VENTURE CAPITAL FINANCING AND ITS IMPACT ON INDIAN ECONOMY ON SELECTED SECTORS

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ABSTRACT:
A number of technocrats are seeking to set up 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 global 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 economy. 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.

In this article, an attempt has been made to observe the performance of the venture capital firms by analyzing their profit after tax and net assets value. Further, in order to judge the overall performance of the venture capital as an activity, the analysis is being done on global basis, region-wise and funding of mergers and acquisitions by venture capital firms, region wise. All the analysis/calculations are based on secondary data.

Key word- technocrats, traditional, economy

I. INTRODUCTION
The growth of venture capital in India has followed a gradual sequence of events. The idea of venture capital financing was adopted at the instance of the central government and government – sponsored institutions. The need for venture capital financing was first highlighted in 1972 by the committee on development of small and medium entrepreneurs under the chairmanship of r.s. Bhatt (popularly known as the bhatt committee) which drew attention to the problems of new entrepreneurs and technologists in setting up industries. Venture capital is long-term stable capital provided to early-stage, high-potential, and growth start-up companies. Venture capital funds generally invest in novel and scalable technology or business models in technology industries, such as software engineering, consumer internet, biotechnology and other industries. Venture capital funds usually require proof of concept prior to their investment. Venture capital funds bring domain knowledge and expertise. Wright and robbie (1998) defined venture capital as, “this is the investment for long term by a number of investors in risky equity where their prime aim is eventual going and they are not interested in any periodical income or dividends.” Cumming and macintosh (2003) defined venture capital as, “financial intermediaries who get capital investment from various institutional investors, high net worth people from the various 2 economic sectors and make investment of these pooled deposits in small and private business which have high technology and have a lot of potential for high growth.” In general term we can say that venture capital means capital which is planned to invest into a highly risky firm with good growth potential. Venture capitalist is a person who works as an intermediary between investors who give their fund to invest and new companies which gets risk capital on another hand. According to above definitions venture capital organization can be kept into following three categories: • independents • captives • semi-captives independent venture capital organisations are those organisations which have many investors. It dilutes its ownership into many investors. These investors are the main source of funding the capital. In captives venture capital organisations, these companies are setup by the parent companies and resources are supplied by the main companies. In semi captive organisations, these organisations are set up by one company but a large amount of fund is invested by third party investors.

Characteristics of venture capital concept
A venture capitalist always invests into a high growth and highly risky firm and helps the management with guidance and expertise. There are following characteristics of the venture capital concepts:

1.2.1 financing of risky ventures and high investment returns generally venture capital investment is done into highly risky ventures because they have small cap and there can be hundred per cent investment loss. These companies are not having any good operation history. According to the various reports published by national venture capital association from time to time, usually a venture capital firm can make a return between twenty five per cent and thirty five per cent of total revenue generated. (source: year book 2015, nvca)

1.2.2 provisions of equity capital and minority interest 5 venture capital is generally invested in the form of equity capital. This investment is made in ordinary shares and preference shares. In this way venture capital organisations are always minority stockholders in the investee companies.

1.2.3 management support and monitoring venture capital concept and its nature are just like operations of any financial institutions. But it has one more uniqueness that it always supports the investee company in terms of guidance, management support etc. So the entire venture capital concept revolves around the helping of investee companies which received help in modern business practices. So the venture capital firms always watch that investee companies work according to the decided plans and terms and conditions.

1.2.4 limited time horizon and longer investment process venture capital is invested usually for five to ten years after they exit from the investment. This process restricts venture capital to be invested for a limited time period rather than into unlimited equities.

1.3 venture capital investment process this is the process by which a venture capital company invests into a venture. The initial point is how it raises the fund from the different sources. There is a five step approach developed by tybee, bruno and isakson (2000). Starting at the very beginning, there are six early stages in the investment financing of a firm: seed, startup, expansion, mezzanine, buyout, and (if needed) turnaround. Most venture outlays focus on the seed, startup, and expansion stages.

Venture capital financing stages

There are many stages of the investee companies which a venture capital company may choose to invest in. Management experts have different opinions about these stages because of the different economic environment. In figure 1.5, all the stages of venture capital financing have been shown:

Advantages of venture capital

The major advantages of venture capital are briefly listed below:

1. Venture capital comes into a company as an equity fund which gives a solid financial base for future growth.

2. Venture capitalist is always a partner into risk and profit as well. In terms of profit it gets periodical income and capital gains.

3. The venture capitalist share vital information with the ventures which it knows for the growth of the company and gives active guidance and advice for the success of the company.

4. Venture capitalist has a lot of contacts. It can give contacts of international market which can add values to company. It can also arrange some other sources of the funds, if needed.

