



A DOCTRINAL & EMPIRICAL STUDY OF VENTURE CAPITAL IN INDIA

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Abstract

The term Venture Capital comprises of two words that is, "Venture" and "Capital". Venture is a course of processing, the outcome of which is uncertain but to which is attended the risk or danger of "loss". "Capital" means recourses to start an enterprise. To connote the risk and adventure of such a fund, the generic name Venture Capital was coined. My Research paper throws light on the plight of Venture Capital in India. The main object of the researcher is to find out the Venture Capital investment volume in India. Further to study the problems faced by the Venture Capitalist as well as the future prospects of Venture Capital financing. To achieve the set objects I have used various methods of Data Analysis and has put forward very lucid and meticulous conclusion along with required suggestions.

Keywords: *Venture capital, Investors, start up, Risk Capital, equity*



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INTRODUCTION: VENTURE CAPITAL

Venture Capital has been described as 'Unsecured Risk Financing'. The relatively high risk of Venture Capital is compensated by the possibility of high returns usually through substantial capital gains in the medium term. Venture Capital in broader sense is not solely an injection of funds into a new firm, it is also an input of skills needed to set up the firm, design its marketing strategy, organize and manage it. Thus it is a long term association with successive stages of company's development under highly risky investment conditions, with distinctive type of financing appropriate to each stage of development. Investors join the entrepreneurs as co-partners and support the project with finance and business skills to exploit the market opportunities.

VENTURE CAPITAL IN INDIA

- **Venture Capital was introduced in India in mid eighties by All India Financial Institutions with the inauguration of Risk Capital Foundation (RCF) sponsored by**

IFCI with a view to encourage the technologists and the professional to promote new industries.

- Consequently the **Government of India** promoted the Venture Capital during **1986-87** by creating a Venture Capital fund in the context of structural development and growth of small-scale business enterprises.
- The **Indian Venture Capital Industry (IVCI)** is just about a decade old industry as compared to that in Europe and US. In this short span it has nurtured close to one thousand ventures, mostly in **SME** segment and has supported building technocrat/professionals all through.
- The Venture Capital companies operating at present can be divided into four groups:
 - ❖ Promoted by All – India Development Financial Institutions
 - ❖ Promoted by State Level Financial Institutions
 - ❖ Promoted by Commercial banks
 - ❖ Private Venture Capitalists.

PROMOTED BY ALL INDIA DEVELOPMENT FINANCIAL INSTITUTIONS

The IDBI started a VC fund in 1987 as per the long term fiscal policy of government of India, with an initial capital of Rs. 10 cr which raised by imposing access of 5% on all payments made for the import of technology know- how projects requiring funds from Rs 5 lakhs to Rs 2.5 cr were considered for financing. Promoter's contribution ranged from this fund was available at a concessional interest rate of 9% (During Gestation Period) which could be increased at later stages. The ICICI provided the required impetus to VC activities in India, 1986, it started providing VC finance in 1998 it promoted, along with the Unit Trust of India (UTI) Technology Development and Information Company of India (TDICI) as the first VC company registered under the companies act, 1956. The TDICI may provide financial assistance to venture capital undertakings which are set up by technocrat entrepreneurs, or technology information and guidance services. The risk capital foundation established by the **Industrial Finance Corporation of India (IFCI)** in 1975, was converted in 1988 into the **Risk Capital and Technology Finance Company (RCTC)** as a subsidiary company of the IFCI, the RCTC provides assistance in the form of conventional loans, interest –free conditional loans on profit and risk sharing basis or equity participation in extends financial support to high technology

projects for technological up gradations. The RCTC has been renamed as **IFCI Venture Capital Funds Ltd. (IVCF)**

PROMOTED BY STATE LEVEL FINANCIAL INSTITUTIONS

In India, the State Level financial institutions in some states such as Madhya Pradesh, Gujarat, Uttar Pradesh, etc., have done an excellent job and have provided VC to small scale enterprises. Several successful entrepreneurs have been the beneficiaries of the liberal funding environment. In 1990, the Gujarat Industrial Investment Corporation, promoted the **Gujarat Venture Financial Ltd. (GVFL)** along with other promoters such as the IDBI, the World Bank, etc. The GVFL provides financial assistance to businesses in the form of equity, conditional loans or income notes for technologies development and innovative products. It also provides finance assistance to entrepreneurs. The government of Andhra Pradesh has also promoted the **Andhra Pradesh Industrial Development Corporation (APIDC) Venture Capital Ltd** to provide VC financing in Andhra Pradesh.

