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AN REVIEW OF VENTURE CAPITAL FINANCING IN INDIA

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ABSTRACT

The establishment of a "clean and user-friendly" environment is a fundamental necessity for the growth of Venture Capital operations. The financial, tax, and other regulatory systems should all be able to operate efficiently and effectively. There is a great deal that can be done to better the current situation.

First and foremost, the proliferation of rules within the firm of Acts and Guidelines should be eliminated. Liar Venture Capital should have a single regulator that operates a single window system and follows a single set of principles. SEBl has been designated as a nodal agency, and it should be treated as such for all reasons, including those relating to tax incentives.

Consistency in policy design and execution should be maintained, and regulatory discrepancies should be eliminated. "In the perspective of investors, this will instill trust in the system."

Discrimination in regulatory treatment among mutual funds and venture capital funds, as well as between FIls and FVCls (filly), should be eliminated. It is essential that all concessions, facilities, and other perks that are provided to mutual funds be made accessible to VCFs as well. In reality, VCIs should be given extra exemptions for taking on high-risk ventures, especially at the seed and start-up phases of their operations.

Tax exemptions (tax holidays) should be granted to FVCIs in order to encourage them to operate from India rather than via the Mauritius route, according to the World Bank. As a result, a significant amount of international risk money will flow straight into India.

Increasing the number of tax breaks and other incentives should attract more domestic sources of venture capital. Mutual funds, insurance companies, banks, and pension funds would be able to invest in VCFs that are registered with the SEBI as well as other financial institutions.

Keywords:- Regulatory, SEBI and Venture etc.

INTRODUCTION

One of the most important prerequisites for the establishment of a manufacturing firm is the timely and appropriate availability of financial resources. A businessman who is a fresh and inexperienced technocrat with unique ideas for developing products but who lacks the necessary funds to put his ideas into a popular commercial endeavor has a particularly difficult situation. Because the entrepreneur's unique ideas have not yet been tested in mass production, the financing necessary for such a reason is more hazardous than other financings. If on either hand, the enterprise proves to be successful, it has the potential to generate substantial profits. Because of a lack of available finances from their channels, entrepreneurs are unable to tap into traditional sources of funding for their businesses. During such times, a Venture Capitalist goes to his aid by offering risk-bearing funds, which is more often referred to as Venture Capital.

Venture capital is money from stakeholders and shareholders to start-up enterprises and small firms that are expected to develop significantly in the long run. Venture capital is a critical source of funding for entrepreneurs that do not have access to traditional financial markets. The hazard for investors is normally significant, but the negative for startups is that these venture capitalists frequently have a voice in the company's decision-making processes. Entrepreneurial venture capital (VC) is lengthy risk capital that is used to fund high-technology ventures that are both risky and have a high potential for development at the same time. To aid budding entrepreneurs in the initial phases of their business venture, capitalists combine their resources, which may include management talents. When the project reaches the point of profitability, the investors sell their ownership stake at a significant profit. As a result, a venture capital supplying firm is a kind of financing agency that participates in a project alongside an entrepreneur as a co-promoter and shares in the risks and profits of the enterprise. Venture capital (VC) is a sort of private equity funding that is given by organizations or funds to tiny, early-stage, developing businesses that are believed to have significant development potential, or that have proven strong growth potential in previous years.

FUNCTIONS OF VENTURE CAPITAL

In addition to assisting businesses through capital-raising procedures, venture capital also delivers targeted, high-quality transactions to its community of investors. In addition, venture capital provides the private equity industry with the tools required to make the capital market and company growth as simple and efficient as possible for the venture capital industry. Included among these resources are a clearinghouse that connects members with important, direct industry contacts; a supportive community built on shared experiences; the most recent market news from across the world; and exposure to a high-quality group of qualified professionals.

