ISSN (ONLINE): 2454-9762
ISSN (PRINT): 2454-9762
Available online at www.ijarmate.com

IJARMATE

International Journal of Advanced Research in Management, Architecture, Technology and Engineering (IJARMATE) Vol. II, Issue IV, April 2016

Development of venture capital in India

*S.Neelofar Anjum **Y.Chinna Kullayappa ***Y.Chinni

**** N.V.Abhisheik *****N.Anuja

Abstract

The venture capital industry in India is about two decades old. But it is still not in a development stage, and it requires promotional efforts as well as policy in initiatives for a fast growth. The concept of venture capital was formally introduced in India 1987.when the government announces the creation of venture fund, to be operated by the industrial bank of India (IDBI).the government levied a 5 recent cuss on all Know-how import payments to create the venture fund. The industrial credit and investment corporation of India (ICICI) also started venture capital activity in the same year. Later on, ICICI floated a separate venture capital company –Technology development and information corporation (TDICI). Venture capital plays a strategies role in financing small scale enterprises and high technology and risky ventures. The venture capital activity is quite advanced in the developed countries. It has also taken root in a number of developing countries. Venture capital has potential to become important sources of financing of small-scale enterprises (SSES).

Key words: venture capital, IDBI, ICICI, TDICI, SSES

INTRODUCTION:

Startup or growth equity capital or loan capital provided by private investors (the venture capitalist) or specialized financial institutions (development finance houses or venture capital firms). Also called risk capital. Venture capital is a type of founding for a new or growing business it usually comes from venture capital firms that specialized in building high risk financial portfolios. With venture capital, the venture capital firms give founding to the startup company in exchange for equity in the startup. This is most commonly found in high growth technology industries like biotech and software Venture capital plays a strategies role in financing small scale enterprises and high technology and risky ventures. The venture capital activity is quite advanced in the developed countries. It has also taken root in a number of developing countries. Venture capital has

All Rights Reserved @ 2016 IJARMATE

ISSN (ONLINE): 2454-9762
ISSN (PRINT): 2454-9762
Available online at www.ijarmate.com

International Journal of Advanced Research in Management, Architecture, Technology and Engineering (IJARMATE) Vol. II, Issue IV, April 2016

potential to become important sources of financing of small-scale enterprises (SSES).

Methodology

Secondary sources literature been consulted for the development of the concept

INVESTMENT OBJECTIVES

- Rate of return expectations
- Long term or short term capital appreciation
- Early, middle or late stage companies
- Sectors interested in
- High growth potential
- Liquidity options
- Expertise ,experience and reputation of the fund
- Advisory board members
- Members of the fund.

Investment criteria

- Evacuate in terms of management, product, markets ,financial and business stage
- A market which has a favorable mix of size, growth, competitive barriers and potential for high volume sales
- Clearly understands the funds mentality on liquidity, rate of return and investment objectives

NOTION OF VENTURE CAPITAL

Venture capital (VC):

Venture capital is a significant financial innovation of the twentieth century. It is generally considered as a synonym of risky capital. Venture capital finance is often thought of as 'the early stage of financing of new and young enterprises seeking to grow rapidly'. It usually implies an involvement by the venture capitalist in the management of the client enterprises. It has also come to be associated with the financing of high and new technology based enterprises. The conventional financiers generally support proven technologies with established markets. Venture capital focuses on high technology, but it is not a necessary for venture financing. According to Pratt. There is a popular misconception that high-technology is the principal driving factor behind the investment decision of a US venture capitalist. Only a small minority of venture capital investments are in new concepts of technology where potential technical problems add a significant amount of risk to the new business development.

There, is however, no doubt that young, high-tech companies would look forward to the venture capitalist for making risky capital available to them. In board terms, venture capital is the investment of long-term equity finance where the venture capitalist earns his return primarily in the form of capital gains. The underlying assumption is that the venture capitalist would act together in the interest of the

All Rights Reserved @ 2016 IJARMATE

ISSN (ONLINE): 2454-9762
ISSN (PRINT): 2454-9762
Available online at www.ijarmate.com

IJARMATE
International Journal of Advanced Research in Management, Architecture, Technology and Engineering (IJARMATE) Vol. II, Issue IV, April 2016

enterprises as 'partners'. The true venture capital finances any risky idea. In face, venture capital can prove to be a powerful mechanism to institutionalize innovative entrepreneurship. It is a commitment of capital for the formation and setting up of small-scale enterprises specializing in new ideas or new technologies. The venture capitalist focuses on growth; he would like to see small business growing into larger ones.

