructuring of a company’s balance sheet, particularly to reduce the amount of leverage (or debt) the company has on its balance sheet. A Private investment in public equity, or PIPEs, refer to a form of growth capital investment made into a publicly traded company.
PIPE investments are typically made in the form of a convertible or preferred security that is unregistered for a certain period of time. The Registered Direct, or RD, is another common financing vehicle used for growth capital. A registered directs is similar to a PIPE but is instead sold as a registered security.

**Mezzanine Capital:**
It refers to subordinated debt or preferred equity securities that often represent the most junior portion of a company’s capital structure that is senior to the company’s common equity. This form of financing is often used by private equity investors to reduce the amount of equity capital required to finance a leveraged buyout or major expansion. Mezzanine capital, which is often used by smaller companies that are unable to access the high yield market, allows such companies to borrow additional capital beyond the levels that traditional lenders are willing to provide through bank loans. In compensation for the increased risk, mezzanine debt holders require a higher return for their investment than secured or other more senior lenders. Mezzanine securities are often structured with a current income coupon.

**Venture Capital:**
It is a broad subcategory of private equity that refers to equity investments made, typically in less mature companies, for the launch of a seed or Start-up Company, early stage development, or expansion of a business. Venture investment is most often found in the application of new technology, new marketing concepts and new products that do not have a proven track record or stable revenue streams. Venture capital is often subdivided by the stage of development of the company ranging from early stage capital used for the launch of start-up companies to late stage and growth capital that is often used to fund expansion of existing business that are generating revenue
but may not yet be profitable or generating cash flow to fund future growth. Entrepreneurs often develop products and ideas that require substantial capital during the formative stages of their companies’ life cycles. Many entrepreneurs do not have sufficient funds to finance projects themselves, and they must therefore seek outside financing. The venture capitalist’s need to deliver high returns to compensate for the risk of these investments makes venture funding an expensive capital source for companies. Being able to secure financing is critical to any business, whether it is a start-up seeking venture capital or a mid-sized firm that needs more cash to grow. Venture capital is most suitable for businesses with large up-front capital requirements which cannot be financed by cheaper alternatives such as debt. Although venture capital is often most closely associated with fast-growing technology, healthcare and biotechnology fields, venture funding has been used for other more traditional businesses. Investors generally commit to venture capital funds as part of a wider diversified private equity portfolio, but also to pursue the larger returns the strategy has the potential to offer. However, venture capital funds have produced lower returns for investors over recent years compared to other private equity fund types, particularly buyout.

**Distressed or Special Situations:**

Distressed or Special Situation is a broad category referring to investments in equity or debt securities of financially stressed companies. The “distressed” category encompasses two broad sub-strategies including “Distressed-to-Control” or “Loan-to-Own” strategies where the investor acquires debt securities in the hopes of emerging from a corporate restructuring in control of the company’s equity, “Special Situations” or “Turnaround” strategies where an investor will provide debt and equity investments, often “rescue financing” to companies undergoing operational or financial challenges. In addition to these private
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equity strategies, hedge funds employ a variety of distressed investment strategies including the active trading of loans and bonds issued by distressed companies. Secondary investments refer to investments made in existing private equity assets. These transactions can involve the sale of private equity fund interests or portfolios of direct investments in privately held companies through the purchase of these investments from existing institutional investors. By its nature, the private equity asset class is illiquid, intended to be a long-term investment for buy and hold investors. Secondary investments provide institutional investors with the ability to improve vintage diversification, particularly for investors that are new to the asset class. Secondary investments also typically experience a different cash flow profile, diminishing the j-curve effect of investing in new private equity funds. Often investments in secondaries are made through third party fund vehicle, structured similar to a fund of funds although many large institutional investors have purchased private equity fund interests through secondary transactions. Sellers of private equity fund investments sell not only the investments in the fund but also their remaining unfunded commitments to the funds.

The Close Adjacent Market of Private Equity includes:
- **Real Estate:** in the context of private equity this will typically refer to the riskier end of the investment spectrum including “value added” and opportunity funds where the investments often more closely resemble leveraged buyouts than traditional real estate investments. Certain investors in private equity consider real estate to be a separate asset class.
- **Infrastructure:** investments in various public works (e.g., bridges, tunnels, toll roads, airports, public transportation and other public works) that are made typically as part of a privatization initiative on the part of a government entity.
• **Energy and Power**: investments in a wide variety of companies (rather than assets) engaged in the production and sale of energy, including fuel extraction, manufacturing, refining and distribution (Energy) or companies engaged in the production or transmission of electrical power (Power).

• **Merchant Banking**: negotiated private equity investment by financial institutions in the unregistered securities of either privately or publicly held companies.

• **Fund of Funds**: investments made in a fund whose primary activity is investing in other private equity funds. The fund of funds model is used by investors looking for:
  - Diversification but have insufficient capital to diversify their portfolio by themselves
  - Access to top performing funds that are otherwise oversubscribed
  - Experience in a particular fund type or strategy before investing directly in funds in that niche
  - Exposure to difficult-to-reach and/or emerging markets
  - Superior fund selection by high-talent fund of fund managers/teams

• **Royalty Fund**: an investment that purchases a consistent revenue stream deriving from the payment of royalties. One growing subset of this category is the healthcare royalty fund, in which a private equity fund manager purchases a royalty stream paid by a pharmaceutical company to a drug patent holder. The drug patent holder can be another company, an individual inventor, or some sort of institution, such as a research university.

**Private Equity in the 1980s:**
In January 1982, former United States Secretary of the Treasury William Simon and a group of investors acquired Gibson Greetings, a producer of greeting cards, for $80 million,
of which only $1 million was rumoured to have been contributed by the investors. By mid-1983, just sixteen months after the original deal, Gibson completed a $290 million IPO and Simon made approximately $66 million. The success of the Gibson Greetings investment attracted the attention of the wider media to the nascent boom in leveraged buyouts. Between 1979 and 1989, it was estimated that there were over 2,000 leveraged buyouts valued in excess of $250 million. During the 1980s, constituencies within acquired companies and the media ascribed the “corporate raid” label to many private equity investments, particularly those that featured a hostile takeover of the company, perceived asset stripping, major layoffs or other significant corporate restructuring activities. Among the most notable investors to be labelled corporate raiders in the 1980s included Carl Icahn, Victor Posner, Nelson Peltz, Robert M. Bass, T. Boone Pickens, Harold Clark Simmons, Kirk Kerkorian, Sir James Goldsmith, Saul Steinberg and Asher Edelman. Carl Icahn developed a reputation as a ruthless corporate raider after his hostile takeover of TWA in 1985. Many of the corporate raiders were onetime clients of Michael Milken, whose investment banking firm, Drexel Burnham Lambert helped raise blind pools of capital with which corporate raiders could make a legitimate attempt to take over a company and provided high-yield debt (“junk bonds”) financing of the buyouts.

**Investments in Private Equity:**

Although the capital for private equity originally came from individual investors or corporations, in the 1970s, private equity became an asset class in which various institutional investors allocated capital in the hopes of achieving risk adjusted returns that exceed those possible in the public equity markets. In the 1980s, insurers were major private equity investors. Later, public pension funds and university and other endowments became more significant sources of capital. For most institutional
investors, private equity investments are made as part of a broad asset allocation that includes traditional assets (e.g., public equity and bonds) and other alternative assets (e.g., hedge funds, real estate, commodities). Most institutional investors do not invest directly in privately held companies, lacking the expertise and resources necessary to structure and monitor the investment. Instead, institutional investors will invest indirectly through a private equity fund. Certain institutional investors have the scale necessary to develop a diversified portfolio of private equity funds themselves, while others will invest through a fund of funds to allow a portfolio more diversified than one a single investor could construct. Returns on private equity investments are created through one or a combination of three factors that include: debt repayment or cash accumulation through cash flows from operations, operational improvements that increase earnings over the life of the investment and multiple expansions, selling the business for a higher multiple of earnings than was originally paid. A key component of private equity as an asset class for institutional investors is that investments are typically realized after some period of time, which will vary depending on the investment strategy. Private equity investments are typically realized through one of the following avenues:

- **Initial Public Offering (IPO)** – shares of the company are offered to the public, typically providing a partial immediate realization to the financial sponsor as well as a public market into which it can later sell additional shares;
- **Merger or Acquisition** – the company is sold for either cash or shares in another company;
- **Recapitalization** – cash is distributed to the shareholders (in this case the financial sponsor) and its private equity funds either from cash flow generated by the company or through raising debt or other securities to fund the distribution.
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Private Equity Funds:
Private equity fund raising refers to the action of private equity firms seeking capital from investors for their funds. Typically an investor will invest in a specific fund managed by a firm, becoming a limited partner in the fund, rather than an investor in the firm itself. As a result, an investor will only benefit from investments made by a firm where the investment is made from the specific fund in which it has invested. Fund of funds are private equity funds that invest in other private equity funds in order to provide investors with a lower risk product through exposure to a large number of vehicles often of different type and regional focus. Fund of funds accounted for 14% of global commitments made to private equity funds in 2006. Individuals with substantial net worth are often required of investors by the law, since private equity funds are generally less regulated than ordinary mutual funds. For example in the US, most funds require potential investors to qualify as accredited investors, which requires $1 million of net worth, $200,000 of individual income, or $300,000 of joint income (with spouse) for two documented years and an expectation that such income level will continue. As fundraising has grown over the past few years, so too has the number of investors in the average fund. In 2004 there were 26 investors in the average private equity fund, this figure has now grown to 42 according to Preqin Ltd. (formerly known as Private Equity Intelligence).

Size of the Industry:
The state of the industry around the end of 2011 was as follows. Private equity assets under management probably exceeded $2.0 trillion at the end of March 2012, and funds available for investment totalled $949bn (about 47% of overall assets under management). Some $246bn of private equity was invested globally in 2011, down 6% on the previous year and around two-thirds below the peak activity in 2006 and 2007.
Following on from a strong start, deal activity slowed in the second half of 2011 due to concerns over the global economy and sovereign debt crisis in Europe. There was $93bn in investments during the first half of this year as the slowdown persisted into 2012. This was down a quarter on the same period in the previous year. Private-equity backed buyouts generated some 6.9% of global M&A volume in 2011 and 5.9% in the first half of 2012. This was down on 7.4% in 2010 and well below the all-time high of 21% in 2006. Global exit activity totalled $252bn in 2011, practically unchanged from the previous year, but well up on 2008 and 2009 as private equity firms sought to take advantage of improved market conditions at the start of the year to realise investments. Exit activity however, has lost momentum following a peak of $113bn in the second quarter of 2011. The City UK estimates total exit activity of some $100bn in the first half of 2012, well down on the same period in the previous year. The fund raising environment remained stable for the third year running in 2011 with $270bn in new funds raised, slightly down on the previous year’s total. Around $130bn in funds was raised in the first half of 2012, down around a fifth on the first half of 2011. The average time for funds to achieve a final close fell to 16.7 months in the first half of 2012, from 18.5 months in 2011. Private equity funds available for investment (“dry powder”) totalled $949bn at the end of q1-2012, down around 6% on the previous year. Including unrealised funds in existing investments, private equity funds under management probably totalled over $2.0 trillion.

**Private Equity Fund Performance:**

Due to limited disclosure, studying the returns to private equity is relatively difficult. Unlike mutual funds, private equity funds need not disclose performance data. And, as they invest in private companies, it is difficult to examine the underlying investments. It is challenging to compare private equity
performance to public equity performance, in particular because private equity fund investments are drawn and returned over time as investments are made and subsequently realized. An oft-cited academic paper (Kaplan and Shoar, 2005) suggests that the net-of-fees returns to PE funds are roughly comparable to the S&P 500 (or even slightly under). This analysis may actually overstate the returns because it relies on voluntarily reported data and hence suffers from survivorship bias (i.e. funds that fail won't report data). One should also note that these returns are not risk-adjusted. A more recent paper (Harris, Jenkinson and Kaplan, 2012) found that average buyout fund returns in the U.S. have actually exceeded that of public markets. These findings were supported by earlier work, using a different data set (Robinson and Sensoy, 2011). Commentators have argued that a standard methodology is needed to present an accurate picture of performance, to make individual private equity funds comparable and so the asset class as a whole can be matched against public markets and other types of investment.

**Recording Private Equity:**

There is a burgeoning debate of the purpose behind private equity, a common misconception to treat private equity separately from foreign direct investment (FDI). The difference is blurred on account of private equity not entering the country through the stock market. Private equity generally flows to unlisted firms and to firms where the percentage of shares is relatively smaller than the promoter or investor held shares (also known as free-floating shares). The main point of contention behind differentiating private equity from FDI is that FDI is used solely for production whereas in the case of private equity the investor can reclaim their money after a revaluation period and make speculative investments in other financial assets. Presently, most countries report private equity as a part of FDI.
Conclusion:
In finance, private equity is an asset class consisting of equity securities and debt in operating companies that are not publicly traded on a stock exchange. A private equity investment will generally be made by a private equity firm, a venture capital firm or an angel investor. Each of these categories of investor has its own set of goals, preferences and investment strategies; however, all provide working capital to a target company to nurture expansion, new-product development, or restructuring of the company’s operations, management, or ownership. Bloomberg Business week has called private equity a rebranding of leveraged buyout firms after the 1980s. Among the most common investment strategies in private equity are: leveraged buyouts, venture capital, growth capital, distressed investments and mezzanine capital. In a typical leveraged buyout transaction, a private equity firm buys majority control of an existing or mature firm. This is distinct from a venture capital or growth capital investment, in which the investors (typically venture capital firms or angel investors) invest in young, growing or emerging companies, and rarely obtain majority control. Private equity is also often grouped into a broader category called private capital, generally used to describe capital supporting any long-term, illiquid investment strategy.

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A Study on Venture Capital Financing Sources in India

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Abstract
The venture capital Industry follows the concept of “high risk, high return”, innovative entrepreneurship, knowledge-based ideas & human capital intensive enterprises have taken the front seat as venture capitalist invest in risky finance to encourage innovation. Obtaining venture capital is significantly different from raising debt or a loan from a lender. Lenders have a legal right to interest on a loan and repayment of capital, irrespective of the success or failure of a business. Venture capitalists not only provide monetary resources but also help the entrepreneur with guidance in formalizing his ideas into a viable business venture. This paper concentrates the important venture capital financing sources and key factors for growth of venture capital in India.

