**CHAPTER - 1**

**INTRODUCTION**

Starting and growing a business always require capital. There are a number of alternative methods to fund growth. These include the owner or proprietor’s own capital, arranging debt finance, or seeking an equity partner, as is the case with venture capital.

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 (egg. IT, Infrastructure, Health/life sciences, 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.

Venture capital refers to capital investment, both Equity and Debt, which carries substantial risk and uncertainties. The risk envisaged may be very high, may be so high so as to result in total loss, or very less risk so as to result in high gains.

The Investment in Equities is expected to grow up as capital gains, which can be converted in to cash when required. Venture capital is thus an initiative to provide vital equity support to new industries where the risk element is high and entrepreneurs are qualified but lack necessary resources to proceed on their own.

A venture capitalist entertains keen interest and active participation in the working of the business such as in the management, production, marketing, accounting, training activities etc. However, the venture capitalist does not participate in the day-to-day working but protects and enhances his investment through an active supporting role.

The venture investment is long term and is not repayable on demand. The venture capitalist has to wait between 5 and 10 years for any significant return on his investment.

1.1 **ADVANTAGES:**

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

1.2 **BACKGROUND OF THE STUDY:**

A number of technocrats to setup shop on their own and capitalize on opportunities. In the highly dynamic economic climate that surrounds us today, few ‘traditional’ business models may survive. Countries across the globe are realizing that it is not the conglomerates and the gigantic corporations that fuel economic growth any more.

The essence of any economy today is the small and medium enterprises. For example, in the US 50% of the exports are created by companies with less than 20 employees and only 7% are created by companies with 500 or more employees.

This growing trend can be attributed to rapid advances in technology in the last decade. Knowledge driven industries like InfoTech, healthcare, entertainment and services have become the cynosure of bourses worldwide. This is a paradigm shift from the earlier physical production and economies of scale model.

However, staring an enterprise is never easy. There are number of parameters that contribute to its success or downfall. Experience, integrity, prudence and a clear understanding of the market are among the sought after qualities of a promoter. However, there are other factors, which lie beyond the control of the entrepreneur. Prominent among these is the timely infusion of funds. This is where the venture capitalist comes in, with money, business sense and a lot more.

1.3 **WHAT IS VENTURE CAPITAL?**

Venture capital is money provided by professionals who invest alongside management is young, rapidly growing companies that have the potential to develop in to significant economic contributors. It is an important sourced of equity for start-up companies.

Professionally managed venture capital firms generally are private partnerships or closely held corporations funded by private and public pension funds, foundations, corporations, wealthy individuals, foreign investors and the venture capitalists themselves.

1.4 **STAGES IN VENTURE FINANCING:**

**Early Stage Financing:**

* Seed financing for supporting a concept or idea.
* Research and Development financing for product development.
* Start-up capital for initiating operations and develop a prototypes.
* First stage financing for production and marketing.

**Expansion Financing:**

* Second stage financing for working capital and initial expansion.
* Development financing for major expansion.
* Bridge or mezzanine financing for facilitating public issue.

**Acquisition/Buy-out Financing:**

* Acquisition financing for acquiring another firm for further growth
* Management Buy-out financing for enabling operating group to acquire the firm or part of its business.
* Turnaround financing.

1.5 **VENTURE CAPITALISTS GENERALLY:**

* Finance new and rapidly growing companies.
* Purchase 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.

When considering an investment, venture capitalists carefully screen the technical and business merits of the proposed company. Venture capitalists only invest in a small percentage of the businesses they review and have a long-term perspective. They also actively work with company’s management, especially with contacts and strategy formulation.

Venture capitalists mitigate the risk of investing by developing a portfolio of young companies in a single venture fund. Many times they co-invest with other professional venture capital firms. In addition, many venture partnerships manage multiple funds simultaneously. For decades, venture capitalists have nurtured the growth of America’s high technology and entrepreneurial communities resulting in significant job creation, economic growth and international competitiveness. Companies such as Digital Equipment Corporation, Apple, Federal Express, Compaq, Sun Microsystems, Intel, Microsoft and Genetic are famous examples of companies that received venture capital early in their development.

In India these funds are governed by the Securities and Exchange Board of India (SEBI) guidelines. According to this 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 as the case may be, and makes or proposes to make investments in accordance with these regulations.

(Source: SEBI (Venture Capital Funds), Regulations, 1996).