Change and progress in technological systems are two of the most significant factors in the process of social and economic growth. Providing incentives for the formation and expansion of high-tech businesses is a critical aspect in determining the long-term viability and expansion of any business. Many industrialized nations recognized the importance of new technology sectors as a crucial component in determining the performance of their national economies relatively early in their development. They took all necessary steps to increase the rate of new business creation and, therefore, the pace of development of existing enterprises. Small and medium-sized companies (SMEs) are the lifeblood of every economy. Several processes are unable to be deployed into commercial business because of the latently high uncertainty associated with their successful development, manufacture, and distribution. Such ventures are often avoided by rational investors. As a result, venture capital funding has increasing relevance in such circumstances. A venture capital funding arrangement not only serves as a fiscal stimulus but also serves as a powerful drive for businesses to create goods that include newer technology and bring them to market. As seen by the success stories of a few big firms such as Digital Equipment Corporation, Apple Computer Inc., Federal Express, Staples, and the Genetic Institute, it is generally known to the public that private equity has played a part in their formation and expansion throughout time. In the past 15 years, venture capital had emerged as a significant source of funding for university research, particularly in the field of finance.

LITERATURE REVIEW

(Capital, 2000) Entrepreneurship may be regarded as a long investments in a firm with the potential for considerable growth and economic rewards, according to the authors. With the exception of conditional lending and conventional lending, equity is often delivered inside this event of a default. As a result, vcs are more than just financiers; they are also risk takers. The degree to which the company is successful determines the amount of money he will get from it. Among the most distinctive characteristics of Investment Capital is whether it is designed to address the demands of businesses in which the risk of loss is fairly high due to inherent risks in the industry, but how the projected profits are considerably larger than average. The entrepreneur aspires to penetrate a field that has not yet been explored.

(Dossani & Kenney, 2002) summarized In this case, the ventured capitalist makes an investment in a newly founded company that has the possibility and provide a profit of 10 times upwards of in far less about five years. That's very hazardous, and so many of those investments will fail completely; nevertheless, it is believed that the major winners will more than make up for the losses. In exchange for their investment, vcs not only acquire a significant portion of the company's ownership, but they really seek seats here on general meeting. Investment firms that actively intervene and aid new businesses in their development and survival boost the survival odds and thus the steady growth of both the new business in question. It is considered complete when ever a private equity company goes out of business.

(Ajinkya & Goradia, 2002) studied That private investment (VC) participation serves as a catalyst, hastening the transition of a country 's economic development into a robust economy, so allowing it to compete effectively in the increasingly competitive global marketplace. During the last millennium, as a result of the economic reforms of this same Indian economy, investors from around the fulfilling the requirement the tremendous opportunities for investment portfolios in Indian industrial sectors, which included significant advantages such as reducing costs, human capital performance, strategic geographic region, a large market, and so on.

(Dossani & Kenney, 2002) studied When a bid is accepted, either via a public offering here on stock exchange or through the purchase of the corporation by another corporation, or if the company goes bankrupt, the private investment process is considered completed. As a result, the ventures capitalist is just a short investor, then he or she is just a membership of the general meeting until the transaction is liquidated. The company is a property that should be sold rather than kept. The angel investors process necessitates the liquidation of investments, which means that there should be a way to leave the company at some point. People and countries that choose to create barriers to all the other exit options (including bankruptcies) are committing to hinder learning and expansion of the internally in order as private equity.

(Abrams, 2003) the According to the findings of the research, venture income is essential supplied by some outside buyer to support a new, expanding, or struggling company enterprise. The venture investor offers the investment with the understanding that the firm's growth profitability and profitability will be subject to severe significant risk. Instead of providing a loan, funds to invest in consideration for a percentage of the company's stock, with the expectation that the capital would provide a higher-than-average return. A significant source of finance for beginning and other businesses with a short history of operations and no connection to the financial markets, startup quality is a significant form of financing.