Key Words: Financing sources, financing stages, growth factors, venture capital.

Introduction:
Venture capital is financial capital provided to early stage, high potential high risk, growth start-up companies. The venture capital fund makes money by owning equity in the companies it investing, which usually have a novel technology or business model in high technology industries, such as IT, biotechnology

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and software. Venture capital is a subset of private equity. Therefore, all venture capital is private equity, but not all private equity is venture capital.

It is also a way in which public and private sectors can construct an institution that systematically creates networks for new firms and industries. This institution helps in identifying and combining pieces of companies, like finance, technical expertise, know-hows marketing & business models. Once integrated, these enterprises succeed by becoming nodes in the search networks for designing & building products in their domain. Because investments are illiquid and require the extended timeframe to harvest, venture capitalists are expected to carry out detailed due attentiveness prior to investment. Venture capitalists also are expected to nurture the companies in which they invest, in order to increase the likelihood of reaching IPO stage when valuations are favourable. Venture capitalists assist at four stages in companies development like idea generation, stat-up, ramp up and exit.

Objectives:

- To know the key factors for success of venture capital in India.
- To know the various sources of venture capital financing.

Need of Venture Capital:

There are entrepreneurs and many other people who come up with bright ideas but lack the capital for the investment. What these venture capitals do is to facilitate and enable the start up phase. When there is an owner relation between the venture capital providers and receivers, their mutual interest for returns will increase the firms motivation to increase profits. Venture capitalists have invested in similar firms and projects before and, therefore, have more knowledge and experience. This knowledge and experience are the outcomes of the experiments...
through the successes and failures from previous ventures, so they know what works and what does not, and how it works. Therefore, through venture capital involvement, a portfolio firm can initiate growth, identify problems, and find recipes to overcome them.

**Financing Stages of Venture Capital:**

There are typically six stages of venture round financing offered in Venture Capital that roughly correspond to these stages of a company’s development.

* **Seed Money:** Low level financing needed to prove a new idea, often provided by angel investors. Crowd funding is also emerging as an option for seed funding.

* **Start-up:** Early stage firms that need funding for expenses associated with marketing and product development

* **Growth Financing:** Early sales and manufacturing funds

* **Second-Round:** Working capital for early stage companies that are selling product, but not yet turning a profit

* **Expansion:** Also called Mezzanine financing, this is expansion money for a newly profitable company

* **Exit of Financing:** Also called bridge financing, 4th round is intended to finance the “going public” process between the first round and the fourth round, venture-backed companies may also seek to take venture debt.

**Compensation:**

Venture capitalists are compensated through a combination of management fees and carried interest (often referred to as a “two and 20” arrangement):

- **Management Fee:** An annual payment made by the investors in the fund to the fund’s manager to pay for the private equity firm’s investment operations. In a typical venture capital fund, the general partners receive an annual management fee equal to up to 2% of the committed capital.
• **Carried Interest**: a share of the profits of the fund (typically 20%), paid to the private equity funds management company as a performance incentive. The remaining 80% of the profits are paid to the fund’s investors. Strong limited partner interest in top-tier venture firms has led to a general trend toward terms more favourable to the venture partnership, and certain groups are able to command carried interest of 25–30% on their funds.

**Six Critical Success Factors for the Growth of Venture Capital Financing in India:**

- The regulatory, tax and legal environment should play an enabling role as internationally venture funds have evolved in an impression of structural flexibility, fiscal neutrality and operational adaptability.
- Infrastructure in the form of incubators and R&D need to be promoted using government support and private management as has successfully been done by countries such as the US, Israel and Taiwan. This is necessary for faster conversion of R&D and technological innovation into commercial products.
- Resource raising, investment, management and exit should be as simple and flexible as needed and driven by global trends.
- Venture capital should become an institutionalized industry that protects investors and invitee firms, operating in an environment suitable for raising the large amounts of risk capital needed and for spurring innovation through start-up firms in a wide range of high growth areas.
- In view of increasing global integration and mobility of capital it is important that Indian venture capital funds as well as venture finance enterprises are able to have global exposure and investment opportunities.
• Venture capital should become an institutionalized industry that protects investors and invitee firms, operating in an environment suitable for raising the large amounts of risk capital needed and for spurring innovation through start-up firms in a wide range of high growth areas.

**Recommendations by K B Chandrasekhar Committee for the Growth of VC Financing:**

- Multiplicity of regulations – need for harmonization and nodal Regulator
- Double taxation for Venture Capital Funds need to be avoided
- Mobilization of Global and Domestic resources
- Flexibility in Investment and Exit of Venture Capitalists:
- Flexibility in the matter of investment ceiling and sectoral restrictions:
- Relaxation in IPO norms:
- Issue of Shares with Differential Right with regard to voting and dividend:
- Global integration and opportunities:
  - Incentives for Employees:
  - Incentives for Shareholders
  - Global investment opportunity for Domestic Venture Capital Funds (DVCF):
- Role of Venture Capital in Indian Economy
- Development in Infrastructure and R&D
- Self Regulatory Organization (SRO)

**Important Sources for Getting Quick Venture Capital Financing:**

The venture fund or venture capital scheme is of recent origin in India. The following are some of the institutions which have established venture funds in India.
**Risk Capital Foundation of IFCI:**

The first venture fund in the name of Risk Capital Foundation was sponsored by the Industrial Finance Corporation of India (IFCI) in March, 1975. It was reconstituted as Risk Capital and Technology Finance Corporation Limited (RCTC) in January, 1988. At present RCTC operates three schemes, viz., Risk Capital Scheme, Technology Finance and Development Scheme and Venture Capital Unit Scheme. Under the first two schemes, the Corporation provides extra assistance to new entrepreneurs particularly technologists and professionals for promoting medium-size industrial projects both in the form of rupee loans and direct subscription to their share capital. While under the Venture Capital Scheme the venture capital fund of Rs.30 crores (Rs.20 crores from IFCI and Rs.10 crores from the World Bank) was set up in July, 1991. The aim of the scheme is to provide venture capital for potentially highly profitable ventures involving innovative products/technology/service aimed at futuristic or new markets.

**Venture Fund of IDBI**

The Industrial Development Bank of India (IDBI) also started venture capital scheme in 1986. IDBI’s venture capital fund (VCF) was started in 1986 with an initial capital of Rs.10 crores and is a part of technology department of IDBI. It assists high technology, small and medium-size projects requiring funds between Rs.0.5 to Rs.25 million (Rs.2.5 crores). It is meant primarily to assist projects which promote commercial applications for indigenously developed technology or which adopt imported technology for wider applications. The entrepreneur’s project must employ technology that is new and untested in Indian conditions. Financial assistance is provided right from pilot stage and covers almost up to 99 percent of total cost with promoter’s stake to be at least 10% for ventures
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below Rs.50 lakhs and 15% for these above Rs.50 lakhs. The assistance is provided in the form of unsecured loans involving minimum legal formalities. IDBI sanctions funds in various fields like electronics, food products, medical equipment, biotechnology, chemical, computer software etc.

**Venture Capital Fund of SIDBI:**

The Small Industries Development Bank of India (SIDBI) has also set up a venture capital fund with an initial corpus of Rs.10 crores during the year 1992-93. The fund is exclusively meant for providing financial assistance for innovative ventures in small-scale sector.

**Venture Capital Fund of Technology Development and Infrastructure Corporation of India (TDICI):**

The corporation has been set up by Industrial Credit Investment Corporation of India (ICICI) for providing technology information and financing commercial research and development schemes. It also manages the venture capital fund of Rs.30 crores which ICICI had established along with in 1988.

**The EXIM Bank:**

Export-Import Bank of India set up in 1982; for the purpose of financing, facilitating and promoting international trade of India is the principal institution in the country for co-coordinating working of institutions engaged in financing exports and imports. EXIM Bank has made an entry into venture capital fund which is the India technology venture capital finance by investing in venture capital fund which is the India technology venture unit scheme promoted by unit trust of India(UTI). The objective of the fund is investment in technology sectors like Information technology, Internet Media and Entertainment Telecommunications Biotechnology, Pharmaceutical and health care. EXIM Bank finance capital expenditure for setting up on
software development facilities as also working capital, equity investment in overseas ventures, and direct equity participation in Indian ventures overseas, export product development etc.

**ICICI's Venture Fund:**

Industrial Credit and Investment Corporation of India (ICICI) launched a venture capital scheme in 1986 to encourage new technocrats in the private sector in new fields of technology with inherent risk. It provided finances for the development and commercialization of viable indigenous technologies. Under this scheme, ICICI assists projects, with initial investment not exceeding Rs.2 crores in the form of equity or conditional loan with flexible charges and repayment period or conventional loans. Two new schemes of ICICI are (1) India Fund and (2) Venture capital fund (VCF).

In 1988, ICICI floated a new company known as “The Technology Development and Information company of India limited” (TDICI) to design a separate scheme for financing technology in India. ICICI also established with UTI in 1988, a venture capital fund with Rs. 20 crores subscribed equally by ICICI and UTI to set up technological ventures which have potential for fast growth. In January, 1990 the ICICI and UTI have jointly launched their second VF for Rs.100 crores.

**Technology Development and Information Company of India Limited (TDICI):**

TDICI is the venture capital fund in India created by government and operated through IDBI. This is also the largest venture capital firm in India. It provided assistance to industries directly or through venture funds which are managed by it for other institutions and venture funds out of its own resources.

TDICI accepts and evaluated the promoter’s business plan by knowing his management team, nature of his product, market conditions for his management team, nature of his product, market conditions his product, competition,. TDICI goes
through the entrepreneur’s business plan, if it finds the plan to be good, and the promoter is clear about his business he gets, his work is almost done, otherwise his project is dropped. TDICI also ventures two capital funds of UTI.

TDICI’s first venture capital fund of Rs.200 million was subscribed equally by ICICI and UTI. Its second venture fund of Rs.1,000 million has been contributed by UTI, ICICI, and other financial institutions, banks World Bank small, medium and large industrial companies in India.

**IFCI’s Venture Capital:**

IFCI sponsored in 1975 Risk capital Foundation (RCF), which has since been converted into a company known as Risk capital and Technology Finance Corporation Limited (RCTFC) in January 1988. RCTFC provides finance for high-tech projects in the form of venture capital for technology upgradation and development. It also assists these units which have proved to be innovative and possess the requisite technological managerial strengths. RCTC’s assistance is available in the form of short-term conventional loan or interest free conditional loans allowing profit and risk-sharing with project sponsors, or equity participation.

**Gujarat Venture Finance Limited (GVFL):**

Under venture capital funds sponsored by state level financial institutions is GVFL promoted in July 1990 to provide venture capital for the commercialization of new technological developments and innovative products. It shares risk of entrepreneurs by providing financial assistance in the form of equity and quasi equity.

**Punjab InfoTech Venture Fund (PIVF):**

PIVF is Rs.200 million, 10 year, close-ended venture capital fund conceptualized and funded by the Punjab State Industrial development corporation (PSIDC), Punjab state financial
corporation (PFC), Punjab state electronics development & production corporation limited (PSED&PC) and Small Industries Development Bank of India (SIDBI).

PIVF is dedicated to investing in companies in the information technology sector within the state of Punjab. The funds’ investments in companies will be through the route of equity and quasi equity instruments. The fund will seek to achieve its returns through dividends and capital gains at the tune of divestment through an initial public offering or a negotiated sale of its holding. The fund is being managed by Punjab venture capital limited, an asset management company, promoted by the PSIDC acting as the nodal agency of the Government of Punjab.

**Other Venture Capital Funds:**
Besides the public financial institutions (IDBI, IFCI, ICICI and SIDBI), as discussed above, certain banks, viz., State Bank of India, Canada Bank and Grind lays Bank have also set up venture capital funds. The State Bank of India has set up the venture capital fund through its subsidiary SBI Capital Markets Limited. Canada Bank has also set up a venture capital fund through its subsidiary Canbank Financial Services Limited. Grind lays Bank has also launched India Investment Fund. The funds are raised from NRIs abroad. It is going to provide venture finance to suitable projects out of this fund. In the private sector, the Credit Capital Corporation has set up the Credit Capital Venture Fund India Ltd. The Corporation intends to involve multinational bodies like Asian Development Bank and Commonwealth Fund in its financing.

**Conclusion:**
As in India, small and medium-sized enterprises with active support from large industries (their customers) and government have turned manufacturing into an art form. This paper focuses
the important venture capital financing sources for get unique capabilities that organizations must build to distinguish them from the competition. And also concentrates the need and compensation of venture capital along with the key factors for growth of venture capital in India.

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A Study on Venture Capital Financing for MSMEs in India

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Abstract
The venture capital (VC) finance focuses on companies, which are not listed in a stock exchange. The VC-finance is usually equity finance, which can be directly placed on the share capital or through mezzanine finance form indirectly to shares. Venture capital investment is timely limited, in general for 3 - 5 years. Venture capital financier has a target to bring with capital also the know-how which investor supplies to the company in a form of consulting or advising the company. The venture capital investment is based on the shareholders agreement between investor and the company. The agreement includes of the pricing principles of the shares from the start phase to the exit stage.

Introduction:
The MSME sector in India is incredibly heterogeneous in terms of size of the enterprises, variety of products and services produced and levels of technology employed. As per the Micro, Small and Medium Enterprises Development Act of 2006, enterprises with the capital investment (plant, machinery and equipment) levels within 10 crores INR (for services worth 5 crores INR) qualify as MSMEs. The MSME sector contributes

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in a significant way to the growth of the Indian economy with a vast network of over 32 million units, creating employment of about 70 million, manufacturing more than 6000 products, contributing about 45% to manufacturing output and about 40% of exports, directly and indirectly. It is an acknowledged fact that the MSME sector can help realise the target of the proposed National Manufacturing Policy of raising the share of the manufacturing sector in GDP from 16% at present to 25% by the end of 2022. However, this sector has faced certain impediments to growth, owing to some historical factors discussed below.

Venture capital means funds made available for start-up firms and small businesses with exceptional growth potential. Venture capital is money provided by professionals who alongside management invest in young, rapidly growing companies that have the potential to develop into significant economic contributors. Generally, venture capital is financing for new and rapidly growing companies, Purchase equity securities, Assist in the development of new products or services, Adding value to the company through active participation.