Features of Venture Capital:

The main following of venture capital can be summarized as follows:

- **Equity participation**: Venture capital financing is actual or potential equity participation through direct purchase of shares, options or convertible securities.
- **Long-term investment**: venture financing is a long-term, illiquid investment; it is not repayable on demand. It requires long-term investment attitude that venture capital firms (VCFs) to wait for a long period, say 5-10 years, to make large profit.
- **Participation in investment**: Venture financing ensures continuing participation of the venture capitalist in the management of the entrepreneur's business. This hands-on management approach helps him to protect and enhance his investment by actively involving and supporting the entrepreneur. More than financing, venture capitalist gives his marketing, technology, planning and management skills to the new firm.

In India, the Securities and Exchange Board of India (SEBI) guidelines govern the operations of venture capital funds (VCFs). Venture capital funds may be structured as a company or trust to raise finance through loans, donations, issue of securities or units, and to make investments in new ventures, in accordance with the SEBI regulations.

Future prospects of venture financing

Venture capital can play a more innovative and developmental role in developing country like India.it could help the rehabilitation of sick units through people with ideas and turnaround management skills. a large number of small enterprises in India become sick even before the commencement of production venture capitalist could also assist small ancillary units to upgrade their technologies so that they could be in line with the developments taking place in their parent companies. yet another area where VCFs can play a significant role in developing countries is the service sector including tourism, publishing, health care etc.

The experience of developed countries and the detailed case study of venture capital in India, however, indicate that the following elements are needed for the success of venture capital in any country:

- Entrepreneurial tradition

- Unregulated economic environment
- Disinvestment avenues
- Fiscal incentives
- Board-based education
- Venture capital managers
- Promotion efforts
- Institute-industry linkage
- Research and development activities

STAGES IN VENTURE FINANCING:

Historically, venture capital evolved method of early-stage financing, but the notion of venture capital recognizes different stages of financing. It also includes development, expansion and buyout financing, for those enterprises, which are unable to raise funds from the normal financing channels. VCFs also provide turnaround finance to revitalize and revive sick enterprises.

This focus of venture capital in India is no providing seed capital and financing for high technology. In fact, the venture capital mechanism in India should be used for fostering the growth and development of enterprises, and need not be confined only to technology financing. This board approach would even help the venture capital firms to diversify their investment across various enterprises-some high-tech, some low-tech, and thus spread their risks. It does not make a business sense to expect venture capital firms to invest in high-tech, high-risk start-ups only.

❖ Early stage financing

- Seed financing for supporting a concept or idea
- R&D financing for product development
- Start-up capital for initial production and marketing
- First stage financing for full-scale production and marketing

❖ Expansion financing

- Second stage financing for working capital and initial expansion
- Development financing for facilitating public issue
- Bridge financing for facilitating public issue

❖ Acquisition/buyout

- Acquisition financing for acquiring financing or another firm for further growth
- Management buyout financing for enabling operating group to acquire firm or part of its business
- Turnaround financing for turning around a sick unit.

THE PROCESS OF VENTURE CAPITAL FINANCING:

The venture capital activity is a sequential process involving the following six setps;

- Deal organization
- Screening
- Evaluation (due diligence)
- Post-investment activity
- Exit plan

All Rights Reserved @ 2016 IJARMATE

ISSN (ONLINE): 2454-9762
ISSN (PRINT): 2454-9762
Available online at www.ijarmate.com

IJARMATE

International Journal of Advanced Research in Management, Architecture, Technology and Engineering (IJARMATE) Vol. II, Issue IV, April 2016

A continuous flow of deals is essential for the venture capital business. Deals may originate in various ways; 1. Referral system 2. Active search and 3. Intermediaries. Referral system is an important source of deals may be referred to VCFs by their parent organizations, trade partners, industry associations, friends, etc. Yet another important source of deal flow is the active search through networks, trade fairs, conferences, seminars foreign visits etc. A developed countries like USA, is certain intermediaries who match VCFs and the potential entrepreneurs.