1.6 **VENTURE CAPITAL IN INDIA:**

Most of the success stories of the popular Indian entrepreneurs like the Ambani’s and Tata have had little to do with the professionally backed up investment of an early stage. In fact, till very recently, an entrepreneur starting off on his own had to rely entirely on personal savings or loans raised through personal contacts/financial institutions.

Traditionally, the role of venture capital was an extension of the developmental financial institutions like IDBI, ICICI, SIDBI and State Finance Corporations (SFC’s). The first origins of modern venture capital in India can be traced to the setting up of a technology development fund (TDF) in the year 1987 to 1988, through the levy of a 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 frame work 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 Vijayanagar Steel, which raised money even before they started constructing their plants, were established through this route.

The industry’s growth in India considered in two phases. The first phase was spurred on soon after the liberalization process began in 1991. According to former finance minister and harbinger of economic reform in the country, Manmohan Singh, the government had recognized the need for venture capital as early as 1988. That was the year in which the Technical Development and Information Corp of India (TDICI, now ICICI venture) was setup, soon followed by Gujarat Venture Finance Limited (GVFL). Both these organizations were promoted by the financial institutions. Sources of these funds were the financial institutions, Foreign Institutional Investors or Pension Funds and high net worth individuals. Though an attempt was also made to raise funds from the public and fund new ventures, the venture capitalists had hardly any impact on the economic scenario for the next eight years.

However, it was realized that the concept of venture capital funding needed to be institute

ionalized and regulated. This funding requires different skills in assessing the proposal and monitoring the progress of the fledging enterprise. In 1996 Security and Exchange Board of India (SEBI) came out with guidelines which the venture capital funds had to adhere to, in order to carryout 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 in to India. Increased competitions brought with it greater assess 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 under tone 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 center 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 data base. According to the IVCA, the pool of funds available for investment to its 20 members in 1997 was Rs. 25.6 bn 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) where as others may have a much wider spectrum. Again, certain funds may have a geographic focus like Uttar Pradesh, Maharashtra, Kerala etc. where as others may fund across different territories. The fund may be either may be close-ended schemes (with a fixed period of maturity) or open ended. In assessment of competitive market environment, the venture capitalists should be convinced that an intention could lead to a dominant market share regardless of the size of the market.

Incentives and disincentives for investing in India by venture capitalists:

**Incentives:**

* Growth potential in the IT sector.
* Attractiveness of the domestic market.
* Presence of experienced management.
* Relatively high values.
* Attractive exit multiples.
* Prevalence of the use of English.
* Quality of the educational system.
* Positive correlation between parties.
* Existing Infrastructure.

**Disincentives:**

* Regulatory risk.
* Bureaucratic transactional friction.
* Difficulty of getting attractive exists.
* High political risk.
* Lack of an efficient legal system.
* Risk of currently devaluation.’
* Lack of Infrastructure.
* 1.7 **RISK EVALUATION AND CATEGORISATION:**

**Technical Risk:**

Ownership to a technology is often an assumed right to an invention when an inventor obtains a patent. However, some discrepancy may take place if the work is performed under the auspices of another party, whether for profit or not for example someone who, in the course of an employment has an idea that may be been stimulated by work in progress for the employer. To defend against such future challenges, venture capitalists should careful examine these factors early in there evaluation process. Other aspects of the technology risk, such as technical feasibility, are typically well-understood by the inventor and sophisticated fund manager.

**Financial Risks:**

Evaluating the potential for taking the innovation to the market requires estimating the capital required to gain desired market position. The venture capitalists must first assess whether sufficient capital can be raised before a single rupee is committed to the project.

In addition, the venture capitalists should closely examine what capital should be provided by the project and when. The timing and the method of returning invested capital are most important considerations for a venture capital fund.

**Management Risk:**

Most start-ups fail due to people. The ability and the willingness of the entrepreneur and his team are thus major risks. The most important criterion for a venture capital firm giving funds to an entrepreneur is his management team. If the team fails to perform well then it might lead to the end of the road for the firm.

1.8 **INSTRUMENTS OF FINANCE:**

A venture capital fund for software needs to make investment in the form of equity as well as debt. Financing needs of software companies are primarily of two types, capital investment for office space, hardware and software platforms and working capital requirement for day-to-day operations. A venture capital fund would primarily be involved in capital investment.