The concept of venture capital was formally introduced in India in 1987 by IDBI. The government levied a 5 percent cess on all know-how import payments to create the venture fund. ICICI started VC activity in the same year. Later on ICICI floated a separate VC company – TDICI.

Venture Capital is emerging as an important source of finance for small and medium-sized firms, especially for starting the business and business expansion. An entrepreneur usually starts the business with his own funds, and those borrowed from banks. It is during expansion that they find it difficult to raise funds. SMEs have traditionally been dependent on Bank finance for expansion and working capital requirements. However, in the recent past, bankers have curtailed lending to SMEs due to the greater risk of non-performing assets (NPAs) in a downturn.
Thus, even though many SMEs have profitable projects and expansion plans, they find it difficult to get finance for their projects, as bankers may not be willing to fund high risk projects.

In order to provide financial support to such entrepreneurial talent and business skills, the concept of venture capital emerged. Venture capital is a means of equity financing for rapidly-growth private companies. Finance may be required for the start-up, expansion or purchase of a company. Venture capitalists comprise of professionals in various fields. They provide funds (known as Venture Capital Fund) to these firms after carefully scrutinizing the projects. Their main aim is to earn higher returns on their investments, but their methods are different from the traditional moneylenders. They take active part in the management of the company as well as provide the expertise and qualities of a good bankers, technologists, planners and managers.

**Venture Capital for MSMEs in India:**

Traditionally, Venture Capitalists in India have shied from the MSME sector. The non-corporate structure and small size of majority of MSMEs in India makes the Venture Capitalists and Private Equity Players reluctant to investing in them due to higher transaction costs and difficulties in exits out of such investments. However, the VC scenario in India is rapidly changing. Alternative funding like VC is picking up in the India, including in the MSME sector. Moreover, the VCs are expanding their reach into areas besides the traditional VC sectors like Information Technology (IT); nowadays interest in sectors like clean energy, healthcare, pharmaceuticals, retail, media, etc. is also growing. In recent years, the government controlled financial institutions have initiated positive and progressive measures to provide MSMEs access to funds at a reasonable and affordable costs and without any usual hurdles. Venture capital funding
Contemporary Issues in Venture Capital Financing in India

institutions have been floated to induct fund at low cost, share the risk and to provide management and technology upgradation support to these enterprises. Government-funded schemes exist at both the national and the state levels. They tend to be relatively small — they typically do not exceed US$ 5 million.

The Small Industries Development Bank of India (SIDBI) is the main public financial institution involved in VC funding operations. SIDBI operates through wholly owned subsidiary, SIDBI Venture Capital Limited (SVCL). It co-finances state-level funds, and sometimes co-invests with private sector VCs on a case-by-case basis.

Since 2006, some new VCs are also operating at the SME level, such as Helion Venture Partners, Erasmic Venture Fund (Accel India Venture Fund), Seed Fund, and Upstream Ventures. While technology remains the most sought after investment fields, interest has been shifting from internet companies to other types of operations—especially ICT enabled services and bio-technology.

A few VCs also operate at the early-stage, including Erasmic Venture Fund, Seed Fund, Infinity Venture, IFI sponsored facilities such as Swiss Tech VCF, and the government schemes such as SIDBI VC and Gujarat VF. Early stage VCs seek smaller deals, typically in the US$ 1 - 3 million range. However, they rarely go below the half million dollar mark, where there is a strong appetite for financing, but very few opportunities. Possible sources of smaller investments are represented by local public-sector facilities, business angels, business incubators funds, and isolated cases of seed VCFs, such as the micro venture schemes like Aavishkaar India Micro Venture Capital Fund (AIMVCF).

**Review of Literature:**

SEBI has defined Venture Capital Fund in its Regulation 1996 as ‘a fund established in the form of a company or trust which
raises money through loans, donations, issue of securities or units as the case may be and makes or proposes to make investments in accordance with the regulations’.

Bettignies and Brander (2007) in his article said that “The venture capital investor takes the full risk and has no collaboration on investment. The difference between venture capital finance and bank finance is analysed”.

Hege et al.,(2003) explained that “The difference between developed and emerging VC markets is also mirrored by a widely asymmetric situation on the research side: while the overwhelming majority of research on venture capital investigates North America, there is a dearth of empirical research of the characteristics of European venture capital. The contracting, organization of VC firms, exit decisions etc., and the peculiarities of Europe as well as the features it has in common with the United States as the sole benchmark of a developed market are poorly understood. Rigorous comparative studies directly comparing the US to non-US VC industries are virtually absent.”

Ljungqvist and Richardson (2003), explained that “Given the volume of literature on venture capital, it may seem surprising that there are only a few papers analysing the returns on private equity. The main obstacle to research has been the limited availability of data.”

Mohammed Yunus (2006) “Venture Economics uses the term to describe the universe of venture investing (see Private Equity). It does not include buyout investing, mezzanine investing, fund of fund investing or secondaries. Angel investors or business angels would also not be included in the definition.”

“Ventures Economics uses the term to describe the universe of all venture investing, buyout investing and mezzanine investing. Fund of fund investing and secondaries are also
Contemporary Issues in Venture Capital Financing in India

included in this broadest term. VE is not using the term to include angel investors or business angels, real estate investments or other investing scenarios outside of the public market.”

**Objectives:**

- To study the true notion of venture capital in MSME’s in India.
- To focus on the development of VC in India.
- To study the benefits and policies of VC in MSME’s in India.
- To study the steps and methods in VC Financing in India suitable to MSME’s.

**Research Methodology:**

The study aims to answer the objectives of the study by employing two complementary research methods:

1. Literature review
2. Quantitative study

**Sources of Data:**

Since the study is related to secondary data, the data was gathered from SEBI, MSME and other related government websites, magazines and newspapers.

**MSMEs outperform GDP and IIP growth rates**

MSMEs have outperformed IIP and GDP growth rates in the past five years. The total production of MSMEs for FY11 was Rs.10,957.6 bn (at 2001-02 prices). Between FY07 and FY11, the sector’s total production grew at a CAGR of 11.5% - a clear indication of the substantial contribution of MSMEs to the Indian economy. During FY12, total production of MSMEs was projected to grow at 11.48%, compared to industrial and GDP growth of 8.2% and 8.4% respectively.
PSBs remain the Largest Lenders to MSMEs:

The MSME sector has been accorded high priority in the industrial policy owing to its vital role in the economy. During FY11, the total outstanding credit by banks to MSMEs in India stood at Rs.4,859.43 bn, growing at a CAGR of 39.8% during FY07-FY11.

Among bank categories, public and private sector banks have registered impressive growth of 35.28% and 36.14% in MSE lending in FY11. However, Public Sectors Banks (PSBs) account for a major share compared to private and foreign banks. During FY11, total priority sector advances by PSBs grew by 19.1% y-o-y to Rs.10,286.15 bn, as against Rs.8,637.77 bn in FY10. Total advances provided by the public sector banks to the MSE sector for FY11 grew by 35.3% y-o-y to Rs.3,766.25 bn. Advances to MSE formed around 37% of the total priority sector advances of PSBs, versus the 32% share during FY10. Moreover, the share of MSE credit to net bank credit stood at 9.9% in 2011 against 13.4% in 2010.
MSMEs play a highly constructive role in an economy. This is evident from the economic and socio economic benefits achieved by the developed and the developing world.

Table No.1
Performance of SSI /MSME Units, Employment, Market Value of Fixed Assets and Gross Output

<table>
<thead>
<tr>
<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td>I</td>
<td>II</td>
<td>III</td>
<td>IV</td>
<td>V</td>
<td>VI</td>
</tr>
<tr>
<td>1</td>
<td>2007-08</td>
<td>3.7737</td>
<td>8.4223</td>
<td>917437.46</td>
<td>1435179.26</td>
</tr>
<tr>
<td>2</td>
<td>2008-09</td>
<td>3.9370</td>
<td>8.8114</td>
<td>971407.49</td>
<td>1524234.83</td>
</tr>
<tr>
<td>3</td>
<td>2009-10</td>
<td>4.1082</td>
<td>9.2219</td>
<td>1029331.46</td>
<td>1619355.53</td>
</tr>
<tr>
<td>4</td>
<td>2010-11</td>
<td>4.2877</td>
<td>9.6569</td>
<td>1094893.42</td>
<td>1721553.42</td>
</tr>
<tr>
<td>5</td>
<td>2011-12</td>
<td>4.4773</td>
<td>10.1259</td>
<td>1176939.36</td>
<td>1834332.05</td>
</tr>
</tbody>
</table>
Chart 3
Performance of SSI/MSME Units, Employment, Investment and Gross Output

Table No.2
Summary Results: Fourth All India Census of MSME

| Slink. | Characteristics          | Registered Sector (lakhs) | Unregistered Sector (lakhs) | EC-2005* | *Total
|-------|--------------------------|---------------------------|----------------------------|----------|-------
| 1     | Size of Sector           | 15.64                     | 198.74                     | 147.38   | 361.76|
|       |                          |                           |                            |          |       |
| 2     | No. of Rural Units       | 7.07 (45.20%)             | 119.68 (60.22%)            | 73.43    | 200.18|
|       | (lakhs)                  |                           |                            |          |       |
| 3     | No. of Women Enterprises | 2.15 (13.72%)             | 18.06 (9.09%)              | 6.4      | 26.61 |
|       | (lakhs)                  |                           |                            |          |       |
| 4     | Total Employment (lakhs) | 93.09                     | 408.84                     | 303.31   | 805.24|
| 5     | Per Unit Employment     | 5.95                      | 2.06                       | 2.06     | 2.23  |
| 6     | Total original value of Plant & Machinery (Rs in lakhs) | 10502461 | 9463960 | - | 19966421 |
### Stages of Financing Venture Capital:

a. Seed Money: Low level financing needed to prove a new idea.

b. Start-up: Early stage firms that need funding for expenses associated with marketing and product development.

c. First-Round: Early sales and manufacturing funds.

d. Second-Round: Working capital for early stage companies that are selling product, but not yet turning a profit.

e. Third-Round: Also called Mezzanine financing, this is expansion money for a newly profitable company.

f. Fourth-Round: Also called bridge financing, it is intended to finance the “going public” process

### Risk at Various Stages of VC Financing:

<table>
<thead>
<tr>
<th>Financial Stage</th>
<th>Funds locked in (Years)</th>
<th>Risk Perception</th>
<th>Activity to be financed</th>
</tr>
</thead>
<tbody>
<tr>
<td>Seed Money</td>
<td>7-10</td>
<td>Extreme</td>
<td>For supporting a concept or idea or R&amp;D for product development</td>
</tr>
<tr>
<td>Start Up</td>
<td>5-9</td>
<td>Very High</td>
<td>Initializing operations or developing prototypes</td>
</tr>
</tbody>
</table>
Contemporary Issues in Venture Capital Financing in India

<table>
<thead>
<tr>
<th>Stage</th>
<th>3-7</th>
<th>High</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>First Stage</td>
<td>3-7</td>
<td>High</td>
<td>Start commercials production and marketing</td>
</tr>
<tr>
<td>Second Stage</td>
<td>3-5</td>
<td>Sufficiently high</td>
<td>Expand market and growing working capital need</td>
</tr>
<tr>
<td>Third Stage</td>
<td>1-3</td>
<td>Medium</td>
<td>Market expansion, acquisition &amp; product development for profit making company</td>
</tr>
<tr>
<td>Fourth Stage</td>
<td>1-3</td>
<td>Low</td>
<td>Facilitating public issue</td>
</tr>
</tbody>
</table>

**Methods of VC in MSME’s:**

The financing pattern of the deal is the most important element. Following are the various methods of venture financing:

- Equity
- Conditional loan
- Income note
- Participating debentures
- Quasi equity
Benefits of VC over other Funding Methods:
Venture capital has a number of advantages over other forms of finance:

- It injects long term equity finance which provides a solid capital base for future growth.
- The venture capitalist is a business partner, sharing both the risks and rewards. Venture capitalists are rewarded by business success and the capital gain.
- The venture capitalist is able to provide practical advice and assistance to the company based on past experience with other companies which were in similar situations.
- The venture capitalist also has a network of contacts in many areas that can add value to the company, such as in recruiting key personnel, providing contacts in international markets, introductions to strategic partners, and if needed co-investments with other venture capital firms when additional rounds of financing are required.

Venture Capital Funds in India:
In India, venture capital funds (VCFs) can be categorized into the following groups:

1. Promoted by the Central Government controlled Development Finance Institutions. For example:
   - ICICI Venture Funds Ltd.
   - IFCI Venture Capital Funds Ltd (IVCF);
   - SIDBI Venture Capital Ltd (SVCL)

2. Promoted by State Government controlled Development Finance Institutions. For Example:
   - Punjab InfoTech Venture Fund,
   - Gujarat Venture Finance Ltd (GVFL),
   - Kerala Venture Capital Fund Pvt Ltd.

3. Promoted by Public Sector Banks. For Example:
   - Canbank Venture Capital Fund,
   - SBI Capital Market Ltd.
4. Promoted by Private Sector Companies. For example:
   * IL&FS Trust Company Ltd,
   * Infinity Venture India Fund.

5. Promoted & Established as an Overseas Venture Capital Fund. For example:
   * Walden International Investment Group,
   * HSBC Private Equity management Mauritius Ltd.

**Financing of MSMEs:**
MSMEs require timely and adequate capital infusion through term loans and working capital loans, particularly during the early and growth stages. Historically the MSMEs have relied on following sources for financing their needs:
   * Retained earnings, funding through sale of assets.
   * Ancestral capital, personal savings, loans from relatives, loans from unregulated market.
   * Institutional financing from scheduled commercial banks.
   * Venture capital funds/ seed funds.

Among the formal financial institutions, commercial banks constitute the largest source of financial assistance for the MSME sector at about 87% as of 31st March 2011. The outstanding MSME credit by SCBs recorded a strong growth of 34% in FY 2011 on a strong base of Rs.3,62,291 crores INR as of 31st March 2010.