PROMOTED BY COMMERCIAL BANKS

Can bank Venture Capital Fund, State Bank Venture Capital Fund and Grind lays bank Venture Capital Fund have been set up by the respective commercial banks to undertake VC activities. The State Bank Venture Capital Funds provides financial assistance for bought –out deals well as new companies in the form of equity which it disinvests after the commercialization of the project. Can bank Venture Capital Fund provides financial assistance for proven but yet to b commercially exploited technologies. It provides assistance both in the form of equity and conditional loans.

PRIVATE VENTURE CAPITAL FUNDS

Several private sector Venture Capital funds have been established in India such as the 20th Century Venture Capital Company, Indus Venture Capital Fund, Infrastructure Leasing and Financial Services Ltd.

Some of the companies that have received funding through this route include:

- **Mastek, one of the oldest software house in India**
- **Ruskan software, Pune based software consultancy**
- **SQL Star, Hyderabad-based training and software development consultancy**
- **Satyam infoway, the first private ISP in India**

- **Hinditron, makers of embedded software**
- **Selectia, provider of interactive software selector**
- **Yantra, IITLInfosy's US subsidiary, solution for supply chain management.**

FEW IMPORTANT VENTURE CAPITAL FUNDS IN INDIA

- ✓ APIDC Venture Capital Limited , Babukhan Estate, Hyderabad 500 001
- ✓ Canbank Venture Capital Fund Limited, IInd Floor, Kareem Towers, Bangalore.
- ✓ Gujarat Venture Capital Fund 1997, Ashram Road, Ahmedabad 380 009
- ✓ Industrial Venture Capital Limited, Thyagaraya Road, Chennai 600 017
- ✓ Gujarat Venture Capital Fund 1995 Ashram Road Ahmedabad 380 009
- ✓ Karnataka Information Technology Venture Capital Fund Cunningham Rd Bangalore
- ✓ India Auto Ancillary Fund Nariman Point, Mumbai 400 021
- ✓ Information Technology Fund, Nariman Point, Mumbai 400021
- ✓ Tamil nad InfoTech Fund Nariman Point, Mumbai 400021
- ✓ Orissa Venture Capital Fund Nariman Point Mumbai 400021
- ✓ Uttar Pradesh Venture Capital Fund Nariman Point, Mumbai 400021
- ✓ SICOM Venture Capital Fund Nariman Point Mumbai 400 021

REVIEW OF LITERATURE

To understand the concept of Venture Capital I went through a lot of literature during my Project work. Following are the views of various Scholars which has helped me in the apprehension of the topic.

ACCORDING TO VIJAYALAKSHMAN & DALVI,

“Whenever Indian policy makers have to encourage any industry, the usual practice is to grant that the industry tax breaks for a limited period. This definitely acts as a positive incentive for that industry. However, what is required is a thorough understanding of the industry requirement framing and implementation of aggregative strategy for its development. VC funds are not even registered with SEBI in spite of all the benefit available. VC industry is one, which will today prepare a base for a strong tomorrow. What is need for the development of VC industry is not only tax breaks but simpler procedures legislation for simplified exit form investment, more transparency and legal backing to participate in business amongst other things.”

ACCORDING TO KUMAR AND KAURA

The present study reports four factors which are used by the Venture Capitalist to screen new venture proposals. Using Kendall's tau-c analysis, the study brings out strong association between several variable pair. Broadly, the analysis finds that:

- Successful venture teams put in sustained efforts o identified target markets.
 - They are highly meticulous while attending to the details.
 - These teams are adept at dealing with risk because of their impeccable past experience.
 - Indian Venture Capitalists do not seem to be much enamored of technology venturing; at least some of the successful funded by them do not seem to show signs of being hi- tech.
- The study brings out four important variables which are highly unique to successful venture in India. They are:

- ❖ *Ability to evaluate and react to risk*
- ❖ *Attention to details*
- ❖ *Market share*
- ❖ *Profits*

- Evaluating risk seems to be an area where unsuccessful venture fails. Since successful teams focus on established markets and meticulously pursue these markets to gain market share, they achieve desired profits.