1.9 **VARIOUS FINANCING OPTIONS AVAILABLE**

**Equity Financing:**

Most often, these investments should be in the form of equity participation. This participation should be in the range of 25 percent to 35 percent. This ensures a large stake for the entrepreneur in the company, providing assurance of personal interest and effort. Only under extraordinary circumstances, where the venture capital fund feels that they can add substantial value to the venture, it should go in for a majority stake.

**Preference Shares / Redeemable / convertible:**

Alternatively the venture capital fund can go for an investment through redeemable reference shares or convertible preference shares (i.e. preference share is converted in to common share).

**Fully Convertible:**

Non-convertible debentures – the venture capitalists can also go for debt convertible debentures, entire amount is converted in to equity capital for a fixed maturity date. For e.g. for ventures with considerably higher risks, like introduction of an untried technology or product, these instruments can be considered.

**Conditional Loans (Quasi-Equity Instrument):**

This instrument may prove very effective in India. A conditional loan does not carry a fixed rate of interest or a predetermined amortization scheme but is normally liquidated through royalty on sales. It is akin to equity as the returns depend on performance of the ventures and royalty becomes payable only after sales realization. The repayment of principal is over a period of time, besides royalty payments.

**Conventional Loans:**

This instrument carries a fixed rate of interest of predetermined amortization schedule.

**Income Note Loan:**

It carries a flexible nominal interest; repayment of principal is specified over a period besides a royalty on sales.

1.10 **BENEFITS OF VENTURE CAPITAL:**

**To Investors**

* The investors get high return.
* In order to encourage the development of venture capital funds, the Income Tax Act, 1961 exempts the income of a venture capital fund from Income Tax.
* He acts as a nominee in the board.
* He has the right to conduct board meetings.

**To The Investee:**

* The investee gets lump sum amount for this project.
* The employee of VCC acts as a nominee and reviews the functioning of the company.
* Their shares are listed on the stock exchanges.
* The company need not give collateral security for the fund required.

1.11 **CLASSIFICATION:**

* Venture funds in India can be classified on the basis of genesis:
* Financial Institutions led by ICICI Ventures etc.
* Private venture funds like Indus etc.
* Regional funds like Warburg Pincus, JF Electra.
* Regional funds dedicated to India like Darper, Walden etc.
* Offshore funds like Barings, TCW, and HSBC etc.
* Corporate ventures like Intel.

To this list we can add Angels like Sivan securities, Atul Choksey (ex-Asian Paints) and others. Merchant bankers and NBFC’s who specialised in ‘Bought-out’ deals also fund companies. Most merchant bankers led by Enam securities now invest in IT companies.

1.12 **SIZE OF INVESTMENT:**

The size of investment is generally less than Rs 40 mn, Rs 60 mn, Rs 20 – 40 mn, and greater than Rs 400 mn. As most funds are of a private equity kind, size of investments has been increasing. IT companies generally require funds of about Rs. 30 – 40 mn 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.

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

1.13 **COMPARATIVE STATEMENT OF VENTURE FUNDING TRENDS IN INFORMATION TECHNOLOGY AND BIOTECHNOLOGY:**



**CHAPTER-2**

**REVIEW OF LITERATURE**

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.

The purpose of reviewing the literature is to know the strategies and challenges of venture capital financing to Information Technology. The main objective is to know the stages in which firms have received venture capital funding and what are the requirements for getting of venture capital by new companies.

2.1 **Snigdha Sengupta & Madhav Chanchani (2015, Economic Times)** The article talks of the rowing impetus of FDI in India, the venture capitalists have found great potential in India, the start-ups in India have gained great momentum such Taxi4sure, Ola Cabs, Make my Trip, Red bus etc. and similarly 12,400 crores is being pumped into this sector for the potential that these businesses possess. They have been able to raise $1 billion in 2014 alone; also India is in the middle of an unprecedented start-up boom with more than 1,200 new ventures coming up across the country in 2014. Overall investments hit an all-time high of $2.1 billion in 2014, nearly 50% more than the previous year, and the momentum is expected to continue this year, both in seed and mature companies. This has shown great potential in Indian Venture Capital Markets with renewed interest.

2.2 **Kirti Punia (2011)** has identified an important problem in the Venture Capital Industry in India which is that representation of women in this Industry is significantly low and less than 3% of comments on VC blogs are by women. People don’t look at venture capitalist job as more of a business model evaluation but think of it as financial number crunching. The issue is concerning as bias in the industry points towards prejudice which has been a source of abhorrence and destroyed many industries.