**SEBI’s Rules and Regulations for VC in India:**
- VCF are regulated by the SEBI (Venture Capital Fund) Regulations, 1996.
- The following are the various provisions:
  * A venture capital fund may be set up by a company or a trust, after a certificate of registration is granted by SEBI on an application made to it. On receipt of the certificate of registration, it shall be binding on the venture capital fund to abide by the provisions of the SEBI Act, 1992.
• A VCF may raise money from any investor, Indian, Non-resident Indian or foreign, provided the money accepted from any investor is not less than Rs 5 lakhs. The VCF shall not issue any document or advertisement inviting offers from the public for subscription of its security or units.

• SEBI regulations permit investment by venture capital funds in equity or equity related instruments of unlisted companies and also in financially weak and sick industries whose shares are listed or unlisted.

• At least 80% of the funds should be invested in venture capital companies and no other limits are prescribed.

• SEBI Regulations do not provide for any sectoral restrictions for investment except investment in companies engaged in financial services.

• A VCF is not permitted to invest in the equity shares of any company or institutions providing financial services.

• The securities or units issued by a venture capital fund shall not be listed on any recognized stock exchange till the expiry of 4 years from the date of issuance.

• A Scheme of VCF set up as a trust shall be wound up
  - when the period of the scheme if any, is over
  - If the trustee are of the opinion that the winding up shall be in the interest of the investors
  - 75% of the investors in the scheme pass a resolution for winding up or,
  - If SEBI so directs in the interest of the investors.

**Future Prospects of VC in India:**

• VC can help in the rehabilitation of sick units.

• VC can assist small ancillary units to upgrade their technologies.
• VCFs can play a significant role in developing countries in the service sector including tourism, publishing, health care etc.

• They can provide financial assistance to people coming out of universities, technical institutes, etc thus promoting entrepreneurial spirits.

Conclusion:
On the basis of the research it seems evident that the strategy approach to the venture capital finance is essential. The key elements scope, synergy, competitive advantage and economic performance are most relevant issues in this approach. In the venture capital finance it is important to recognize strategic elements, which lay the basis for the success of the selected company. The decision of the scope of the VC fund is also relevant, because it guidelines the allocation of selection. It seems evident that the link to the research is important in creating new high technology companies. The second approach is to venture capital finance is analysis of management team of the high technology firm. The development of high technology firm is at the beginning technology oriented, where high expertise is relevant.

The organizing skills and business management skills become more important. The most relevant contribution of this dissertation is in introducing new theoretical model, which combines the elements of strategy-performance approach with venture capital finance. Venture capital investment decision requires firstly the strategic approach. The understanding of the strategy of potential portfolio company is the core part of decision making. The SP-model opens the tool pattern, which helps to understand how most relevant elements of synergy, competitive advantage and performance. The dissertation introduces a new strategy performance-innovation model. The development and building of the management team and
Contemporary Issues in Venture Capital Financing in India

organization requires resources, which venture capital investor supplies. The time to exit seems to take more time than planned. The economic fluctuations effect strongly to the level of revenues in exit. The listing on stock exchange in exit phase has been minimal in recent years. It seems evident that in Finland VC- investors have realized best revenues in MBO/MBI exits.

References:
4. http://www.sidbiventre.co.in/
Contemporary Issues in Venture Capital Finance for Women Entrepreneurs

Mrs. Sandra Kirthy*

Abstract
Finance is the pre-requisite to start a business and it is known that financial resources are essential to the business. In present years, the women entrepreneurs are caught in a vacuum of fund and this is the market that venture capitalist serve. The paper explains the importance of venture capital finance for considering specially women entrepreneurs and discusses the major issues of women entrepreneurs that suffer from shortage of finance and access only a small percentage of Venture capital investment in India. It discusses the areas where assistance and involvement need to be provided by the venture capitalist to women entrepreneurs. This paper also discusses the successful women entrepreneurs and is in the process of accessing venture capital for their business. The paper tells that venture capital companies need to develop specially women entrepreneurs. The government of India has been assigning importance for the development of women entrepreneurs in the country in recent years.

Key Words: Women Entrepreneurs, Venture Capitalist, Finance, Importance, Issues.

Introduction:
Today, there is greater awakening among women if given opportunity, they will deliver the results. Women entrepreneur are those who explore new paths of economic involvement and contribution. The new industrial policy of the government of India has highlighted the need for special entrepreneurship

* Research Scholar, Dept. of Business Administration, Osmania University.
Contemporary Issues in Venture Capital Financing in India

program for women entrepreneur in the nature of product – process, oriented courses- to enable them to start small-scale industries.

The present days should concentrate and consider equally importance than men in developing the women entrepreneurs in India and one should recognize that women entrepreneur also take part in developing the economy. Considering the importance of women empowerment the venture capital companies need to focus on high risk women entrepreneurial businesses.

Venture capital is a form of financing especially designed for funding high technology, high risk and perceived high reward. Venture capital is an alternative form of equity financing for small businesses. Venture capitalist provides funds to the entrepreneurs pursuing new ideas.

The major problems of women entrepreneurs suffer from shortage of finance to solve such problem of women entrepreneur. Venture capitalist should consider and provide the finance in all the stages. Entrepreneurs, especially women seek out venture capitalists for their money. Capital is only the obvious requirement to start an enterprise.

**Why Women Entrepreneur is Important?**

Women is growth-oriented, quality conscious, enough versatile as well resourceful makes every possible effort to take advantage from any opportunity as and when arise, risk bearer ready to adopt changes , good organizer, good manager, Administrator decision maker, creative thinker, hard worker, strong commitment and innovative

**Leadership Qualities:**

Accept challenges, skilful intelligent, Studious, enthusiast patience, and motivator, conscious and dedicated. Women entrepreneurs are those who explore new paths of economic involvement and contribution in developing economy.
General Issues of Women Entrepreneurs – Insufficient Financial Resources:

Finance is required in the following stages for women entrepreneurs:

<table>
<thead>
<tr>
<th>Stages</th>
<th>Finance need</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pre-start-up &amp;</td>
<td>Seed capital-research and product development stage,/</td>
</tr>
<tr>
<td>Start-up stage</td>
<td>pre commercialization, Beginning inventory, technology fixture, equipment</td>
</tr>
<tr>
<td></td>
<td>and facilities</td>
</tr>
<tr>
<td>Development</td>
<td>Need for start-up items higher operating cost and receivables.</td>
</tr>
<tr>
<td>Growth Stage</td>
<td>Increased receivables, inventory new equipment, operations, capital for</td>
</tr>
<tr>
<td>(Early and Rapid)</td>
<td>growth, marketing and distribution facilities, penetration into new region.</td>
</tr>
<tr>
<td>Expansion</td>
<td>Major expenses for operations, equipment new facilities, large inventory</td>
</tr>
<tr>
<td></td>
<td>and receivables, productive assets, last round of financing</td>
</tr>
</tbody>
</table>

The venture capitalist should provide finance from the first stage (pre-start-up stage) from development of an idea to the last stage. Most of the venture capitalist will not provide seed capital to the women entrepreneur. All the stages of finance requirement is necessary to the women entrepreneurs. Every stage is important in terms of finance that involves degree of risk. Enterprise progresses through different development stages, each stage there will be different capital requirement, entrepreneur however often attract financing through venture capitalist who are apt to invest at any stage of development.

Venture capitalist should join the specially women entrepreneur as a co-promoter in projects and share the risk and reward of the enterprise.

Apart from the finance in stages, Finance to entrepreneur will be requires in
1. Short term finance- Working capital finance is capital meant seasonal fluctuations, finance for short lived assets.
2. Medium term finance- Finance for assets with a medium term like plant, machinery.
3. Long term finance- long period the asset like building.

**Capital structure** decision by the venture capitalist to the women entrepreneur:

Entrepreneur makes capital structure for business through equity and debt. Equity capital – Ordinary Shares, Preference Shares, Deferred Shares, and Debt Capital- in term Loans, Debenture, and Euro Bonds.

**Assistance and Involvement by venture capitalist:**

The following assistance and involvement by venture capitalist provided to women entrepreneurs

1. Providing advice on management and board decision.
2. Introducing entrepreneurs to supplier and distributors.
3. Linking relationship between entrepreneurs and lenders.
4. Introducing entrepreneurs to management consultant.
5. Developing relationship with securities firm and brokers.
6. Facilitating expansion financing
7. Monitoring all investors, interest through involvement.
8. Providing technical assistance, product and innovation.
9. Acting as guarantor on loans or leases.
10. Developing new customer/new markets through.
11. Developing leadership through personal mentor, counselling.
12. Finding key resources, locations or facilities

Taking the importance of the women entrepreneurs there are some of the women proved that they are successful in their business in the view of this, the venture capitalist should consider in developing and recognizing and help in solving the contemporary issues of women entrepreneurs.
Some of the Successful Women Entrepreneurs:

<table>
<thead>
<tr>
<th>Name</th>
<th>Current Position</th>
<th>Details</th>
</tr>
</thead>
<tbody>
<tr>
<td>Indra Nooyi</td>
<td>CFO, PepsiCo.</td>
<td>Indra Nooyi, 56, is the current chairman and CFO of the second largest food and beverage business, Pepsi Co. Born in Chennai, Indra did her Bachelor’s in Science from Madras Christian College in 1974 and a Post Graduate Diploma in Management (MBA) from Indian Institute of Management, Calcutta in 1976. Beginning her career in India, Nooyi held product manager positions at Johnson &amp; Johnson and textile firm Mettur Beardsell. Nooyi joined PepsiCo in 1994 and was named president and CFO in 2001. She has been conferred with prestigious Padma Bhushan for her business achievements and being an inspiration to India’s corporate leadership.</td>
</tr>
<tr>
<td>Naina Lal Kidwai</td>
<td>Group General Manager &amp; Country Head – HSBC, India, Naina Lal Kidwai, 55, is presently the Group General Manager and Country Head of HSBC India. Naina has a Bachelor’s degree in Economics from Delhi university and an MBA from Harvard Business school. In fact, Kidwai was the first Indian woman to graduate from Harvard Business School. She started her career with ANZ Grindlay’s. Presently, she is also serving as a non-executive director on the board of Nestle SA. Kidwai is also global advisor at Harvard Business school. Indian government conferred Padma Shri award on Naina for her contributions in the field of Trade and Industry.</td>
<td></td>
</tr>
<tr>
<td>Kiran Mazumdar Shaw</td>
<td>CMD, Biocon. Kiran, 59, is the founder Chairman and Managing Director (CMD) of Biocon Limited. Born in Bangalore, Shaw completed her Bachelors in Zoology from Mount Carmel College, Bangalore University. She later did her post-graduation in Malting and Brewing from Ballarat College, Melbourne University. She worked as a trainee brewer in Carlton and United Breweries, Melbourne and as a trainee maltster at Barrett Brothers and Burston, Australia. She started Biocon in</td>
<td></td>
</tr>
<tr>
<td>Name</td>
<td>Position/Title</td>
<td></td>
</tr>
<tr>
<td>------------------</td>
<td>-------------------------------------------------------------------------------</td>
<td></td>
</tr>
<tr>
<td>Kiran, Kiran</td>
<td>Contained Issues in Venture Capital Financing in India 1978 and spearheaded its evolution from an industrial enzymes manufacturing company to a fully integrated bio-pharmaceutical company. Today Biocon under Shaw's leadership has established itself as a leading player in biomedicine research with a focus on diabetes and oncology. Kiran is also a member of the board of governors of the prestigious Indian School of Business and Indian Institute of Technology Hyderabad. Kiran received the prestigious Padma Shri (1989) and the Padma Bhushan (2005) from the government of India.</td>
<td></td>
</tr>
<tr>
<td>Chanda Kochar</td>
<td>Current position: MD &amp; CEO – ICICI Bank. Chanda Kochar, 51, is currently the MD &amp; CEO of India's largest private bank ICICI Bank. Rajasthan born Chanda got Masters Degree in Management Studies from Jamnalal Bajaj Institute of Management Studies, Mumbai. She received the Wockhardt Gold Medal for Excellence in Management Studies as well as the J. N. Bose Gold Medal in Cost Accountancy. Chanda Kochhar is married to Deepak Kochhar, a wind energy entrepreneur and her Business schoolmate.</td>
<td></td>
</tr>
<tr>
<td>Indu Jain</td>
<td>Designation – Chairperson (former), Times Group. Indu Jain, 76, used to be the chairperson of India's largest and most powerful media house – The Times Group. A strong votary of women's rights and women entrepreneurship, Indu contributed immensely to the growth of Times group. Now, her two sons Samir and Vineet are running the company. Indu Jain is also founder President of the Ladies wing of FICCI (FLO). Indu is also the Chairperson of the Bharatiya Jnanpith Trust, which awards India's most prestigious and highest literary award, the Jnanpith award. She addressed the United Nations in 2000 at the Millennium World Peace Summit of Religious and Spiritual Leaders, a speech in which she stressed the need for oneness among faiths and went on to chair a special session of the conference.</td>
<td></td>
</tr>
<tr>
<td>Name</td>
<td>Current position</td>
<td>Details</td>
</tr>
<tr>
<td>------------------</td>
<td>-------------------------------------------------------</td>
<td>--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>Simone Tata</td>
<td>Chairperson (Former), Lakme Chairperson (Present), Trent Limited</td>
<td>French by birth and educated in Switzerland, Simone is wife of Naval Homay Jahangir Tata and step mother to Ratan Tata. She is better known as 'Cosmetic Czarina of India'. She has the distinction of changing a small subsidiary of Tata Oil Mills into the largest cosmetic brand in India – Lakme, which became synonymous with indigenous Indian cosmetics. In 1996 Tata sold off Lakmé to Hindustan Lever Limited (HLL), and created Trent from the money it made through the sale. Presently, Simone is the chairperson of Trent Limited.</td>
</tr>
<tr>
<td>Neelam Dhawan</td>
<td>MD, HP-India</td>
<td>A woman with ‘never-say-die’ spirit, Neelam Dhawan is presently the Managing Director of Hewlett-Packard (HP), India. Neelam is an iconic figure in Indian IT industry. She is an inspiration for women working in IT sector. She dared to enter the IT world in early 1980s when there were just a handful of women in this industry. At the start of her career she yearned to be a part of major players in the FMCG space such as Asian Paints and Hindustan Lever. Unfortunately, these organizations did not want a woman to be a part of their marketing and sales efforts and hence she was rejected at the time. But a determined Neelam refused to give up and fought back with laurels galore. Before joining HP, India as Managing Director (MD), Neelam was Managing Director (MD) of Microsoft, India. She had successful and rewarding stints with other leading players like IBM and HCL.</td>
</tr>
<tr>
<td>Sulajja Firodia</td>
<td>JMD – Kinetic Motors</td>
<td>Motwani is the Joint Managing Director of Kinetic Motors. Sulajja has single-handedly designed and developed marketing strategies to spearhead the company’s growth forward. Sulajja worked in a California-based Investment Company</td>
</tr>
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Contemporary Issues in Venture Capital Financing in India