ACCORDING TO ROBBIE, (1997)

Robbies, et. al. (1997) highlights the monitoring policies of funded units by Venture capitalists and studies the performance targets, monitoring information, and monitoring actions through a Questionnaire-based survey. The survey was administered to 108 British Venture Capital Association members and total of 77 responses were gathered in the study. The findings related to performance targets and other monitoring issues were considerable addition to the literature in the subject.

The issues concerning board of directors' role in venture backed companies are widely debated topics in academic research. The findings of the study by Fried et.al. (1998) emphasize that the board of directors are a more involved in the venture backed firms than boards where members do not have large ownership at stake. The study provides an empirical evidence of variation in the boards' involvement and shows its relevance in performance management of funded units.

ACCORDING TO KUMAR, (JUNE 2003)

This study focus on the industry should concentrate more on early stage business opportunities instead of later stage. It is the experience world over and especially in the United States of America that the early stage opportunities have generated exceptional returns for the industry. He also suggests that individual capitalists should follow a focused investment strategy. The specialization should be in a board technology segment.

ACCORDING TO KUMAR, (MARCH, 2004)

The industry should concentrate more an early stage business opportunities instead of later stage. It is the experience world over and especially in the United States of America that the early stage opportunities have generated exceptional for the industry. It is recommended that the venture capitalists should retain their basic feature that taking retain their basic feature that is taking high risk. The present situation may compel venture capitalists to opt for less risky opportunities but it is against the spirit of Venture Capitalism. The established fact is big gains are possible in high risk projects.

ACCORDING TO KUMAR (MAY 2004)

The Indian Venture Capital Industry has followed the classical model of Venture Capital finance. The early stage financing which includes seeds, startup & early stage investment was always the major part of the total investment. Whenever Venture Capitalists invest in venture certain basic preference play a crucial role in investment decision. Two such considerations are location preferences and ownership preferences. Seed stage finance is provided to new companies for the use in product development & initial marketing company may be in the process of setting up the business or may be in the business for short period but have not reach the stage of commercialization.

ACCORDING TO MISHRA, (JULY 2004)

There is abundant empirical research conducted in developed countries which address the relative investment evaluation criteria taken into account in the screening process for new venture investment proposals. **Zopunidis (1994)** provides a useful summary of the previous research in this field. The identification of selection criteria has been researched using different methodologies such as simple rating of criteria (perpetual and deal specific responses) Knight, 1986; Dixon, 1991; Hall and Hofer, 1993; Rah, Jung and Lee, 1994), construct analysis (Fried and Hisrich,1994), verbal protocols (Zhacharakis and Meyer,

1998), and quantitative compensatory models (Muzyka, Birley and Leleux, 1996; Shepherd, 1999). Multi methods (case analysis, study of administrative records, published interviews, questionnaire and personal interviews) approach has also been used (Riquelme, 1994) to enhance understanding of investment criteria and also extend it to other aspects of investment process like deal structuring and divestment.

ACCORDING TO SUBASH AND NAIR, (MAY 2005)

According to these persons though the modern concept of Venture Capital stated during 1946 and now practiced by almost all economies around the world, there seems to be a slowdown of Venture Capital activities after 2000. There may be a long list of reasons for this situation, where people feel more risky to put their money in new and emerging ventures. Hardly 5% of the total Venture Capital investment globally is given to really stage ventures. In all the years people around the world has seen the potentiality of Venture Capital in promoting different economies of the world by improving the standard of living of the people by expanding business activities, increasing employment and also generating more revenue to the government.

ACCORDING TO CHARY, (SEPTEMBER 2005)

There has been a plethora of literature on Venture Capital finance, which is helping the practitioners' viz., Venture Capital Finance Companies and fund manager for better understanding the role of Venture Capital in economic development. There are number of studies on the Venture Capital and activities of Venture Capitalists in developed countries.