(Bowonder & Mani, 2004) concluded that Geospatial is classified as fund formed in the case of a Partnership, a business comprising a body incorporated and registered by SEBI such as a devoted pool of money raised inside the manner prescribed under the Guidelines; to invest throughout venture capital enterprises in compliance with the Provisions. The standard area of the funds from any participant will not be over Usd 500,000 and indeed the minimum capital of the money at the outset needs to be preferably INR 50 ,000,000. The new laws mandated that the highest investment in one venture capital endeavor should not be to exceed 25 percent of the assets of the company. The revised laws permitted VCF to invest in a business going public via the library building process as a Listed Property Buyer.

(Commission & Delhi, 2006) studied Although venture capital investment is unique, it should be seen as one component of a broader spectrum of financing options that an organization might access at various points of its entire lifecycle. Initially, a venture capital fund may very well have provided some investment to a company that had received some financing through friends and relatives from an individual investor. It is possible that an investment company may support something at a future date. The organization will receive bank financing and international development organizations at some point throughout its product lifecycle. It may eventually reach a position where it can raise funds via the issuance of stock or bonds on the stock market.

(Andersen, 2006) concluded VCPE (Investment Management and Investment Vehicles) has emerged as a promising source of investing in both developed and emerging markets, serving as a complement to traditional source information of financial sustainability such as global equity offerings, preferred stock, and commercial bank borrowings, among others. Because of elements such as the entrepreneurial environment, regulatory frameworks, and regulatory system, it has been discovered that the development of the notion differs from country to country. Over the course of centuries, it has developed and experienced a number of transformations. Initially, angel investors and investment management were primarily accessible as a source of finance for creative and increased projects inside the technology field; but, through time, they began to be made available to companies in a variety of other industries as well.

(Isaksson, 2006) the Following World War II, however, a research revealed that even the most developed notion of investing, featuring subscribers, top managers, or its language, was first formed in the United States, where it is being practiced today. The overall economy's institutionalized component of investing has grown significantly since that time. Venture capital is sometimes considered to be identical with pe funds, particularly in Europe. Any venture capitalist investment committed by institutions, businesses, and rich people in a newly founded company during its early and growing phases (in conjunction with pe funds). Property investment terminology, from the other hand, encompasses a variety of different phases (bridge funding, replacement capital, recovery, and so on), which extends beyond investment capital.

HYPOTHESIS:

Study Area

1) To investigate and assess India's growth, development, and investment patterns of venture capital funds.

2) To determine the effectiveness of venture capital funds in India.

3) To evaluate the success of the chosen venture capital companies/minds in India and provide recommendations.

4) To evaluate the performance of the selected units with the assistance of the venture capital companies/funds chosen for the research.

5) To investigate the link between VCCs/VCFs and the units they aid.

6) To provide recommendations on improving the venture capital activity in the country.

SAMPLE OF THE STUDY

To do an overall analysis, the research includes all 21 venture capital companies/funds members of the Indian venture capital organization. The surveys will be sent to the whole top management cadre of 21 organizations, but thus far, only nine completed questionnaires have been returned. After conducting a review of these surveys, it was determined that two questionnaires were rejected because they included insufficient information or did not provide information on their aided units. The Venture Capital Funds/Companies are typically divided into five types of organizations. They are as follows:

1. All venture capital businesses and funds that financial institutions in the United States support.

2. Venture capital companies/funds that state-level financial institutions fund

3. Venture capital firms/funds funded by financial institutions

4. Corporations or funds that invest in venture capital in the private sector

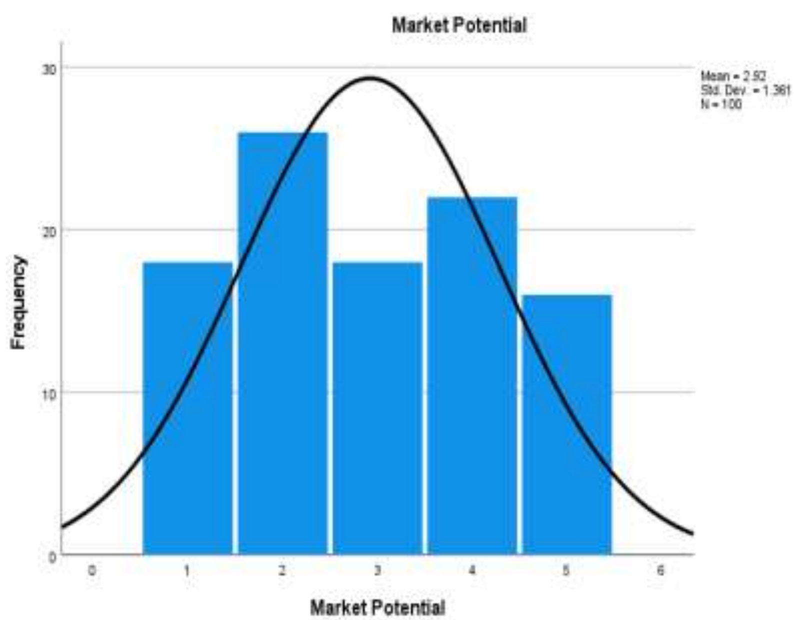
5. Venture capital companies/minds that foreign institutional investors support

DATA ANALYSIS

TABLE-4.1

Market Potential					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Most Important	18	18.0	18.0	18.0
	More Important	26	26.0	26.0	44.0
	Important	18	18.0	18.0	62.0
	Less Important	22	22.0	22.0	84.0
	Least Important	16	16.0	16.0	100.0
	Total	100	100.0	100.0	

GRAPH-4.1

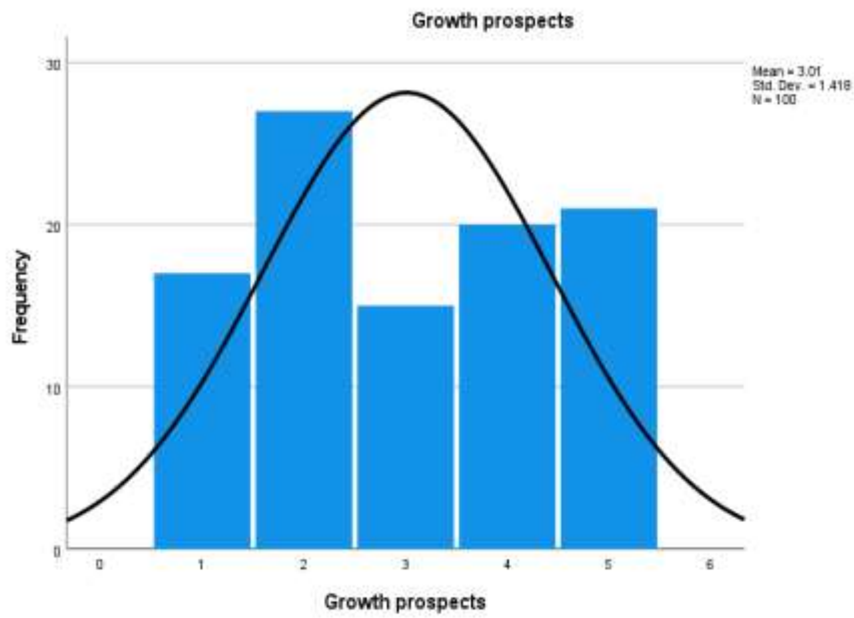


Above table includes the data of Market Potential as per the view of respondents. 18% respondents said that they Market Potential is most important while 26% respondents said that Market Potential is more important. 18% respondents said that that Market Potential is important while 22% respondents said that Market Potential is less important and 16% respondents said Market Potential is least important. AS per the majority of respondents Market Potential is more important.