<table>
<thead>
<tr>
<th>Name</th>
<th>Position</th>
<th>Details</th>
</tr>
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<tbody>
<tr>
<td>Sulajia Rajan</td>
<td></td>
<td>Before coming to India to join her grandfather’s business. Sulajia’s good look has been recognized by India Today group which named her the “Face of the Millennium” and she has been selected as the “Global Leader of Tomorrow” by the World Economic Forum.</td>
</tr>
<tr>
<td>Priya Paul</td>
<td>Chairperson, Apeejay Park Hotels.</td>
<td>Priya joined the family business at the age of 22 and worked under her father as Marketing Manager at the Park Hotel, Delhi. After the death of Surrender Paul, she succeeded him in 1990 as the Chairperson of the Hospitality Division of the Apeejay Surendra Group. Her contribution to the hospitality industry has got recognition from the government of India which conferred on her Padma Sri award in 2012.</td>
</tr>
<tr>
<td>Mallika Srinivasan</td>
<td>Director, TAFE (Tractor and Farm Equipment).</td>
<td>Mallika has an MBA from Wharton School of Business, Pennsylvania. She joined TAFE in 1986 and has since been responsible for accelerating turnover from 85 crores to 2900 crores within a span of two decades. Her innovative business ideas and excellent leadership qualities have won her laurels from every quarter. She was awarded ‘Businesswoman of the year 2006’ award by ET.</td>
</tr>
<tr>
<td>Shahnaz Hussain</td>
<td>CEO, Shahnaz Herbals Inc.</td>
<td>Shahnaz Hussain is the biggest name in herbal cosmetics industry in India. She has introduced a number of trend setting herbal products. Currently, the Shahnaz Hussain Group has over 400 franchise clinics across the world covering over 138 countries. Her pioneering work got recognition from Govt of India when she was conferred with prestigious Padma Shri award in 2006.</td>
</tr>
<tr>
<td>Ritu Kumar</td>
<td>Fashion Designer.</td>
<td>Ritu Kumar is one of the big names in Indian fashion industry. Ritu has carved a niche for herself in designing a variety of wardrobes including swimwear, eveningwear, traditional Indian wear,</td>
</tr>
</tbody>
</table>
casual wear and formal evening gowns. She has the distinction of designing costumes of three winning Miss Indias. Her son Ashvin Kumar is a director, who has made films like Road to Ladakh (2002) and short film Little Terrorist (2004), which was nominated for the 2004 Academy Award for Live Action Short Film, and in which she did the costume design.

**Conclusion:**

It is well known fact that the finance is the long life blood of any business. The venture capital companies need to awake in these modern days, and concentrate on developing women entrepreneurs by providing the sufficient finance, assistance and involvement in every area of their business.

**References:**

5. Websites – Successful Women Entrepreneurs.
Regulatory Aspects of Venture Capital Financing in India

V. Lava Kumar*
V. Komala**

Introduction:
Money provided by investors to start-up firms and small businesses with perceived long-term growth potential. This is a very important source of funding for start-ups that do not have access to capital markets. It typically entails high risk for the investor, but it has the potential for above-average returns.

Venture Capital is the fund/initial capital provided to businesses typically at a start-up stage and many times for new/untested ideas. Venture capital normally comes in where the conventional sources of finance do not fit in. Venture capital funds are mutual funds that manage venture capital money i.e. these funds aggregate money from several investors who want to provide venture capital and deploy this money in venture capital opportunities.

History:
In late 1991, in recognition and support of Financial sector reform efforts undertaken by the Government of Ghana, and to demonstrate the need for financial products and services designed to meet the long-term financing requirements of growing businesses, USAID and Ghana sponsored the formation of a venture capital fund in Ghana. USAID was joined in this

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** Assistant Professor, Annamacharya Institute of Technology and Science, Tirupati-517501
effort by the Commonwealth Development Corporation (CDC) of the European Union (EU). From the outset, the agreed upon legal structure was to establish two companies, a non-bank finance company to hold the funds, Ghana Venture Capital Fund (GVCF or “the Fund”), and a management company, Venture Fund Management Company (VFMC), to make investment decisions. It was further agreed that USAID, through a grant, would underwrite the operational expenditures of VFMC and that CDC would be the anchor investor in GVCF and lead the effort to attract additional investors.

The two companies were incorporated in Ghana and began commercial operations in November 1992. The total USAID grant amounted to $1,094,000, expended, in support of VFMC operations, over a three year period ending in November 1994. CDC committed $2.0 million to GVCF and assisted the Fund in raising an additional $3.8 million in investment capital from a number of development finance and local institutions, bringing total fund investment capital to $5.8 million.

**Rationalization of Investment Routes into India:**

Along with the attempt at streamlining corporate law, the Government has also sought to simplify investment routes into India. There are broadly three routes for foreign investment in India of which the two major routes are foreign direct investment and foreign portfolio investment. Foreign direct investment has the connotation of establishing a lasting interest in an enterprise for the long term, while foreign portfolio investment is primarily targeted towards investing in listed shares through exchange trades and is generally considered short term capital. On January 7, 2014, the Securities and Exchange Board of India (“SEBI”), the capital markets regulator, has issued the SEBI (Foreign Portfolio Investors) Regulations, 2014 (“FPI Regulations”). The FPI Regulations introduce a new regime for foreign investors investing in India under the foreign portfolio investment route.
Pursuant to the FPI Regulations, a new class of investor known as foreign portfolio investors ("FPIs") has been put in place. This new class of investors merges the two earlier categories of foreign investors making portfolio investment, i.e. foreign institutional investors and qualified foreign investors.

The key eligibility criteria prescribed for applicants seeking registration as an FPI includes: (i) the applicant is not resident in India and is resident in a country whose securities market regulator is a signatory to the International Organization of Securities Commission's multilateral memorandum of understanding or who has signed a bilateral memorandum of understanding with SEBI, (ii) in case the applicant is a bank, such entity is resident of a country whose central bank is a member of the Bank for International Settlements, (iii) the applicant is not resident in a country identified in the public statements of the Financial Action Task Force as a jurisdiction having deficiencies, including in relation to anti-money laundering or the financing of terrorism, (iv) the applicant is permitted to invest in securities outside the country of its incorporation and its charter documents permit the applicant to invest on its own behalf as well as on behalf of its clients, and (v) the applicant has sufficient experience, good track record, is professionally competent, financially sound and has a generally good reputation of fairness and integrity.

The FPI Regulations provide that existing SEBI registered foreign institutional investors and qualified foreign investors will not be required to register as FPIs until the expiry of their residual term for which they have paid registration fees to SEBI. Upon the expiry of the residual period, such entities will be required to pay the prescribed conversion fees and obtain registration as FPIs in order to continue to make foreign portfolio investments in India. That said, all foreign institutional investors and qualified foreign investors are required to comply with the provisions of the FPI Regulations with effect from January 7, 2014.
The FPI Regulations provide simpler entry, monitoring and reporting norms and provide for a cost effective framework for FPIs to operate within. Every applicant is required to register itself under one of the following three FPI categories:

**SEBI and Investment Criteria:**

A foreign venture capital investor proposing to carry on venture capital activity in India may register with the Securities and Exchange Board of India (“SEBI”), subject to fulfilling the eligibility criteria and other requirements contained in the SEBI Foreign Venture Capital Investor Regulations. The SEBI Foreign Venture Capital Investor Regulations prescribe the following investment guidelines, which can impact overall financing plans of foreign venture capital funds.

The foreign venture capital investor must disclose its investment strategy and life cycle to SEBI, and it must achieve the investment conditions by the end of its life cycle.

At least 66.67 per cent of the investible funds must be invested in unlisted equity shares or equity linked instruments. Not more than 33.33 per cent of the investible funds may be invested by way of:

- Subscription to initial public offer of a venture capital undertaking, whose shares are proposed to be listed.
- Debt or debt instrument of a venture capital undertaking in which the foreign venture capital investor has already made an investment, by way of equity.
- Preferential allotment of equity shares of a listed company, subject to a lock-in period of one year.
- The equity shares or equity linked instruments of a financially weak or a sick industrial company (as explained in the SEBI FVCI Regulations) whose shares are listed.
- A foreign venture capital investor may invest its total corpus into one venture capital fund.
Conclusion:
A Venture Capital Funds may generate investment from any investor (Indian, Foreign or Non-resident Indian) by means of issue of units and no Venture Capital Fund shall admit any investment from any investor which is less than five Lakhs. Employees or principal officer or directors or trustee of the VCF or the employees of the fund manager or Asset Management Company (AMC) are only exempted. It is also mandatory that VCF shall have firm commitment of at least five Crores from the Investors before the start of functions by the VCF. Disclosure of investment strategy to SEBI before registration, no investment in associated companies and duration of the life cycle of the fund is compulsorily being done. It shall not invest more than twenty five percent of the funds in one Venture Capital Undertaking. Also, minimum 66.67% of the investible funds shall be utilized in unlisted equity shares or equity linked instruments of Venture Capital Undertaking.

India legal system and industrial jurisprudence evolved venture capital financing as a ‘sanjivini’ to business ideas. Positioning of legal framework is to facilitate more and more invitation to new and dynamic ideas. Further, tax burden have also been reduced to invite youth participation in national progress. In the near future, venture capital would be the prime financing opportunity to the coming business fraternity.

References:
New Venture Valuation by Venture Capitalists: An Integrative Approach

V. Radhika*

Abstract

How to valuate accurately a new venture is a critical and under-researched question in entrepreneurial financing. Leveraging established theories in strategic management, this research study develops an integrative theoretical framework to examine whether venture capitalists’ valuation of a new venture can be explained by variables identified in the strategy literature as important to predicting firm-level economic performance. A systematic linkage between well-developed theories in strategy and venture capital valuation practice are corroborated empirically. This research study proposes a complementary method to extant valuation methods to valuate a new venture.

Key Words: Valuation, Venture Capital Investment, Entrepreneurial Finance

Introduction:

Determining the economic valuation of a company is one of the more challenging and important discussions an entrepreneur can have with investors. Research that provides operational guidance on such economic valuation, is, however, lacking. Indeed, Wright and Robbie conclude that: “little work is available on the valuation of venture capital investments”. For example, inviting thirty-one valuation experts (e.g., venture capitalists, valuation consultants and business professors) to place an economic value on a small avionic company acquired

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by Goodyear, economic valuation experts provided valuation estimates ranging from $6 million to $17.5 million for the same company based on exactly the same information. Waldron and Hubbard conclude that: “From these results it is easy to see why so many consider the valuation of a closely held business akin to alchemy” Motivated by such an unmet research need, we develop an integrative framework from strategic management theories to investigate how factors identified in the research literature that are important to firm-level performance may affect the economic valuation of a new venture when the new venture seeks equity financing from venture capitalists. Our integrative framework suggests that firm resources, external ties, and market opportunities jointly influence firm-level profitability, which can serve as the fundamental basis for the economic valuation of a new venture. Our empirical results from analyses of 340 rounds of early stage venture capital investments in 210 new ventures corroborate hypotheses developed from our integrative framework.

Venture capitalists typically valuate new ventures if:

a. The new venture is in an industry with higher product differentiation and faster growth;
b. The founder(s) has top management experience and start-up experiences before founding the current venture;
c. The new venture was founded by a team of founders rather than a solo founder and, major management functions are covered by a complete management team; and
d. The new venture has external partners.

An integrative approach contributes at least three advances to the research literature. First, leveraging strategic management theories, approach systematically identifies key factors that influence firm-level profitability. Second, utilizes the recent empirical methodologies on how to measure these key factors. These methods can help both venture capitalists and
entrepreneurs better measure those important variables, instead of subjective evaluation from experience. Third, adopting a regression analysis method to estimate the relative importance of each variable in the model, our approach essentially decomposes the economic valuation decision into many input factors; and thus, we extract market-implied prices for the input factors, and thereby do not rely solely on the aggregate-level deal characteristics. This decomposition method overcomes some critical problems embedded in the venture capital market. The problem for the venture capital market to set this “market price” is that the venture capital market is not efficient and more importantly, the economic valuation is always determined in a “small numbers” bargaining situation – it does not have the opportunity to let the high valuations and low valuations cancel out each other, as in an efficient market. At a minimum, when it is difficult to valuate a subject based on output (e.g., future cash flows), pricing it based on inputs (e.g., entrepreneur, industry attractiveness, etc.) may provide a useful complementary method to valuate new ventures when key variables can be systematically identified and reliable coefficients can be consistently estimated from large samples.

Venture Capital is defined as “money provided by investors to start-up firms and small businesses with perceived long-term growth potential. This is a very important source of funding for start-ups that do not have access to capital markets”. It typically entails high risk for the investor, but it has the potential for above-average returns. This research applies an integrative approach to investigate whether the economic valuation of a new venture by a venture capitalist can be explained by key factors identified in the research literature as important to explaining and predicting firm performance. According to corporate finance theory, the economic value of any investment is determined by the sum of the discounted value of its future cash flows. In this paper, eight hypotheses are developed from
this central proposition and are empirically tested on 340 rounds of early stage venture capital financing in 210 new ventures. Our empirical results suggest that when valuating a new venture, venture capitalists do take into consideration those key factors important to firm-level economic performance — such as industrial structure, founder and top management team characteristics, and the social network of a new venture.

**Review of Literature:**

Systematic and theoretically grounded research on new venture valuation is rare. Although a few research studies in corporate finance, entrepreneurship, and strategic management provide some insight, little systematic attention has been given to this important topic. Here, we briefly review the limited research literature and highlight the need for a more rigorous and integrative approach in this area.