ACCORDING TO VIJAYALAKSHMAN & DALVI (JANUARY 2006)

Whenever Indian policy makers have to encourage any industry the usual practice is to grant that industry, tax breaks for a limited period. This definitely acts as a positive incentive for that industry. However, what is required is a thorough understanding of the industry requirement framing and implementation of aggregative strategy for its development. VC funds are not even registered with SEBI in spite of all the benefit available. VC industry is one, which will today prepare a base for a strong tomorrow. What is need for the development of VC industry is not only tax breaks but simpler procedures legislation for simplified exit form investment, more transparency and legal backing to participate in business amongst other things.

ACCORDING TO I.M.PANDAY (2009)

In his scholarly work “**Venture Capital: The Indian Experience**” focuses his attention on the strategic role of Venture Capital in the development of technology, innovative entrepreneurship

and small enterprises in India; the development process of Venture Capital by a systematic analysis of Venture Capital practices and policies in India; and the policy initiatives necessary for the success of Venture Capital in developing countries based on the Indian experience.

RATIONALE OF STUDY

Venture Capital is a very wide topic. My study is though not exhaustive but still one has left no stone unturned to unveil each and every aspect of Venture Capital. Following are the Rationale of the present Study:

- To confine that Venture Capital is related to such divers topic as corporate finance, leverage buyouts, merchant banking financing of start-ups, small business management, entrepreneurship development, business incubators, technology transfers, and economic development.
- The present study is confined to a specific aspect of Venture Capital i.e. appraisal of working of Venture Capital in developing country like India for proper perspective; the scope of the study has been widened to include the practices and experiences of the developed and some developing countries.
- To show that Capital is relatively small and emerging activity. The number of players in the industry is limited.
- To determine that it also indicates the geographical coverage is at all India bases adventure capital funds are spread in different parts of the country. As far as the time period covered under the study is concerned, all possible efforts are made to find out data from different authentic sources.

OBJECTIVES OF THE STUDY

When we are going to study something there is specific purpose for our study. It may be for our course, as hobby, for passing our time, to find out genuine solution for any problem or to draw out certain inferences out of the available data. The objectives of my study are:

- **To find out the Venture Capital investment volume in India.**
- **To study the problem faced by Venture Capitalist in India.**
- **To study the future prospects of Venture Capital financing.**

RESEARCH METHODOLOGY

Research Methodology is basically the methods which are followed during the research in the Project.

❖ **METHODS OF RESEARCH**

❖ **TOOLS OF DATA COLLECTION**

METHODS OF RESEARCH

REDMEN & MORY defines “*Research as a systematized effort to gain now knowledge.*” It is a careful investigation for search of new facts in any branch of knowledge. The purpose of research methodology section is to describe the procedure for conduction the study. It includes research design, sample size, data collection and procedure of analysis of research instrument.

Research always starts with a question or a problem. Its purpose is to find answers to questions through the application of the Scientific method. It is a systematic and intensive study directed towards a more complete knowledge of the subject studied.

RESEARCH DESIGN

Acc. to Kerlinger, “Research design is the plan structure & strategy of investigation conceived so as to obtain answers to research questions and to control variance.

Acc. to Green and Tull, “A Research design is the specification of methods and procedures for acquiring the information needed. It is the overall operational pattern or framework of the project that stipulates what information is to be collected from which sources by what procedures. It is found that research design is purely and simply the framework for a study that guides the collection and analysis of required data.

Research design followed is:-

- **Exploratory Research Design**

- This research is an **Exploratory research**. The major purpose of this research is description of state of affairs as it exists at present. **Exploratory research** is a type of research conducted for a problem that has not been clearly defined.
- The results of exploratory research are not usually useful for decision-making by themselves, but they can provide significant insight into a given situation. Although the results of qualitative research can give some indication as to the "why", "how" and "when" something occurs, it cannot tell us "how often" or "how many".

TOOLS OF DATA COLLECTION

There are two kinds of Data, Primary Data and Secondary Data. During this Project Secondary Data has been used.