 2.3 [**Shilpa Phadnis**](http://timesofindia.indiatimes.com/toireporter/author-Shilpa-Phadnis.cms) **(2015, Times of India)** hasidentified Bangalore India's IT hub came in fifth in a list of cities globally that received the most venture capital in 2014, an indication of the growing vibrancy of its start-up ecosystem.

Bangalore offers the following scoring points:

* Bengaluru has an ability to attract tech talent.
* Engineers who worked with Google and Yahoo wanted to try new ideas.
* Mobile apps and cloud have reduced entry barriers.
* Venture capitalists are looking at India with a fresh set of eyes.

These factors have made Bangalore a hub and help us identify the technological requirements most VC start-ups cater to.

2.4 **Rebecca Fannin (2015, Forbes)** writes of London-based Amadeus Capital Partners has set up in Bangalore and plans to soon make the fund’s first investment in a business with operations in India. This is an important factor for India as Indian VC’s are now facing competition from globally established players with diverse experience in many fields. Under the leadership of CEO Anne Glover, technology investor Amadeus raised a $75 million global fund, Amadeus IV Digital Prosperity Fund, in a first closing in 2013. Amadeus has been investing since 1997, and counts more than 90 investments in tech businesses. Thus, they are vying the very lucrative technology start-up market in India.

2.5 **Devin Thorpe (2015)** similar to the previous article by Rebecca writes of Unitus, one of the early entrants in micro lending in the developing world and, as a result, in impact investing, is continuing to innovate. The [Unitus Seed Fund](http://usf.vc/) provides venture capital for people near the base of the pyramid in India. Again pointing to the potential VC market in India and how many new entrants in the Indian markets are vying the top position, especially the technology start-ups which India has a lot of latent talent in.

2.6 **Larry W. Schwartz** in his paper titled Venture Abroad: Developing Countries Need Venture Capital Strategies identifies how developing nations have great potential in development of new business ideas; also they are ideal Venture Capital models as financing of innovative projects can be hard to find. The paper also examines the various strategies that need to be implemented for successful ventures.

Ravinder K. Zutshi and others in the paper titled Venture Capitalists (VCs) Investment Evaluation Criteria: A Re-Examination have artistically identified how VC’s face the challenge of letting a good business idea slip through their fingers. The VC industry originated in the Western Hemisphere in response to the need for risk capital for high technology industries In the light of the differences in investment opportunities around Singapore, and the nature of industrial developments in South East Asia in general, the authors anticipated that the investment criteria employed by Venture Capital Firms (VCs) in Singapore would differ. The results however reveal that criteria adopted by Singapore VCs are not very different from those adopted by VCs in other countries including U.S. The results also confirm that the entrepreneur's characteristics or the top management's capabilities are seen as being primary indicators of the venture's potential.

**2.7 Hsu, (2006)** dealt with the impact of Venture Capital firms in the commercialization of technology based startup businesses; it does so by deciding upon the different methods of providing the funds to help the commercialization of the technology based startup committees. Scholars have examined performance effects associated with commercialization in the context of startup have also documented beneficial effects. For startups the obstacles to cooperative commercialization maybe somewhere higher as a result of higher search cost for its partners thus the new firms find it difficult to collaborate.

**2.8 Berglof, (1994)** dealt with the control mechanism as well as the allocation of revenue by the entrepreneur and an external investor in the venture capital relationship, given that they want to liquidate their holdings in the future. Closely resembled contractual agreements of Venture Capital markets are generated within an incomplete contractual framework, as well the importance of preferred stock and convertible instruments are discussed.

**2.9 Smith Jr, (1993)** dealt with details of the various important elements of the regional capital formation, technological innovation and regional industrialization. This paper introduces various data on venture capital and develops statistical models for both the location of venture capital and its distribution. The critical research suggests that venture capital is characterized into the following:

(i) High degrees of capital mobility operating through a well-defined spatial structure

(ii) Investment flows to the areas of greatest opportunity and return on investment

(iii) Development of specialized sources of venture capital supply around both established financial centers and centers of high technology industry

**2.10 Bhattacharyya, (1989**) dealt with various types of Venture Capital financing has been put forward, which are as follows:

1. It shall have entrepreneurial perception

2. It shall provide management support

It has been noted that in India the initiative is mainly from the public sector and therefore the doubt regarding whether the expectation can be fulfilled in this kind of rigid environment of policies and procedures is possible or not arises.