How to valuate accurately a firm is traditionally a financial economics topic and most extant valuation methods are based on accounting information. According to financial economics theory, the economic value of any investment is the sum of the present value of its future cash flows. Such an economic valuation depends on the ability of the enterprise to generate future cash flows and investors’ assessments of, and attitudes towards, the risk of these future cash flows. The corporate finance literature reports four valuation methods most commonly used in start-up valuation: discounted cash flow, earnings multiple, net asset, and venture capital method. However, as we discuss below, none of these approaches is fully satisfactory for new entrepreneurial firms.

A fundamental assumption underlying these financial valuation methods is that there is an efficient capital market for the ownership of the firm. This assumption may be workable for the public capital market, as legal rules are in place, which regulate public firms to release all material information to the
market and private information is not as common. Traded in a competitive market, the ownership of these firms is also highly liquid. This perfect capital market assumption may approximately hold for public companies, but may not hold in capital markets for new ventures. The venture capital market is arguably an inefficient market and quite different in several aspects from the public capital market.

First, venture capitalists invest in private and new ventures. New ventures have a short operating history, and thus accounting information is limited, making the new venture’s future cash flows difficult to estimate. Second, the law does not require that private firms report any financial or management information. Such information is difficult to collect and to verify. Thus, the information asymmetry between entrepreneur and potential investors is typically high. Third, due to regulation the tradability of shareholdings in these firms is low.

The inefficiency of the venture capital market renders the four major financial valuation methods less satisfactory in valuating new ventures. For DCF approach, it is difficult to estimate the future cash flows and to determine the appropriate discount rate. For the earnings multiple approach, three challenges exist. First, most new ventures do not have earnings. Second, defining the boundary of the reference group (to determine the multiple le) is not always easy or even possible (e.g., for some breakthrough innovations – such as the personal computer or biotechnology firms at their infant stage). Third, even if the reference group is defined, it is still quite subjective to choose the multiples and there is no theoretical guidance for this choice. The limitation of the net assets approach is that it ignores the economic value of growth opportunities and, most new ventures do not have substantial levels of tangible assets. Finally, the venture capital method is very subjective and the valuation computed is not easy to justify.

The huge disparity of economic valuations for same firm...
still persists today. For example, the Wall Street Journal reports that Santera Systems, a Texas-based telecommunication firm, was valued at $4.42 a share by Austin Ventures at the same time that Sequoia Capital held it at 46 cents a share. Clearly, we need to go beyond extant financial economics theory to look for an alternative conceptual lens for valuation. Unfortunately, contemporary entrepreneurship research literature does not offer much guidance either.

**Relative Importance of Key Factors in Venture Capitalists’ Valuation of New Ventures:**

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<tr>
<th>Sl. No</th>
<th>Key Factor</th>
<th>Points</th>
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<tbody>
<tr>
<td>1</td>
<td>Quality Management</td>
<td>4.5</td>
</tr>
<tr>
<td>2</td>
<td>Size of the Market</td>
<td>3.8</td>
</tr>
<tr>
<td>3</td>
<td>Product Qualities</td>
<td>3.7</td>
</tr>
<tr>
<td>4</td>
<td>Rate of Market Growth</td>
<td>3.5</td>
</tr>
<tr>
<td>5</td>
<td>Competition</td>
<td>3.5</td>
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<tr>
<td>6</td>
<td>Barriers to Entry</td>
<td>3.4</td>
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<tr>
<td>7</td>
<td>Companies Stage of Development</td>
<td>3.2</td>
</tr>
<tr>
<td>8</td>
<td>Industry that the company is in</td>
<td>3.0</td>
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Important for developing an integrative approach to new venture valuation provides an empirical investigation of the factors used by venture capitalists in the economic valuation of a new business venture. These key factors are similar to those identified in strategic management theories as important influences on firm-level economic performance.

Furthermore, most of the identified key factors can be classified into two major categories: (1) Resources and Capabilities (quality of management, product qualities, company’s stage of development), and (2) Market Structure (size of the market, rate of market growth, competition, barriers to entry, and industry the company is in).

These two major categories are consistent with the scope of
two major strategic management theories: (1) resource-based theory and (2) the structure-conduct-performance paradigm in industrial organization economics.

This research opportunity can be further justified on at least two additional grounds. First, financial economists have long called for including non-financial variables in economic valuation models. Along these lines, and inspired by Modigliani and Miller (1958), Madden (1999) develops an economic valuation approach that incorporates both accounting and non-accounting variables, such as managerial skills and customer satisfaction, to better assess the economic value of a public company. Strategic management theories are well positioned to more systematically guide the selection of such variables. Second, the fundamental concern of financial valuation is to estimate expected future cash flows (or other equivalents). As a measure of firm-level economic profitability, future cash flows can be readily interpreted as an indicator of the expected future economic performance of the firm, and can be used productively to analyze venture capitalists’ economic valuation of new ventures.

**Conclusions and Scope for Further Research:**

“Entrepreneurship plus innovation are the foundations of US prosperity while entrepreneurship is the US’ most important capital has been an important factor behind both
entrepreneurship and innovation in the United States economy for the past thirty years strategic advantage”. Despite its critical importance in entrepreneurial financing, how to valuate a new venture accurately is seldom considered in the extant research literature. Moreover, even the few existing studies are clinical and descriptive in nature. As one of the few large sample quantitative studies on this important issue, this paper fills this noted gap in the research literature.

How to valuate a company accurately is traditionally a corporate finance topic; however, most financial valuation methods were developed for well-established companies, especially companies in the more efficient public capital market. Research efforts to develop economic valuation methods specifically for new ventures have just begun. For example, the Wall Street Journal (2003) reports that Private Equity Industry Guidelines Group (PEIGG) just recently announced a proposal to “standardize” the valuation practice in the private equity industry, which was immediately endorsed by 15 of the 18 firms represented on the PEIGG board, including Harbor Vest Partners, Bank of America Corp. and the University of California Regents.

Against such a backdrop, the current paper leverages established theories in strategic management to use those input variables important for explaining firm-level economic performance in order to predict directly the economic valuation of an early stage new venture. Presumably, when it is difficult to valuate a young firm based on output (e.g. future cash flows), pricing it based on inputs (e.g. entrepreneur, industry attractiveness, and so forth) may be a better alternative than a “pure guess.” Though tentative, the results from our empirical analyses support this central proposition. Such empirical findings may hold great promise for both future theory building and practice in entrepreneurial financing.
This paper makes three major contributions to the research literature:

* First, as one of the few large sample management studies addressing the economic valuation of business ventures in venture capital investment, this paper fills a noted gap in the research literature.

* Second, building an integrative theoretical framework, it is one of the first research studies bringing theoretical rigor from strategic management theories to investigate the economic valuation of new ventures by venture capitalists.

* Third, the venture capital market is not efficient and each investment deal is privately negotiated in a “small numbers” bargaining situation. The framework proposed here essentially decomposes each investment deal into many components of input factors (such as market structure and firm resources), thus artificially creating a “factor market” for investment deals.

**References:**

Regulatory Framework of Venture Capital Financing in India

U. Chandramouli*

Abstract
This paper reviews the significance of regulatory aspects of venture capital financing especially in India. Indian tradition of venture capital for industry starts with a history of more than 150 years. Back then many of the managing agency houses acted as venture capitalists providing both finance and management skill to risky projects. In Asia, venture capitalists are still in the process of developing common evaluation criteria for investment, unlike in mature markets, where a common criterion is the level of attention paid to the entrepreneur’s personality and experience. The dynamics in emerging venture capital markets differ from those in developed venture capital markets. The emerging private equity markets focus primarily on growth capital investments through minority equity participation. Emerging venture capital markets, although not without challenges, present a host of opportunities.

Key Words: Economic Contributors, Vibrant Capital Market, Foresightedness.

Introduction:
Venture capital refers to the commitment of capital as shareholding for the formulation and setting up of small firms specializing in new ideas or new technologies. The emerging scenario of global competitiveness has put an immense pressure on the industrial sector to improve the quality level with minimization of cost of products by making use of latest

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technological skills. The implication is to obtain adequate financing along with the necessary hi-tech equipments to produce an innovative product which can succeed and grow in the present market condition. Venture Capital is money provided by professionals who invest and manage young rapidly growing companies that have the potential to develop into significant economic contributors. According to SEBI regulations, venture capital fund means a fund established in the form of a company or trust, which raises money through loans, donations, issue of securities or units and makes or proposes, to make investments in accordance with these regulations. The funds so collected are available for investment in potentially highly profitable enterprises at a high risk of loss. Venture capital is the long term equity finance where the venture capitalist earns his return primarily in the form of capital gain.

The Venture Capital funding varies across the different stages of growth of a firm. The various stages are:

1. **Pre-seed Stage**: Here, a relatively small amount of capital is provided to an entrepreneur to conceive and market a potential idea having good future prospects. The funded work also involves product development to some extent.

2. **Seed Stage**: Financing is provided to complete product development and commence initial marketing formalities.

3. **Early Stage / First Stage**: Finance is provided to companies to initiate commercial manufacturing and sales.

4. **Second Stage**: In the Second Stage of Financing working capital is provided for the expansion of the company in terms of growing accounts receivable and inventory.

5. **Third Stage**: Funds provided for major expansion of a company having increasing sales volume. This stage is met when the firm crosses the breakeven point.

6. **Bridge / Mezzanine finance or Later Stage Financing**: Bridge / Mezzanine Financing or Later Stage Financing
is financing a company just before its IPO (Initial Public Offer). Often, bridge finance is structured so that it can be repaid, from the proceeds of a public offering.

**Indicators of VC financing in India:**
* Existence of a globally competitive high technology.
* Globally competitive human resource capital.
* Second Largest English speaking, scientific & technical manpower in the world.
* Vast pool of existing and ongoing scientific and technical research carried by large number of research laboratories.
* Initiatives taken by the Government in formulating policies to encourage investors and entrepreneurs.
* Initiatives of the SEBI to develop a strong and vibrant capital market giving the adequate liquidity and flexibility for investors for entry and exit.

**Venture Capital in Asia:**
In Asia, venture capitalists are still in the process of developing common evaluation criteria for investment, unlike in mature markets, where a common criterion is the level of attention paid to the entrepreneur’s personality and experience. In Asia, different classes of stocks with different voting rights are relatively uncommon. Asian investors thus have to rely mostly on common stocks and other means to manage their portfolio risk. Traditional venture capitalists are expected to actively assist their portfolio companies in what are termed value-added activities. Most of the Asian venture capitalists' assistance remains restricted to providing advice on financial matters.

The dynamics in emerging venture capital markets differ from those in developed venture capital markets. The emerging private equity markets focus primarily on growth capital investments through minority equity participation. Emerging venture capital
markets, although not without challenges, present a host of opportunities.

**Venture Capital Initiatives in India:**

Indian tradition of venture capital for industry starts with a history of more than 150 years. Back then many of the managing agency houses acted as venture capitalists providing both finance and management skill to risky projects. It was the managing agency system through which Tata iron and Steel and Empress Mills were able to raise equity from the investing public. The Tata’s also initiated a managing agency system, named Investment Corporation of India in 1937, which by acting as venture capitalists, successfully provided hi-tech enterprises such as CEAT tyres, associated bearings, national rayon etc. The early form of venture capital enabled the entrepreneurs to raise large amount of funds and yet retain management control. After the abolition of managing agency system, public sector term lending institutions met a part of venture capital requirements through seed capital and risk capital for Hi-tech industries which were not able to meet promoter’s contribution. However all these institutions supported only proven and sound technology while technology development remained largely confident to government labs and academic institutions? Many hi-tech industries, thus found it impossible to obtain financial assistance from banks and other financial institutions due to unproven technology, conservative attitude, risk awareness and rigid security parameters. Venture capitals growth in India passed through various stages. In 1973, R.S. Bhatt committee recommended formation of Rs.100 crores venture capital funds. The seventh five year plan emphasized the need for developing a system of funding venture capital. The Research and Development Cess Act was enacted in May 1986, which introduced a cess of 5 percent on all payments made for purchases of technology from abroad. The levy provides the

**Regulatory Framework: Returns, Taxes and Regulations:**

There is a multiplicity of regulators like SEBI and RBI. Domestic venture funds are set up under the Indian Trusts Act of 1882 as per SEBI guidelines, while offshore funds routed through Mauritius follow RBI guidelines. Abroad, such funds are made under the Limited Partnership Act, which brings advantages in the terms of taxation.

The government must allow pension funds and insurance companies to invest in venture capitals as in USA where corporate contributors to venture funds are large. Venture Capital in India governs by the SEBI Act, 1992 and SEBI (Venture Capital Fund) Regulations, 1996. According to which, any company or trust proposing to carry on activity of a Venture Capital Fund shall get a grant of certificate from SEBI. However, registration of Foreign Venture Capital Investors (FVCI) is not obligatory under the FVCI regulations. Venture Capital funds and Foreign Venture Capital Investors are also covered by Securities Contract (Regulation) Act, 1956, SEBI (Substantial Acquisition of Shares & Takeover) Regulations, 1997, SEBI (Disclosure of Investor Protection) Guidelines, 2000.

**Multiplicity of Regulations – Need for Harmonization and a Nodal Regulator:**

At present, the Venture Capital activity in India comes under the purview of different sets of regulations namely:

1. The SEBI (Venture Capital Funds) Regulation, 1996 [Regulations] lays down the overall regulatory framework for registration and operations of venture capital funds in India.
2. Overseas venture capital investments are subject to the Government of India Guidelines for Overseas Venture Capital Investment in India dated September 20, 1995.

3. For tax exemptions purposes venture capital funds also needs to comply with the Income Tax Rules made under Section 10 (23FA) of the Income Tax Act.

In addition to the above, offshore funds also require FIPB/RBI approval for investment in domestic funds as well as in Venture Capital Undertakings (VCU). Domestic funds with offshore contributions also require RBI approval for the pricing of securities to be purchased in VCU likewise, at the time of disinvestment, RBI approval is required for the pricing of the securities.

The multiple set of Guidelines and other requirements have created inconsistencies and detract from the overall objectives of development of Venture Capital industry in India. All the three set of regulations prescribe different investment criteria for VCFs as under:

SEBI regulations permit investment by venture capital funds in equity or equity related instruments of unlisted companies and also in financially weak and sick industries whose shares are listed or unlisted. The Government of India Guidelines and the Income Tax Rules restrict the investment by venture capital funds only in the equity of unlisted companies.