SECONDARY DATA

According to M.M. Blair, "Secondary data are those already in existence for some other purpose than the answering of the question in hand." Secondary data is the work or findings which are already present. Secondary data is in the form of published and unpublished documents, reports, magazines, letters etc. e.g. if the data published by RBI on currency, National Income, Exports or Imports, is used in some other statistical enquiry, it will be termed as Secondary data. It refers to the statistical material which is not originated by the investigator himself but obtained from someone else's records, or when Primary data is utilized for any other purpose at some subsequent enquiry it is termed as Secondary data. This type of data is generally taken from newspapers, magazines, bulletins, reports, journals etc.

SOURCES OF DATA COLLECTION

- **Internet**
- **Magazine**
- **Journal**
- **Newspaper**

DATA ANALYSIS

- **Analysis of data** is a process of inspecting, cleaning, transforming, and modeling **data** with the goal of highlighting useful information, suggesting conclusions, and supporting decision making. Data analysis has multiple facets and approaches, encompassing diverse techniques under a variety of names, in different business.
- The process of evaluating data using analytical and logical reasoning to examine each component of the data provided. This form of analysis is just one of the many steps that must be completed when conducting a research experiment. Data from various sources is gathered, reviewed, and then analyzed to form some sort of finding or conclusion. There are a variety of specific data analysis method, some of which include data mining, text analytics, business intelligence, and data visualizations.

DATA INTERPRETATION

Interpretation of data is done by using statistical tools like pie diagrams, bar graphs, and also using quantitative techniques accurate information is obtained.

- A number of tables, graphs are prepare to bring out the main characteristics of the data.

CLASSIFICATION

- Data classification is sorting of data according to class, segment or category. Once data is classified it is easier to analyze it and draw conclusions.

TABULATION

- For the numerical identification and distinction of the available data, tabulation is used. Tabulation helps to compare and contrast the data.

Industry	RS. Crore
Information technology	VCF: Rs. 564 crore
Telecommunications	VCF: Rs. 1092 crore
Pharmaceuticals	VCF: Rs. 457 crore
Biotechnology	VCF: Rs. 186 crore
Media/ Entertainment	VCF: Rs. 903crore
Services Sector	VCF: Rs. 1168 crore
Industrial Products	VCF: Rs. 947 crore
Real Estate	VCF: Rs. 8700 crore
Others	VCF: Rs. 11559 crore
TOTAL	VCF: Rs. 25576 crores

OBJECTIVE 1:

TO FIND OUT THE VENTURE CAPITAL INVESTMENT VOLUME IN INDIA

VENTURE CAPITAL FINANCING BY INDUSTRY

FIGURE : 2.1 www.sebi.gov.in

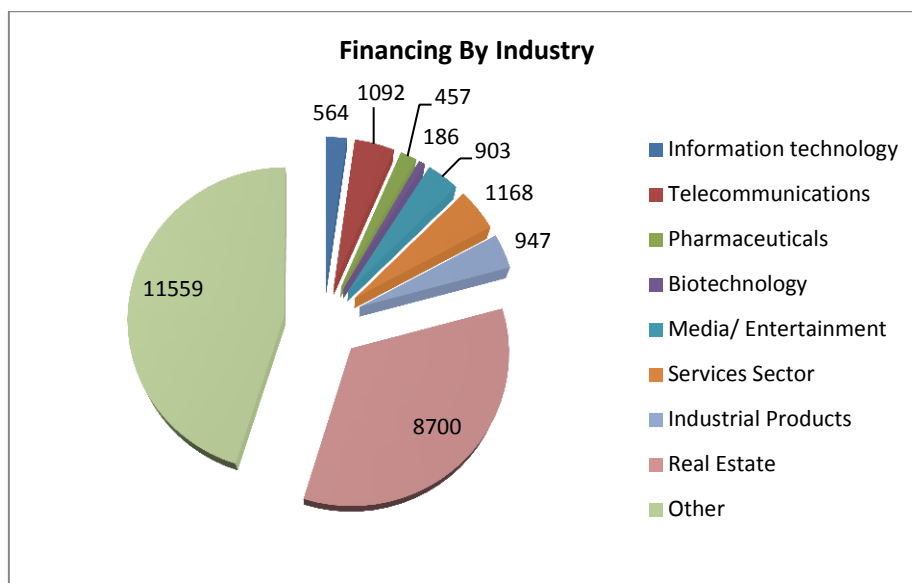


FIGURE: 2.2
INTERPRETATION

In this diagram highest finance is received by others 11559 crore and second highest finance received by Real Estate 8700 crore