Further the initial funding by the Venture Capitalist will be illiquid in the firm for the initial years for two reasons:

1. Fund entrusted in a company would take some time before it can show capital appreciation

2. VC company could be expected to yield returns to its investors only after it has built up a diversified portfolio of a number of ventures, for hit ratio of success would be rather low in terms of numbers.

Thus it will affect the VC Company by the public sector due to the losses in the initial years..

**CHAPTER -3**

**RESEARCH METHODOLOGY**

**3.1 TITLE:**

 **“A COMPARATIVE STUDY ON VENTURE CAPITAL FINANCING**”.

The study focuses on how venture capitalists provide finance as well as skills to new enterprises and new ventures of existing ones based on high technology innovations. New companies make an analysis with regard to the requirements for getting venture capital. The risk undertaken by the venture capitalist, the expected IRR are also dealt with. The primary data was collected by administering a detailed questionnaire. The secondary data was collected through various sources such as magazines, Internet, business journals etc.

**3.2 RESEARCH OBJECTIVE:**

* To know what is the expected IRR (Internal Rate of Return) of IT industries by venture capital financing companies.
* To know the preference of documents of venture capitalists.
* To identify the Stages in which firms have received venture capital funding that is seed stage and second stage.
* To know the sources of finance for a investee.
* To bring out the criteria for getting venture capital by new companies.
* To understand the percentage of IRR expected by the venture capital funding company as the risk taken by the investors from the investee.

**3.3 STATEMENT OF THE PROBLEM:**

Even though venture capital is a older concept in India, many newly start-up companies are failing in getting venture capital in India but before pointing the finger at VC firms it is also important to ask if the start-up companies are filling their requirements of funding companies.

**3.4 TYPE OF RESEARCH:**

The research used here in this study is descriptive. This research is designed to find out the expected IRR (Internal Rate of Return) of IT industries by venture capital financing companies and to know what the stages of financing to IT industries are by venture capital financing companies.

3.5 **SOURCES OF DATA**

* Primary Data:

Primary data has been used for the study. In this study, the primary data was collected by administering a detailed questionnaire.

* Secondary Data:

The project depends more on secondary data collected through various sources such as magazines, internet, business journals etc.

 3.6 **SAMPLING TECHNIQUE:**

For the purpose of the study, random sampling has been used. In random sampling technique the researcher’s random has been used for selecting items which are considered as representative of the population.

**3.7 SAMPLE SIZE:**

The respondents were chosen on the basis of simple random sampling five venture capital companies are selected for questionnaire purpose.

**3.8 INSTRUMENTATION TECHNIQUE:**

Questionnaire was prepared to collect some relevant data. Since, information in the field of venture capital had to collect from venture capitalist.

**3.9 NEED & IMPORTANCE OF THE STUDY:**

Venture capital is an importance source of finance, which helps in starting up of the companies which has been highly successful in many countries like UK, USA etc. but the success story failed to repeat itself in India. Hence it is very important to study the operating factors and obstacles in the Indian scenario which are hindering the growth of venture capital and this requires a thorough scrutiny of the nature of this industry, the investors and the investees. Venture capital by simple definition is funding for high risk and highly returns oriented businesses. Its main ***objectives*** are:

* To provide finance as well as skills to new enterprises and new ventures of existing ones based on high technology innovations.
* To fill the gap in the owner’s fund in relation to the quantum of equity required to support the successful launching of a new business.
* Venture capitalists duty extends even as to see that the firm has proper and adequate commercial banking and receivable financing. The essential objective of venture capital is to achieve high returns on its investments. This makes cashing out imperative, unless further extraordinary returns are expected.
* To develop new process / products in conducive atmosphere, free from the dead weight of corporate bureaucracy, which helps in exploiting full potential.
* Venture capital firm serves as an intermediary between investors looking for high return for their money and entrepreneurs in search of needed capital for their start-ups.
* It also paves the way for private sector to share the responsibility with public sector.

**CHAPTER - 4**

**ANALYSIS AND INTERPRETATION OF DATA**

4.1 **DATA ANALYSIS:**

A flourishing venture capital industry in India is an imminent requirement considering the gap between the capital requirements of technology and knowledge based start-up enterprises and funding available from traditional lenders such as banks.