SEBI Regulations provide that at least 80% of the funds should be invested in venture capital companies and no other limits are prescribed. The Income Tax Rule until now provided that VCF shall invest only up to 40% of the paid-up capital of VCU and also not beyond 20% of the corpus of the VCF. The Government of India guidelines also prescribe similar restriction. Now the Income Tax Rules have been amended and provides that VCF shall invest only up to 25% of the corpus of the venture capital fund in a single company.

SEBI Regulations do not provide for any sectoral restrictions for investment except investment in companies engaged in
financial services. The Government of India Guidelines also
do not provide for any sectoral restriction, however, there are
sectoral restrictions under the Income Tax Guidelines which
provide that a VCF can make investment only in companies
engaged in the business of software, information technology,
production of basic drugs in pharmaceutical sector, bio-
technology, agriculture and allied sector and such other sectors
as notified by the Central Government in India and for
production or manufacture of articles or substance for which
patent has been granted by National Research Laboratory or
any other scientific research institution approved by the
Department of Science and Technology, if the VCF intends to
claim Income Tax exemption. In fact, erstwhile Section 10(23F)
of Income Tax Act was much wider in its scope and permitted
VCFs to invest in VCUs engaged in various manufacture and
production activities also. It was only after SEBI recommended
to CBDT that at least in certain sectors as specified in SEBI’s
recommendations, the need for dual registration / approval of
VCF should be dispensed with, CBDT instead of dispensing
with the dual requirement, restricted investment to these sectors
only. This has further curtailed the investment flexibility.

The Income Tax Act provides tax exemptions to the VCFs
under Section 10(23FA) subject to compliance with Income Tax
Rules. The Income Tax Rules inter alia provide that to avail the
exemption under Section 10(23FA), VCFs need to make an
application to the Director of Income Tax (Exemptions) for
approval. One of the conditions of approval is that the fund
should be registered with SEBI. Rule 2D also lays down
conditions for investments and section 10(23FA) lays down
sectors in which VCF can make investment in order to avail tax
exemptions. Once a VCF is registered with SEBI, there should
be no separate requirement of approval under the Income Tax
Act for availing tax exemptions. This is already in practice in
the case of mutual funds. The concurrent prevalence of multiple
sets of guidelines / requirements of different organizations has
created inconsistencies and also the negative perception about the regulatory environment in India. Since SEBI is responsible for overall regulation and registration of venture capital funds, the need is to harmonize and consolidate within the framework of SEBI Regulation to provide for uniform, hassle free, one window clearance. A functional and successful pattern is already available in this regard in the case of mutual funds which are regulated through one set of regulations under SEBI Mutual Fund Regulations. Once a mutual fund is registered with SEBI, it automatically enjoys tax exemption entitlement. Similarly, in the case of FIIs tax benefits and foreign inflow/ outflow are automatically available once these entities are registered with SEBI.

SEBI regulations provides flexibility in selection of investment to the VCF, however, in the event of subscription to the fund by an overseas investor or the fund choosing to seek income tax exemptions, the investment flexibility is curtailed to a great extent. It is worth mentioning that one of the condition for grant of approval under the Income Tax Rules for seeking exemption under the Income Tax Act is that the fund should be registered with SEBI which make it obligatory on the venture capital fund not only to follow Income Tax Rules but also the SEBI Regulations. Further, a VCF has to seek separate registration under the SEBI Act and approval under the Rules of Income Tax apart from seeking approval from FIPB / RBI in the event of subscription to the fund by an overseas investor.

Further Development required in Legal Framework:
Flexible Structure - LLP / LLC
- VC Fund is set up for limited life and on maturity returns are distributed amongst the investors. Therefore the structure of VC Fund should protect interest of investors and liquidation process should also be simple.
- LLP, LLC are most commonly used worldwide for VC funds, viz., USA.
Conclusion:
The world is becoming increasingly competitive. Companies are required to be super efficient with respect to cost, productivity, and labour efficiency, technical back up, flexibility to consumer demand, adaptability and foresightedness. The Government of India in an attempt to bring the nation at par and above the developed nations has been promoting venture Capital financing to new, innovative concepts & ideas, liberalizing taxation norms providing tax incentives to venture firms, giving a Philip to the creation of local pools of capital and holding training sessions for the emerging VC investors. The circle of public or private financial institutions, through which venture capitalists can be financed, needs to be amplified and diversified. This requires addressing the intermediation between the relatively small venture capital industry and the large institutional investors.

References:
Growth and Prospects of Venture Capital Finance in India

Dr. Ravi Kumar*
Dr. Ch. Rama Krishna**

Abstract

Venture capital (VC) investment is one of the most flexible form of financing technology based or innovative business firms. It is a more wide way of getting finances for investment in business enterprises which hold a bright future in terms of profit and as well as growth. VC has evolved as an essential mediator in financial markets, making available capital to entrepreneurial firms which might otherwise have difficulty in attracting finances. The present study is an analysis of growth and prospects of VC finance in various sectors like Real Estate, IT, Telecommunications, Pharmaceuticals etc.

Key Words: Capital, Challenges, Finance, India, Prospects, Venture Capital.

Introduction:

Today due to the economic crisis and the change in job market, Entrepreneurship has gained interest. A number of young people in India today, plans to setup their own ventures and capitalize this opportunities. In today’s highly dynamic economic climate with regular technological inventions, few traditional business models may survive but margin lies more towards more innovative business ideas. Now, along with conglomerates that fuel economic growth SMEs and other innovative businesses have gained the momentum towards

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contribution in it. Starting and expanding an enterprise has its own risk and is never easy. There are number of parameters that contribute to its success or downfall. Some of these include: Should one choose Venture Capital or any other mode of finance? Which sector one should start its venture in? What array of businesses are points of attraction among Venture Capitalists? What is possible near future growth in sector of one’s choice? The study helps in providing answers to these questions by analysing status of Venture Capital in India, Which sectors are on rise, what is the confidence level of Indian and Foreign investors.

**Growth of Venture Capital in India:**

Venture Capital in India was known since nineties era. It is now that it has successfully emerged for all the business firms that take up risky projects and have high growth prospects as well. Venture Capital in India is provided as risk capital in the forms of shares, seed capital and other similar means.

In 1988, ICICI emerge as a venture capital provider with unit trust of India. And now, there are a number of venture capital institutes in India. Financial banks like ICICI have stepped into this and have their own venture capital subsidiaries. Apart from Indian investors, international companies too have settled in India as a financial institute providing investments to large business firms. It is because of foreign investors that financial markets have developed in India on a large scale. Introduction of western financial philosophies, tight contracts, focus on profitable projects and active involvement in finance was contributed by foreign investors only.

The financial investment process has evolved a lot with time in India. Earlier there were only commercial banks and some financial institutes but now with venture capital investment institutes, India has grown a lot. Business forms now focus on
expansion because they can get financial support with venture
capital. The scale and quality of the business enterprises have
increased in India now. With international competition, there
have been a number of growth oriented business firms that have
invested in venture capital. All the business firms that deal in
information technology, manufacturing products as well as
providing contemporary services can opt for venture capital
investment in India.

**Literature Review:**

Though there is limited literature available on Venture Capital
Finance in Indian context, there are extensive texts available
on venture capital all over the world. Following are some
insightful works done by different academicians and researchers
venture capital in India” - Technovation, investigated the process
of developing venture capital in a developing country like India.
The discussion documents the experiences of the largest venture
capital firm in India (TDICI) in initiating and developing the
concept of venture capital as well as learning the venture capital
business. The history of modern venture capital in India is of
recent origin; it only goes back to the mid-eighties. In the initial
years, venture capital firms (VCFs) in India encountered a
number of problems in developing their businesses. From the
in-depth case study of TDICI, it is found that the firm went
through the initial constraint of not knowing the venture capital
business well, and learnt through experience. It has faced
problems in raising funds and evaluating prospective ventures.
It initially focused its investment in the high-technology
businesses, but gradually shifted the focus towards other
potentially high-growth, high-profitable businesses, not just high-
tech businesses. It is also noticed that TDICI undertook a
number of business development initiatives to popularize the
venture capital business in India. It introduced a simple organisational structure for facilitating quick decision-making, and developed innovative funding and financing mechanisms.

Dossani, R. and Kenney (2002) “Creating an Environment for Venture Capital in India” - M. World Development, has highlighted the institution of venture capitalism is a difficult one to initiate through policy intervention, particularly in developing countries with unstable macroeconomic environments and histories of state involvement in the use of national capital and in the composition of production. India has all these constraints. The emergence of a thriving software services industry after 1985 created the raw material that venture capital could finance, thus achieving a critical precondition for venture capital's growth. It was followed by efforts to create a venture capital industry. After several setbacks, some success has been achieved largely due to a slow process of moulding the environment of rules and permissible institutions. The process was assisted by the role of overseas Indians in Silicon Valley's success in the 1990s. Yet, in terms of what is needed, most of the works remains to be done. Inevitably, this will be the result of joint work by policymakers and practitioners. Asim Mishra (2004), “Indian Venture Capitalists (VCs): Investment Evaluation Criteria” has analysed the validity of venture evaluation model in India by directly comparing the relative importance of evaluation criteria on the funding decision with the relative importance to factors influencing venture's empirical performance.

The author anticipated that the investment criteria employed by Venture Capital Firms (VCFs) in India would differ from the south East Asian Countries. A questionnaire was administered to venture capitalists (regular members of Indian Venture Capital Association) to determine the criteria they use to decide on funding new ventures. The response rate was 100%. A list
of forty two criteria was developed. The criteria have been classified into six groups: the entrepreneur’s personality, the entrepreneur’s experience, characteristics of the product or service, characteristics of the market, financial consideration and characteristics of venture management team. Answers were given on a four point rating scales. The results reveal that criteria adopted by Indian VCs are different from those adopted by VCs in other countries including US.

Venture capital in Asia has exhibited remarkable growth over the last two decades. Researchers and practitioners have, however, expressed doubts as to whether what is being reported as venture capital in Asia can really be classified as such. Authors of scholarly studies often avoid this debate and, consequently, fail to caution readers about the applicability of their research findings. Through an exploration of the history, development, and composition of venture capital in Asia, this article not only confirms significant differences between Asian and traditional venture capital, but also finds that venture capital in Asia differs little from what is commonly called private equity.

**Research Design:**
Research Design is the way in which the research is carried out. It works as a blueprint. Research Design is the arrangement of conditions for the collection and analysis of data in a manner that aims to combine relevance to the research purpose with economy in procedure. The Research design for the study is descriptive in nature. The research is done with analog observations. Predictive analysis is done in order to know pattern of near future investment patterns.

**Results and Discussions**
Analysing Growth of Venture Capital Finance in India and Forecasting VC Investments in near future to understand the
scenario of venture capital investments in India, firstly we looked at the Total Investment Details of SEBI Registered Venture Capital Funds (VCF) and Foreign Venture Capital Investors (FVCI) as of Dec 31 of each year starting from 2007.

### Table No.1

<table>
<thead>
<tr>
<th>Year</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total VC Investment (in Rs. crores)</td>
<td>28260</td>
<td>33939</td>
<td>42059</td>
<td>47859</td>
<td>56868</td>
<td>55542</td>
<td>69520</td>
</tr>
</tbody>
</table>

With the help MS Word Excel, Growth Rate is determined for given values from year 2007-2013 and prediction for next two years is made using following growth function. Following are the Forecasted Values of Total Investment in 2014 and 2015 using Growth function.

### Table No.2

<table>
<thead>
<tr>
<th>Year</th>
<th>2014</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total VC Investment (in Rs. crores)</td>
<td>80988</td>
<td>93383</td>
</tr>
</tbody>
</table>

The investments by VC in India will be increasing in near future. Also, Investments have been slow in one year dropping from Rs. 56868 crores in 2011 to Rs. 55542 crores in 2012 but they have gained their momentum back in 2013 by increasing more that 25%. The Value of Investments in 2014 and 2015 is predicted to be near Rupees 81 and 93 thousand crores respectively.

Different sectors of economy for which data has been obtained are Information Technology, Telecommunications,
Contemporary Issues in Venture Capital Financing in India

Pharmaceuticals, Biotechnology, Media/Entertainment, Services Sector, Industrial Products and Real Estate. The sector-wise analysis of venture capital has depicted in the following table No.3.

### Table No.3

**Sector-wise analysis of Venture Capital Financing in India by 2013 (Percentages)**

<table>
<thead>
<tr>
<th>Sector</th>
<th>Per cent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Information Technology</td>
<td>8%</td>
</tr>
<tr>
<td>Telecommunications</td>
<td>11%</td>
</tr>
<tr>
<td>Pharmaceuticals</td>
<td>2%</td>
</tr>
<tr>
<td>Biotechnology</td>
<td>1%</td>
</tr>
<tr>
<td>Media/Entertainment</td>
<td>2%</td>
</tr>
<tr>
<td>Services Sector</td>
<td>5%</td>
</tr>
<tr>
<td>Industrial Products</td>
<td>3%</td>
</tr>
<tr>
<td>Real Estate</td>
<td>17%</td>
</tr>
<tr>
<td>Others</td>
<td>51%</td>
</tr>
</tbody>
</table>

Real Estate is the biggest sector of Venture Capital Investments, followed by Telecommunications and Information Technology. Services Sector stands at 4th position followed by Industrial Products sector and Media/Entertainment sector. Pharmaceutical and Biotechnology sector has least share of Venture Capital Funds among 8 sectors. It also shows forecasted linear trend line. As India is developing country and Real Estate is an utmost important need of any developing nation. Real Estate sector has always seen reasonable growth and is still attracting investment.

Total Venture Capital (VC) investments curve from year 2007 to 2013 in Services Sector. It also shows forecasted linear trend line. 2009 and 2013 are the only years of high growth for Services Sector. Because of less inclined forecasted linear trend of the
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investments in the sector, there will be moderate growth in venture capital investments in India in upcoming years.

Total Venture Capital (VC) investments curve from year 2007 to 2013 in Industrial Products’ Sector. It also shows forecasted linear trend line. Industrial Products sector is a source of high employment opportunities for less skilled labour. The sector has not seen much growth in terms of venture capital investments. Because of less inclined forecasted linear trend of the investments in the sector, there will be slow growth in venture capital investments in India in upcoming years.