VENTURE CAPITAL INVESTMENT BY STAGE

Investment Stages	\$ million
Seed/start-up	36
Other early stages	51
Later stages	228

FIGURE 2.3

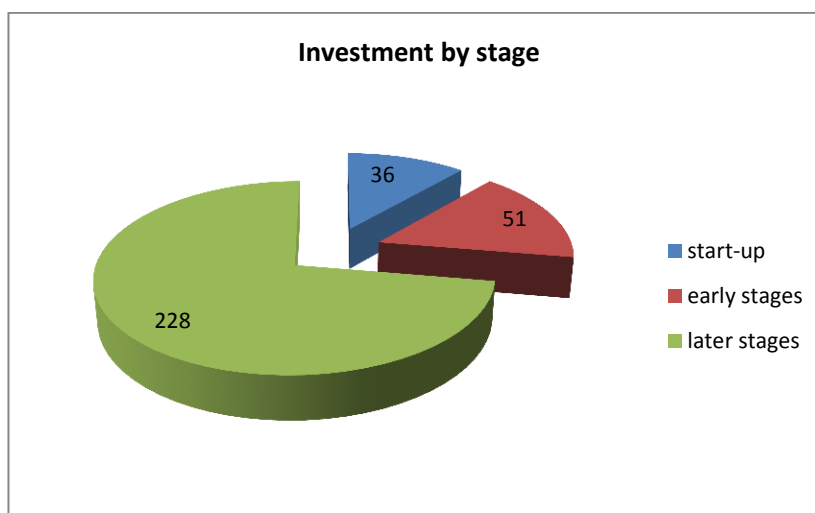


FIGURE: 2.4

- Decrease in seed/start-up investment, but increase in large later-stage investments
 Q1 2011 investments were increasingly concentrated in later-stage deals (73 percent of all value) both in terms of deals (63 percent) and value (73 percent) compared to Q1 2010. The combined value of financing in all early stages in Q1 2011 was \$87 million, an 18 percent decline relative to Q1 2010 . This decline is attributable to fewer investments in other early-stage investments as seed and start-up financings remained relatively unchanged year-over-year

INTERPRETATION

This diagram shows the highest finance is received by the venture in later stage 228\$ million of any venture.

VENTURE CAPITAL BY TYPE INVESTORS

Investors	\$ million
Foreign Fund	100
Private industry	68
Institutions	10
Government	61
Other	29