5. It can provide additional funds when it is required by the venture in due course of running the company successfully.

Disadvantages of venture capital

The major disadvantages of venture capital are briefly listed below:

1. there is an agreement between the two parties. First is the venture capitalist and the second is venture. Venture capitalist has ownership rights in the company. If the deal is not negotiated properly, there are chances that venture capitalist may capture the entire company.
venture capitalist has the right to drive the firm and if deal is not going properly it can pass information, which 
may or may not be accepted to the other partners.

Factors determining the venture capital requirement

There are many factors which determine the total capital requirement for a newly set up business like, size of the 
business, nature of the business and total available resources etc. In figure 1.6, the following factors which are 
necessary for determining the venture capital requirement, have been shown:

II. LITERATURE REVIEW

The theoretical research on venture finance has only been recently emerged. Venture capital is a type of private 
equity finance involving investments in unquoted companies with growth potential. It is generally medium to 
long term in nature and made in exchange for a stake in a company. The term venture capital is likely to be 
accepted as the generic term for business angels, mezzanine equity, institutional or any other similar investments 
in early stages of business. In summary, it is “a professionally managed pool of equity capital” (hisrich and 
They fund the new company and work in close collaboration with the stock market to take the firm public. 
Therefore they place emphasis on the support to the company. They offer start-ups the controls, they might be 
granted as well as the exit strategy available. In all, they foster growth in companies through hands-on 
involvement in financing, management, and technical support. In most of the venture capitalists firm, the 
ventures take a very active role in the working of the firm.

Burgyl (2000) described venture capital as the intermediary between institutional investor (such as pension 
funds, banks, insurance companies) and portfolio companies. 33 investment screenings, negotiation, making 
agreements, controlling investments and assisting to management team are the most common functions of 
venture capital.

Mason and harrison (2000) stated that after bubble of internet hype got busted, most of the venture capital 
companies had started funding only at maturity level because they did not want to take any risk while funding the 
ventures. Because these companies had invested heavily into venture so they had wanted only safer option while 
investing.

Smith (2001) has explained about the venture capital firm that these companies had given valuable support in 
terms of product development, production, marketing and other areas of business function. A venture capital firm 
had searched and had invested into those companies which were already research oriented and had shown a 
growth curve. Selection of venture by venture capital firm 1. Production capacity and past performance 2. 
Production planning of the venture 3. Results of the last few years

Objectives of the study

1. To examine the present status of venture capital financing in india after liberalization.

2. To measure the effectiveness of financing procedures and instruments used by venture capital firms.

3. To assess the impact of venture capital financing on india’s economy and business.

4. To identify the major problems and obstacles related with venture capital financing in india.

Scope of the study

1. To the various investment perspective opportunities among different sectors.

2. To know the slow growth of venture capital financing in india.

3. To know the venture capital and different sources of financing venture capital.

Research methodology

The chapter details the research design and methodological approach employed to execute the research work. 
This proceeds with an insight in to the development of research instrument, details about selected variables, 
collection of data, sampling procedure, sampling frame, and sample size for the study. The chapter is wrapped up 
with final scale for measurement and the research phenomenon for further application of various required
statistical tools. From the literature review, the conceptual framework for this study has been formulated. As the study aims to identify the impact of venture capital funding on various sectors of the Indian economy, the focus is to measure the effectiveness of funding procedures and instruments used by venture capital firms. The venture capitalist suggestions and recommendations have also been sought out through telephonic and personal interview.

Limitations of the research

There were some limitations inherent to the approach used in this study but most of these limitations were identified prior to conducting the research and necessary precautions were taken prior to data collection whenever possible:

i. The first limitation was the natural lack of control in field settings, a limitation considered before data collection. However, the aim of the study was to gather as detailed and comprehensive a set of data as possible. Thus, the noted limitation was actually a strength in this study because the approach met the study's broad data needs, compared with what could have been gathered from a more closely controlled and defined approach.

ii. Another limitation of the research was as the concept of venture capital is fairly new in India; therefore the historical data available was limited to the year 1990 onwards.

iii. The primary data collection requires personal interviews and sample selected were reluctant to fill in questionnaires. Some might not be completely willing to reveal real information. Thus, in selecting the sample it will be difficult to tell who are willing to share their authentic experiences freely and those who are not. Iv. Due to the time consideration and costs of field investigations, the study was conducted with some start-ups and online data available on different sites only. V. Another limitation of the study was that this research requires constructive supporting data which is not been involved in this research. The secondary data is available freely online but the recent data and data prior to 1990 is not available freely. It could be assessed from online libraries after payment of a certain fee.

BIBLIOGRAPHY