The field of bio-tech offers a multitude of exciting investment opportunities to venture capitalists. Investing in bio-tech does not need expertise in science and related technology, what is needed is a clear understanding of the use and the market potential of the inventions and discoveries in addition to basics of investment.

4.2 **Table – 1**

**INDUSTRIES PREFERRED BY VENTURE CAPITALIST FOR INVESTMENT**



4.2 **Chart-1**

**INDUSTRIES PREFERRED BY VENTURE CAPITALISTS FOR INVESTMENT:**

**INTERPRETATION:**

Among all, Software industry occupies the first slot among the most preferred ventures by the venture capital companies, as the Software business, given high returns within a short period of time. Risks involved are relatively lower. Next to the Software, the Bio-Tech sector is the most preferred by the venture capital companies, as this sector only requires the entrepreneur to properly position and market the new inventions and discoveries. The Telecom sector and the manufacturing seems to be among the least preferred by the venture capital companies as there are already lots of big players competing against each other. Bio-Tech is gaining next preference probably because of the present situation on the market and wider scope for the industry in the innovation of new technologies.

**4.3 Table-2**

**RANKING OF THE DOCUMENTS PREFERRED BY VENTURE CAPITALISTS**



**CRITERIA FOR INVESTING IN START-UP COMPANIES:**

The criteria for investing in start-up companies are based on the following factors.

* Nature of the venture team
* Project / Product / Service.
* Market characteristics.
* International Market.
* Financial consideration.
* Entrepreneurial personality and experience.

Depending on the critical and analytical evaluation of the above mentioned factors, the decision as to whether to accept or reject the project / proposal will be taken

4.3 **Chart-2**

**RANKING OF THE DOCUMENTS PREFERRED BY VENTURE**

**INTERPRETATION:**

In the list of order of preference of required documents, the marketing plan occupies the first slot as more respondents gave it the first preference. Marketing plan was followed by Cash Flow segment, Balance Sheet and the List of project completion.

Marketing plan is preferred by more respondents because it helps to evaluate how early a project will yield returns and based on that investment decision are made.

Cash flow projection helps respondents to know how the funded cash will be utilised to give best profitable returns. This helps to analyse the company’s ability to utilise the given funds for the optimum results.

Balance Sheet, which is slotted in the third position helps to evaluate company’s price earning ratio and debt coverage ratio in order to assess whether the company is meeting external debts or not.

4.4 **Table-3**

**CRITERIA FOR FUNDING THE PROJECT:**



**4.4 Chart-3**

**CRITERIA FOR FUNDING THE PROJECT:**

**INTERPRETATION:**

* An innovative project is essential for investing by venture capitalists as it has
* immense growth potential and competitive ability to succeed in the market. The
* innovative features are also very essential as they distinguish the project from the rest
* and also attract the investors.
* Entrepreneurial personality and experience contribute towards the success of the
* project, since they play major role in managing, assisting, and working, guiding and
* co-coordinating the efforts of others.
* Existing nature of financial markets in the country where the firms are investing also
* place an important role, as this decides the exit routes available and
* opportunities for raising funds for venture capital firms.
* International markets for the project also assumes importance in the present situation
* where no barriers exits for entry all can complete in one place and the success of the
* project depends on facing competition not just in the local market but also in the
* global market. Good Team work, the mantra for modern success stories in the market,
* holds good for venture capital funding too. Market Characteristics covers the
* marketability of the product and the competition it faces from other competitors.
* Returns in the short period depend on the market characteristics of the project-hence it
* is importance as a major criterion in decision making for capital funding.

4.5 **Table-4**

**VENTURE CAPITAL PREFERENCE – STAGE OF VENTURE**



The venture capital preference can be divided in to the following category.

* Start-up
* Seed Capital
* Expansion
* Turnaround

4.5 **Chart-4**

**VENTURE CAPITAL PREFERENCE – STAGE OF VENTURE**



**INTERPRETATION:**

Majority of venture capitalists are providing finance for start-up stage as providing finance for ideas though involves high risks, promises high returns and this gets well with the investment philosophy of venture capitalists.

Seed stage financing involves a great deal of effort not just for making the project take-off but also for constant nurturing and monitoring of the project subsequently.

Expansion and Turnaround stage make up only 20% and 10% of the recipients, as that these stage much other conventional finance is available and even there is a very limited exit option for venture capitalists.