FIGURE 2.5

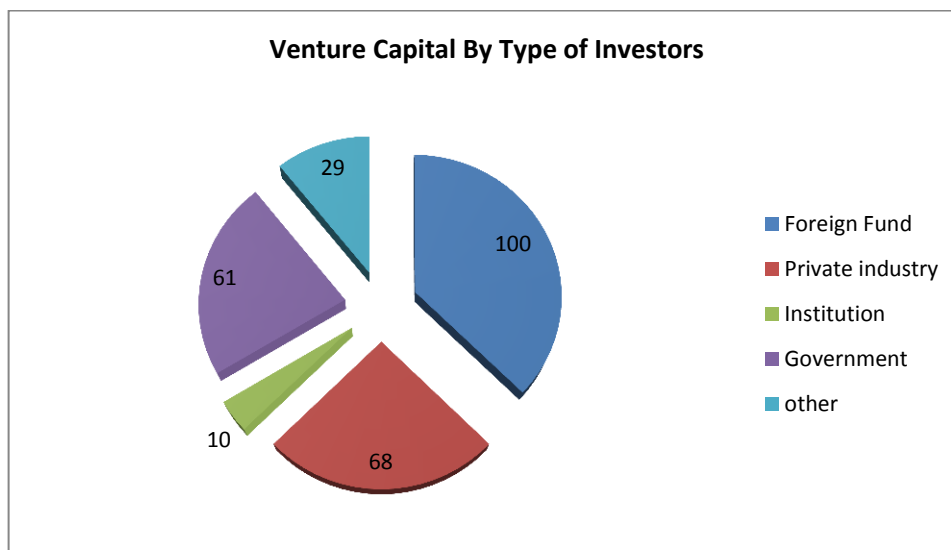


FIGURE 2.6

INTERPRETATION

This Graph shows the highest contribution of fund FII 100\$million and secondly Private industry 68\$ million to develop the Industry.

VC EXIT

	EXIT VOLUME	EXIT VALUE(\$ mn)
Buyback	15	1695.32
IPO	15	502.22
M&A	40	1238.13
Open market	76	1448.54
Secondary sales	18	160.85

FIGURE 2.7

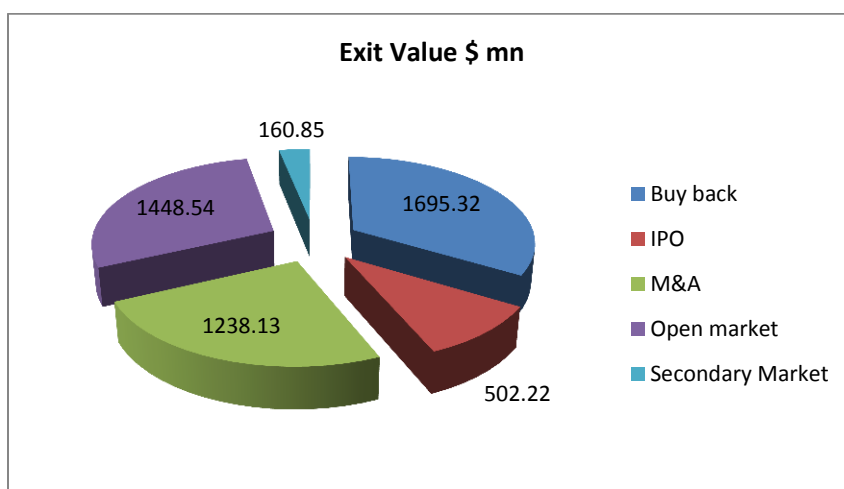


FIGURE 2.8

INTERPRETATION: -

This Graph shows the highest EXIT VALUE of BUY BACK 1695.32\$ million and secondly OPEN MARKET 1448.54\$ million.

OBJECTIVE:- 2

TO STUDY THE PROBLEMS FACED BY VENTURE CAPITALIST IN INDIA

PROBLEMS OF VENTURE CAPITAL IN INDIAN CONTEXT

- One can ask why Venture funding is so successful in USA and faced a number of problems in India.
- The biggest problem was a mindset change from "**Collateral Funding**" to high risk high return funding. Most of the pioneers in the industry were people with credit background and exposure to manufacturing industries.

- Exposure to fast growing intellectual property business and services sector was almost zero. Moreover 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 other issues that led to such a situation includes:-

LICENSE RAJ AND THE IPO BOOM

- Till early 90s, under the license raj regime, only commodity centric businesses thrived in a deficit situation.
- To fund a cement plant, Venture Capital is not needed. What is needed is the ability to get a license and then get the project funded by the banks and DFIs.
- In most cases, the promoters were well-established industrial houses, with no apparent need for funds. Most of these entities were capable of raising funds from conventional sources, including term loans from institutions and equity markets.

SCALABILITY

- The Indian software segment has recorded an impressive growth over the last few years and earns large revenues from its export earnings, yet our share in the global market is less than 1 per cent.
- Within the software industry, the value chain ranges from body shopping at the bottom to strategic consulting at the top.

- Higher value addition and profitability as well as significant market presence take place at the higher end of the value chain.
- If the industry has to grow further and survive the flux it would only be through innovation. For any venture idea to succeed there should be a product that has a growing market with a scalable business model.
- The IT industry (which is most suited for venture funding because of its "ideas" nature) in India till recently had a service centric business model. Products developed for Indian markets lack scale.