Venture capital is a service industry, and VCFs generally operate with a small staff. For example, the screening process may limit projects to areas in which the product, or market scope. The size of investment, geographical location and stage of financing could also be used as the broad screening criteria.

Once a proposal has passed through initial screening, it is subjected to a detailed evaluation or due diligence process.

The venture capital industry in India is about two decades old. But it is still not in a development stage, and it requires promotional efforts as well as policy in initiatives for a fast growth. The concept of venture capital was formally introduced in India 1987.wwhen the government announces the creation of venture fund, to be operated by the industrial bank of India (IDBI).the government levied a 5 recent cuss on all Know-how import payments to create the venture fund. The industrial credit and investment corporation of India (ICICI) also started venture capital activity in the same year. Later on, ICICI floated a separate venture capital company –Technology development and information corporation (TDICI).

VCF's in India can be categorized into the following four groups.;

1.VCF'S promoted by the central (federal)government-controlled development finance institutions such as risk capital and technology finance corporation limited(RCTFC)by the industrial finance corporation of India(IFCI) and risk capital fund by IDBI

2.VCF's promoted by the state government-controlled development finance institutions such as Gujarat venture finance company limited(GVCFL)by Gujarat industrial investment corporation(GIIC)and Andhra Pradesh venture capital limited(APVCL)by Andhra Pradesh state finance corporation (APSFC)

3. VCFs promoted by the public sector banks such as confine by Canara bank and SBI-Cap by State bank of India

4. VCFs promoted by the foreign banks and private sector companies and financial institutions such as Indus venture fund, Credit capital venture and grindlay's India development fund

There has been a steady increase in the numbers of products (ventures) as well as in the amount invested by VCFs.the VCFs

All Rights Reserved @ 2016 IJARMATE

average investment in each venture as also increase over the years.yhe steady increase reflects the general trend in the venture capital industry in the country, with investors (VCFs)focusing on high tech, small-and medium-sized ventures. The total venture capital funds available for investment have also increased. in the yearly years of the venture capital in India, the bulk of the funding for VCFs came from the central (federal)government-controlled financial institutions .other investors included the multi lateral development agencies such as the world bank., the private sector., on-resident Indians and the nationalized banks. further, there are state government-controlled financial institutions, foreign institutional investors the public sector, insurance companies, mutual funds, other bank and even members of the public that also contribute to the capital pool of VCFs.

Conclusion

Venture capital can play a more innovative and developmental role in a developing country like India.it could help the rehabilitation of sick units through people with ideas and turnaround management skills.

References

www. WIKIPEDIA.com

financial management tenth edition IM PANDEY

*Miss R.Lavanya Assistant professor Department of management studies,

Gates Institute of Technology, Gooty-515401. Andhra Pradesh

S.Neelofar Anjum PG student from Gates Institute of technology gooty-515401. Andhra Pradesh E-Mail: s.neelofaranjum@gmail.com

Y. Chinna Kullayappa PG student from Gates Institute of technology gooty-515401. Andhra Pradesh E-Mail: chinnakullayappa143@gmail.com

Y. Chinni PG Student from Gates Institute of Technology Gooty-515401.Andhra Pradesh.

E-Mail:

yenugulachinni20@gmail.com.N.V.Abhisheik

PG student from Gates Institute of

technology gooty-515401. Andhra Pradesh

E-Mail: abhishiekkanna999@gmail.com

ISSN (ONLINE): 2454-9762
ISSN (PRINT): 2454-9762
Available online at www.ijarmate.com

International Journal of Advanced Research in Management, Architecture, Technology and Engineering (IJARMATE) Vol. II, Issue IV, April 2016
N. Anuja PG student from Gates Institute of technology gooty-515401. Andhra Pradesh E-Mail: anuja.anu1229@gmail.com.

All Rights Reserved @ 2016 IJARMATE