There are different sectors of Economy in India. Out of all above mentioned Economic Sectors, few sectors are attracting more Venture Capital Funds than others. With analysis of each sector we can categorize them by rate of growth of investments over 7 years. Information Technology and Real Estate have continuously seen High Growth and are predicted to do so in coming years. For Entrepreneurs these sectors can be fruitful to start their venture in. Telecommunication and Media/Entertainment have been areas of Moderate Growth and may do better in coming years. For Entrepreneurs these sectors can be fruitful but they must keep caution while starting their venture in. Services Sector and Industrial Products Sector are areas of very Slow Growth in terms of VC investments in these areas. One must have strong know how of these sectors while starting any business. Pharmaceuticals and Biotechnology are Sectors of Declining Growth in VC Investments. One may have hurdles in getting investments for ventures in these sectors.

Conclusion:

Venture capital financing has become a part of the popular business in India. VC investments are growing at an exponential rate and one who is starting or expanding his business can look it as a good option of financing its venture. For predicting the scenario of Venture Capital Investments in India in upcoming
years, analysts can look at Business Confidence Index by CII. Our study shows that values of the Index and amount of Investments are correlated. With our analysis we can infer that there will be an increase in Venture Capital Investments in 3rd quarter of 2014. In India, Information Technology and Real Estate are sectors with High Growth in VC Investments whereas Pharmaceuticals and Biotechnology are sectors with Declining Growth in VC Investments.

References:
Abstract

Social enterprises, by definition, proactively intend to create positive societal impact as well as generate profits. In the quest for innovative ways to engage the private sector to bolster global sustainability further, social enterprises represent a new frontier for companies to create greater positive impact. The Global Compact facilitates business partnerships between social enterprises, corporations, investors and other stakeholders to advance innovative business models in emerging and frontier markets. The present paper focuses on the need for social innovation, venture capital funding for social enterprises and also throws light on current status of social enterprises in India.

Key words: Social Enterprise, Global sustainability, Social Innovation

Introduction:
The need for Social Innovation:

Innovation is among the most important functions of any business enterprise. Constant innovation and generation of ideas is critical for all aspects of business - be it to respond to competition and changing trends or to improve efficiencies or to attract new customers. Companies like Apple, Microsoft and Google are popular examples where innovation has been the
order of the day. That said, innovation and generation of new ideas is anything but easy. This process becomes even more complex in a social enterprise, because of the constraints in funding and difficulties involved with creating a market where demand does not already exist. The compulsion to reduce negative impacts of the product/service on the intended beneficiaries and the concern that donors may not fund risky innovations are major challenges faced by the social entrepreneurs. Nevertheless, small but significant steps in innovation are definite must-haves in the social sector. While there is vast information on innovation in conventional businesses, the discussion on innovation in the social sector has been comparatively limited. In general, social sector seeks to address major challenges - be it in providing better food, housing and healthcare, improving lifestyles, reducing poverty levels, providing education, catering to financial needs, or protecting the environment. As 'for-profit' companies in the social sector strive to create the desired social impact as well as earn financial returns, it becomes imperative to find new ways of doing business, improve efficiencies, cut down costs, reach a larger audience and keep up with changing market dynamics. Innovation calls for high investment and continuous financial support.

Governments and philanthropic organizations have tried to improve the lifestyle of people living at the Base of the Pyramid (BoP) by providing grants and other forms of support for decades. However, grants, subsidies, donations, and other forms of philanthropic capital have not been effective in supporting innovation. This gap in innovation funding for the social sector has led to the emergence of a new class of capital - Social Venture Capital (SVC) or impact investing. Like the traditional venture capitalists, the SVC’s not only provide capital, but also encourage innovation and play a vital role in guiding and mentoring the social entrepreneur.
The Social Enterprise:

Broadly, enterprises that are engaged in the making of products or services that benefit people from the low income or BoP segments in a cost effective and sustainable manner can be called as social enterprises. They are engaged in a range of activities: from reducing poverty levels to improving living standards, from providing affordable housing to financial solutions, and from improving education levels to providing healthcare to people in the BoP. Social enterprises are increasingly being set up as entities incorporated under the Companies Act, 1956. When set up as a corporate form they can either be a non-profit enterprise or a ‘for-profit’ enterprise. ‘For-profit’ social enterprises aim to build a profitable business in addition to creating a social impact. A company structure also enables to get investment from external sources of capital such as venture capital funds. The choice of funding depends on various factors such as the sector, background of the entrepreneur, stage of the enterprise, nature of business model, and the outputs of the enterprise. Social entrepreneurs, those who start social enterprises, can be broadly classified into three categories based on their background. The first type would comprise an entrepreneur who is actually from the BoP. An entrepreneur of this type wishes to create a change in the society and his conviction comes from having been a part of the problems that the social enterprise seeks to address. Founders of Bangalore-based Snehadeep Trust for the Disabled are three visually impaired individuals who wish to address problems which are similar to what they faced in life through their social enterprise. The second type is one who has had a successful career in the past, and is financially well off. The objective of starting a social enterprise for such an entrepreneur is to contribute something back to the society. Bangalore-based Janaagraha is an example of this. The third type is one who is in the early stages of his professional career or is a first generation entrepreneur, who identifies a business opportunity
in the social sector and enters this space as a social entrepreneur on the expectation of good commercial returns. Since such entrepreneurs may not have the necessary financial resources, they usually seek external capital from other sources as venture capital, grant bodies, etc.

**Venture Capital Funding for Social Enterprises:**

The objective of the VC investors in the social sector is to create a social impact through the investment, while expecting to earn financial returns from the investment made. There are some organizations like Michael & Susan Dell Foundation which was earlier working only on the grants model, but has now started making equity investments in the organizations that they support. Such organizations, which have been supporting the social sector for long by means of grants, have started adopting the venture style of investing to make their investments more effective.

**Social Venture Funding:**

SVC funding is known by several other names in different parts of the world. According to the Monitor Institute on social impact investing, SVC funding is also known as Socially Responsible Investing, Blended Value, Impact Investing, Mission-Driven Investing, Mission-Related Investing, Triple-Bottom Line, Social Investing, Values-Based Investing, Program Related Investing, Sustainable and Responsible Investing, Responsible Investing, Ethical Investing and Environmental, Social, and Governance Screening. Sometimes, this kind of investment is also known as ‘Patient Capital’, as the investment timeframe of social sector venture capitalists can be longer than what it is for traditional venture capitalists. Some terms such as Impact Investing cover a wider universe of asset classes such as equity, debt, working capital lines and loan guarantees. However, impact investments are structured similar to venture capital investments, and hence the term is often used synonymously.
Differences between Mainstream VC Funding and Social VC Funding:

Social venture funding can happen from any of the following sources: venture funds that are dedicated for investments only in the social sector (for example Acumen Fund), venture funds that also incidentally invest in social businesses (for example Ventureast), and other sources that are not structured as a traditional VC fund partnership, but follow a style of investing practiced by VC investors (for example, Dell Foundation). The basic theme of investing by SVC funds and mainstream VC funds is the same - that is, investing in companies which help them earn attractive financial returns. The biggest difference between these two forms of investing is that SVC’s invest with the aim of creating an impact in the low income or BoP segments (synonymously referred to as social impact in this report), while conventional investors do not explicitly consider the social impact for their investment decisions. In order to make the funding a success for both the investor as well as the entrepreneur, SVC funds need to adapt the conventional venture industry practices to meet the requirements of their target segments.

Global trends in Social Venture Funding:

With Governments across the world finding it increasingly difficult to fund social sector activities, private capital have become more and more popular in recent times. According to a report by the Monitor Group in 2009, the impact investing industry was estimated to grow from $50 billion to $500 billion in assets within a decade. This translates to a CAGR of 25% for the global impact investing industry. The long debated issue and a source of criticism of impact investing was that the two factors of creating social impact and earning commercial returns do not go hand in hand and that one has to be compromised for the other. However, this need not be the case always. JP Morgan,
Rockefeller Foundation and the Global Impact Investing Network (GIIN) brought out a report in November 2010 which estimated that the potential profit for impact investors globally across five sub-sectors (housing, rural water delivery, maternal health, primary education and financial services) could range between $183 billion - $667 billion over the next 10 years for an invested capital of $400 billion - $1 trillion. Last year, The Aspen Network of Development Entrepreneurs (ANDE) counted about 199 impact investing funds globally. The popular social venture capital firms include Acumen Fund, First Light, Gray Ghost Ventures, Root Capital, TBL Capital, and Underdog Ventures among others. Most of these funds look at the developing and underdeveloped world, as these regions have a large potential as well as need for social development. In fact, many global social VC funds have dedicated funds looking at investing in different countries of Africa and Asia. As the sector is growing and more opportunities for funding are being thrown open, new social VC funds coming up in different parts of the world every year. Worldwide, the social sector and social sector investing has been a constant source of innovation. New securities linking social impact to financial returns and new tools of finance are being created to earn returns out of social activities. Specialized agencies like Endeavor and Social Finance help social entrepreneurs gain access to global markets. Social impact bonds are another invention by many Government agencies in UK, USA, Canada, Australia and Israel, which reward investors according to results achieved. These involve investments of private capital from either philanthropists or commercial investors to fund social sector initiatives. After a specified time limit, the social impact is measured. If the social impact achieved is as desired, the investors are rewarded; if not, investors lose the invested capital. It is believed that social VC funding is an effective way of unlocking private capital and directing the much needed funds to the social.
Contemporary Issues in Venture Capital Financing in India

Current status of Social Venture Funding in India:
Measurement of poverty in India has been a debatable issue for long as there is no standard measure of poverty in the country. Different sources give out different statistics with regard to poverty numbers. World Bank indicated that 32.7% of the country’s population lived below the international poverty line of $1.25 per day in 2010, while 29.8% of the country’s population were below the national poverty line in The Tendulkar Committee in India held 37% of the country’s population to be below the poverty line in 2010, which has been accepted by the Planning Commission as well. Irrespective of the actual proportion of the population living below the poverty line, it is apparent that the number of people who are poor is large in India. What is more shocking is that 8 Indian states (including the states of Bihar, Uttar Pradesh and West Bengal) have more poor people than the total poor people living in 26 of Africa’s poorest nations. With such a large proportion of people living below the poverty line in India and the vast amount of development possible in both rural as well as urban areas, the potential for social venture investing is considered promising. India’s social sector venture funding has gained popularity in recent years, thanks predominantly to the microfinance sector. Though impact investing has become popular in India in recent years, it still falls significantly behind traditional venture capital and private equity investments, with the amount invested being very low compared to traditional VC funding. A senior advisor in investment banking firm Resurgent India opines that in India, it will take at least another 7-9 years before impact investing reaches levels where traditional venture capital and private equity investments are today. According to the Planning Commission, India has about 17 funds which operate in this sector. However, if all one-off investments are considered it is estimated that there are more than 100 funds operating in this segment in India. The most popular funds are Aavishkaar, Lok
Capital, Acumen Fund, Bellwether, Grassroots, Michael and Susan Dell Foundation, Omidyar Networks, Oasis Fund, Gray Matters Capital and Units among others. VC funds specializing in social sector investments have their own preferences in balancing social returns and financial returns.

**Benefits of Social Venture Funding:**

Social VC funds are essentially early stage risk capital investors, funding social enterprises when no other source of finance looks feasible.

- A unique feature of the VC funding at this stage is that the investment is made when there is no proven product or service. Although grants have been the most popular source of finance for social enterprises for long, they are not considered as scalable and does not help the social enterprise to grow quickly.
- VC investments help their investee companies to scale faster. This leads to a scaling of the impact created by these companies as well. For example, Bihar based Husk Power Systems has received investment from a number of investors since it started operations in 2008. The company, which started with serving one village in Bihar, as a result of the funding, has today expanded operations to 84 other villages across Bihar, and is planning to expand to other parts of India and Africa. Further, an increased network also facilitates investments from mainstream VC investors when the company achieves scale. Presence of a VC investor also helps the investee company to command a better valuation for subsequent financing rounds.
- VC funding helps to increase the equity base of the company, which can then be leveraged to attract debt capital. Because the investment is in the form of equity, VC funding also indirectly helps the investee company by meeting the eligibility criteria requirements of large projects.
The long duration of the VC investment also helps in building trust among all stakeholders of the company.

A key benefit of venture investors is their ability to provide management inputs in the company they have invested. Since venture funds invest in the form of equity, such managerial inputs and value additions help in increasing the valuation of their investee companies, which in turn help the investors to achieve a better return on their investments.

VC funding is a valuable source of motivation and support at different stages of the innovation lifecycle. A VC firm comes with extensive experience on the back of investing in companies across different sectors and businesses and is able to provide the entrepreneur valuable inputs on different fronts.

VC funds help in strengthening internal systems and processes, assist in building a strong team and help in strategizing and taking business decisions. In short, VC funding gives the social enterprise a partner for both the risks and rewards of the business.

Another key benefit of VC funding is increased visibility and networking. Many social sector companies are confined to a particular area and are unable to scale and succeed despite having exceptional business models.

VC funds help their companies to get increased visibility and recognition through their network of contacts. This also automatically increases the social entrepreneur’s professional network, helping him explore newer markets and opportunities.

VC funding helps the social enterprise to improve their corporate governance practices. Companies are often required to set right the books and accounts and have proper legal documentation, which help in overall improvement in regulatory compliance. A VC firm
undertakes detailed due diligence of a prospective investee firm before making an investment. It is said that going through the process of due diligence in itself helps the company in strengthening their internal processes.

**Conclusion:**

Companies can benefit from viewing partnerships with a social enterprise not only as a way to strengthen the societies where they operate, but as a financially and strategically valuable investment. These partnerships have the potential to generate economic benefit for both parties involved, via:

- **Insights for innovation**: Operating in low-income markets challenges companies to innovate in order to create low-cost products, new business models and efficient supply chains. Drawing on these experiences, companies can apply novel business approaches toward other similar markets.

- **Access to new markets**: Many companies recognize that low-income populations in emerging markets will constitute a significant consumer and supplier base in the long-run. Often corporate-social enterprise partnerships allow for both parties to make investments that will serve that high-potential market segment in the future.

- **Opportunities for risk management**: Corporate-social enterprise partnerships allow for both parties to diversify economically, through entering different markets, as well as operationally, through interactions with new customers, suppliers and products.