MINDSETS

- Venture Capital as an activity was virtually non-existent in India. Most Venture Capital companies want to provide capital on a secured debt basis, to established businesses with profitable operating histories.
- Most of the Venture Capital units were offshoots of financial institutions and banks and the lending mindset continued. True Venture Capital is capital that is used to help launch products and ideas of tomorrow. Abroad, this problem is solved by the presence of 'Angel investors'.
- They are typically wealthy individuals who not only provide Venture finance but also help entrepreneurs to shape their business and make their venture successful.

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 terms of taxation.
- The government must allow pension funds and insurance companies to invest in venture capitals as in USA where corporate contributions to venture funds are large.

EXIT

- The exit routes available to the Venture Capitalists were restricted to the IPO route. Before deregulation, pricing was dependent on the erstwhile CCI regulations.

- In general, all issues were under priced. Even now SEBI guidelines make it difficult for pricing issues for an easy exit.
- Given the failure of the OTCEI and the revised guidelines, small companies could not hope for a BSE/ NSE listing. Given the dull market for mergers and acquisitions, strategic sale was also not available.

VALUATION

- The recent phenomenon is valuation mismatches. Thanks to the software boom, most promoters have sky high valuation expectations.
 - Given this, it is difficult for deals to reach financial closure as promoters do not agree to a valuation.
 - This coupled with the fancy for software stocks in the bourses means that most companies are preopening their IPO's.
 - Consequently, the number and quality of deals available to the venture funds gets reduced
- Some other major problems facing by Venture Capitalist in India are:
- **Requirement of the 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.**

OBJECTIVE :-3

TO STUDY THE FUTURE PROSPECT OF VENTURE CAPITAL FINANCING .

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, by liberalizing norms regarding Venture 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.
- 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 of the SEBI to develop a strong and vibrant capital market giving the adequate liquidity and flexibility for investors for entry and 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 564 crore in 2011. 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).

CONCLUSION OF THE STUDY

- A number of people in India feel that financial institution is not only Conservatives but they also have a bias for foreign technology & they do not trust on the abilities of entrepreneurs.
- Some Venture fails due to few exit options. The team usually a two or three man team. It does not possess the required depth in top management. The team is often found to have technical skills but does not possess the overall organization building skills team is often short sighted.
- Venture Capitalists in India consider the entrepreneur's integrity & urge to grow as the most critical aspect of Venture evaluation.
- Venture Capitalists in Indian have notice of newer avenues and regions to expand. VCs have moved beyond IT service but are cautious in exploring the right business model, for finding opportunities that generate better returns for their investors.
- In terms of impediments to expansion, few concerning factors to VCs include; unfavorable political and regulatory environment compared to other countries, difficulty in achieving successful exists and administrative delays in documentation and approval.

POLICY IMPLICATION

In the light of the conclusions reached related to the theoretical analysis of present status and working of Venture Capital in India, endeavor is made to offer some suggestions and recommendations to make the Venture Capital more useful in the country:

- ❖ The investment should be in turnaround stage. Since there are many sick industries in India and the number is growing each year, the Venture Capitalists that have specialized knowledge in management can help sick industries. It would also be highly profitable if the Venture Capitalist replace management either good ones in the sick industries.
- ❖ It is recommended that the Venture Capitalists should retain their basic feature that is tasking high risk. The present situation may compel Venture Capitalists to opt for less risky opportunities but is against the spirit of Venture Capitalism. The established fact is big gains are possible in high risk projects.

- ❖ There should be a greater role for the Venture Capitalists in the promotion of entrepreneurship. The Venture Capitalists should promote entrepreneur forums, clubs and institutions of learning to enhance the quality of entrepreneurship.

LIMITATIONS OF THE STUDY

During my Project work I had to face few problems which are as under:

- We have taken data only for last 5 years for the purpose of study.
- We have taken all the Venture capital companies working in India as a whole which are divided into 4 categories for the purpose of the study.
- The data required was secondary & that was not easily available.
- Study by its nature is Suggestive & not Conclusive.

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