**4.6 Table-5**

**IRR EXPECTATION BY VENTURE CAPITALISTS:**



**4.6 Chart-5**

**IRR EXPECTATION BY VENTURE CAPITALISTS:**



**INTERPRETATION:** The percentage of minimum IRR preferences by private venture capitalists are more than banking backed companies this is because of the following reasons:

* Opportunity cost increased by private firms is more.
* Exchange risk in financing and raising funds is more, country’s constraints and economic risk faced by private venture capitalist is more.investment is made in all the sectors which is a good sign towards business.

**4.7Table-6**

**PREFERENCE OF INVESTEES TO THE VARIOUS STAGES:**

|  |  |
| --- | --- |
| **INVESTMENT STAGE**  | **PERCENTAGE** |
| EARLY STAGE  | 7 |
| GROWTH STAGE  | 28 |
| LATE STAGE | 53 |
| BUYOUT | 11 |
| TURNAROUND | 2 |

4.7 **Chart-6**

**PREFERENCE OF INVESTEES APPROACH TO THE VARIOUS STAGES:**

**INTERPRETATION:**

The Investees Approach To various stages, the investees at the early stage prefer to take up the venture capital only 7% and this indicates, as the risk involved in the early stages of a company to establish the idea and market it, and the growth stage and the late stages have established a bit so they give preference to them as less risky and a steady growth has been made. And as far as buyout and turnaround stages are concerned it’s the reverse phenomena as risk is very less and so are the returns.

4.8 **Table-7**

**VENTURE CAPITAL FINANCE RISK – STAGE WISE**

|  |  |
| --- | --- |
| **Stage at which Investment is made** | **Risk of Loss** |
| seed stage  | **66.2** |
| Start-up stage | **53.0** |
| Second seed stage | **33.7** |
| Third stage | **20.1** |
| Bridge/pre public stage | **33.0** |

**4.8 Chart-7**

**VENTURE CAPITAL FINANCE RISK PROFILE:**



**INTERPRETATION:**

The risk of loss in seed stage is by 66% showing maximum because when a new product or concept is developed there is no hope of 100% click. The concept developed may fail due to its existence already or because of heavy competition by competitors. Therefore considerable analysis has to be made before investing at the seed stage.

Risk of loss has reduced to 50% in start-up stage as the firm is already been started and investments are likely to pay for marketing and development. The risk is very less in the third stage because at this stage the firm is stable and is contemplating an expansion project. The risk is moderate in Bridge/Pre-public stage as the money invested goes to public directly.

4.9**Table-8**

**SOURCES OF FINANCE AVAILABLE FOR VENTURE CAPITALIST**



**4.9Chart-8**

**SOURCES OF FINANCE AVAILABLE FOR VENTURE CAPITALIST:**



**INTERPRETATION:**

Equity shares are very much preferred since high returns are possible by transferring shares to promoters and other institutions. It also ensures active participation in management and also ownership. Convertible Debt is preferred as they can be converted in to equity at any given point of time. Preference shares are preferred at third as the venture capitalists looks in to that at 7.6% investments.

Non-convertible Debt preferred at forth with 7.3% for investments.

**CHAPTER - 5**

**CONCLUSION AND RECOMMENDATIONS**

**5.1 FINDINGS:**

* The major investment made in software sectors show that Very less investment is made on manufacturing sector, which is not a good sign, For overall social development investment should be made in all the sectors in all the regions for overall development.
* The investment for the project is based on many criteria. If the project is new and innovative then more amounts can be invested because product is new to the market and as the ability to capture the market.
* Preference for investing venture capital is given to start-up stage may be because of innovativeness of the project and a good team. It is found that less preference is given for expansion and turnaround stage of the venture.
* The Internal Rate of Return is more when risk is high. 40 percent of the people don’t want to take high risk and hence they are satisfied with moderate returns of 20-25 percent. Only 20 percent of the people are taking risk expecting high returns.
* Higher Risk Gives higher Returns and lower risk the lower returns so the venture capitalists invest more on growth and late stages as moderate risk and good returns .
* The risk is more in the early stage as the product is new to the market and requires huge capital to promote the product. Similarly the risk is less in the late stage where the firm is well established and risk of losses moderate in the growth stage.
* Equity shares are much preferred since high returns can be earned. It also ensures active participation in management and also ownership. Equity shares are preferred since no fixed interest is given to shareholders; the dividend depends on the profit of the firm. Preference shares are less preferred because a fixed amount is to be paid irrespective of the condition of the firm.
* The Preference to IT sector by venture capitalists is its upcoming market and a good future for the industry and also the preference to early stage investment and high returns match with this field so the preference is for IT Sector.

5.2**RECOMMENDATIONS**

* The venture capital investment must be made in rural areas only then overall development occurs. When more industries are setup in rural areas the infrastructure will be developed, standard of living of the people is improved and also we get good internal rate of return with cheap labour.
* The investment is made for new projects heavily when compare to existing ones.
* Encouraging new projects is a good sign but at the same time the investment must be made on existing projects to improve their efficiency.
* Considerable encouragement must be given for expansion and turnaround because even at this stage if the company performs well then good internal rate of return can be obtained.
* People are not ready to take high risk and hence they tend to invest in the late stage.
* Encouragement must be made by venture capitalists to make investment in all the stages, which gives good returns.
* The money is not much invested in early stage, which is not a good sign for any company to get into late stage, its early stage is very important. Therefore for a firm to perform well huge amount of capital must be invested in early stage.
* The risk of loosing the money is more in early stage and hence government must provide subsidies, which encourage the private companies to invest.
* SEBI guidelines can be studied for starting up of venture capital funding company.
* Venture capitalists should help these entrepreneurs who have projects with good market prospects but lack finance The projects must be analyzed thoroughly to examine their market prospects not only in the immediate future but also in the long run.

5.3 **CONCLUSION**

So, from the analysis is done in this study, as well as from the secondary data obtained from various sources, it can be concluded that:

* There exists a prospect for venture capital in IT sector and,
* Foreign Institutional Investor and All Indian Financial Investors are major contributors to venture capital in India.

The dot-com bubble burst may have discouraged the venture capital firms. But now the IT sector is again showing up. The IT companies are in to a major hiring spree. The entrepreneurs in the IT sector now have a change to exhibit their entrepreneurial skills.

At the same time the venture capitalists should help these entrepreneurs who have projects with good market prospects but lack finance. The projects must be analyzed thoroughly to examine their market prospects not only in the immediate future but also in the long run.

The IT sector in India looks bright today, as India is getting a major share of business process outsourcing business.

Hence the high returns that can earned through innovative projects should be made use of by the venture capitalist thus helping the budding entrepreneurs create wealth for the country,

Lack of long term focus and improper business prospect analysis had led to the bursting of the dot-com business. The entrepreneurs should properly analyze their projects to examine the markets with long-term focus. Lack of funds should not hinder the budding entrepreneurs from creating wealth. The venture capitalist seem encouraging again, hence the new projects which have long term prospects should be presented to the venture capital firms for funding.

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QUESTIONNAIRE:

**NAME:**

1) GENDER**: MALE FEMALE**

2) AGE:

3) AS A VENTURE CAPITALIST WHICH SECTOR WOULD YOU PREFER TO INVEST:

* **Software**
* **Biotechnology**
* **Manufacturing**
* **Tele-communication**

4) WHAT ALL DOCUMENTS OF A INVESTEE WOULD EARN THEM VENTURE CAPITAL SUPPORT, RANK THEM BY THEIR SIDE

* **List of project completion**
* **Marketing plan**
* **Balance sheet**
* **Cash Flow Projection**

5) RANK THE FOLLOWING ACCORDING TO YOUR PREFERENCE TO PROVIDE VENTURE CAPITAL

* **Financial market**
* **Good team**
* **Innovative project**
* **Entrepreneurial personality and experience**
* **Market characteristic**
* **International markets**

6) WHICH STAGE WOULD YOU PREFER TO INVEST

* **Start-up**
* **Seed Capital**
* **Expansion**
* **Turnaround**

7) INTEREST RATE OF RETURN (IRR) EXPECTED OUT OF THE INVESTMENT

* **20-25%**
* **25-30%**
* **Above 30%**

8) INVESTEES PREFERENCE TO VENTURE CAPITAL REQUESTS

* **Early stage**
* **Growth stage**
* **Late stage**
* **Buyout stage**
* **Turnaround stage**

9) WHICH TYPE OF INVESTMENT WOULD BE PREFERRED

* **Equity shares**
* **Preference shares**
* **Convertible debts**
* **Non convertible debts**
* **Others**

10) ANY SUGGESTION ON VENTURE CAPITAL TO SOFTWARE AND IT INDUSTRIES: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

**THANK YOU FOR YOUR TIME**