TABLE-4.2

Growth prospects						
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Most Important	17	17.0	17.0	17.0
	More Important	27	27.0	27.0	44.0
	Important	15	15.0	15.0	59.0
	Less Important	20	20.0	20.0	79.0
	Least Important	21	21.0	21.0	100.0
	Total	100	100.0	100.0	

GRAPH-4.2

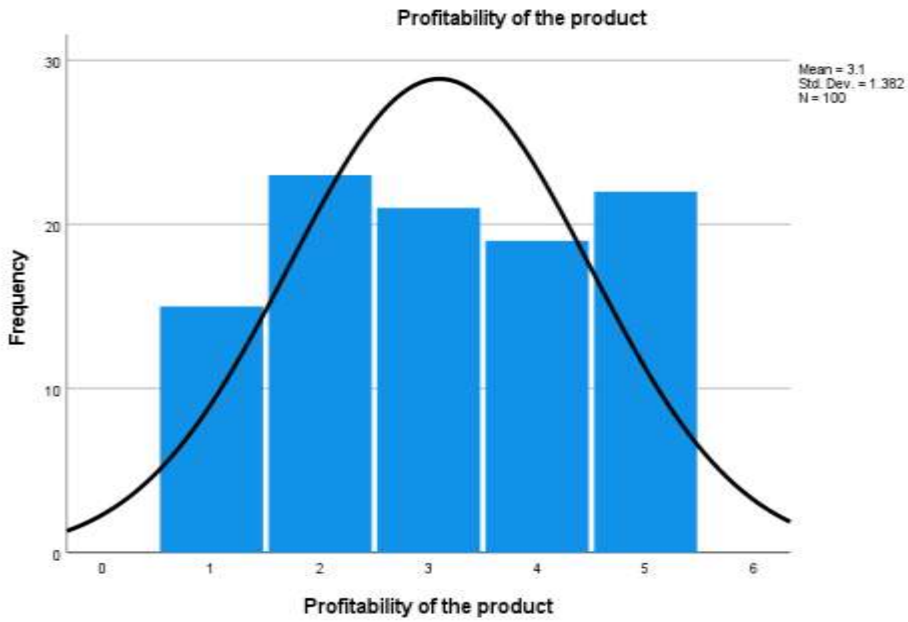


Above table includes the data of Growth prospects as per the view of respondents. 17% respondents said that they Growth prospects is most important while 27% respondents said that Growth prospects is more important. 15% respondents said that that Growth prospects is important while 1920% respondents said that Growth prospects is less important and 21% respondents said Growth prospects is least important. AS per the majority of respondents Growth prospects is more important.

TABLE-4.3

Profitability of the product						
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Most Important	15	15.0	15.0	15.0
	More Important	23	23.0	23.0	38.0
	Important	21	21.0	21.0	59.0
	Less Important	19	19.0	19.0	78.0
	Least Important	22	22.0	22.0	100.0
	Total	100	100.0	100.0	

GRAPH-4.3



Above table includes the data of profitability of the product as per the view of respondents. 15% respondents said that they profitability of the product is most important while 23% respondents said that profitability of the product is more important. 21% respondents said that that profitability of the product is important while 19% respondents said that profitability of the product is less important and 22% respondents said profitability of the product is least important. AS per the majority of respondents profitability of the product is more important.

CONCLUSION

A Venture Capital Fund (VCF) aims to assist entrepreneurs with the resources they need to build up-scalable businesses with significant growth, while also giving donors with exceptional returns on investment in exchange for taking on larger risks. It is widely recognized as a result of the success stories of a few major firms like as “Apple Computers, Federal Express, Microsoft, Satyam Information Systems, and Pizza Comer”, among others. Venture capital has developed as a major source of funding for university academics in the past fifteen years.

The industrial society has changed significantly in the previous decade, which corresponds to the period of liberalization and the entry of top-level technocrats into the management profession who have been exposed to the global environment. VC investments have played a significant role in many professionals' recent triumphs in building a whole new universe of excellence, which can be traced back to these investments. Despite the fact that the investments have done quite well, the sector has not yet reached the point of divestiture. Venture Capital (VC) investments are made in a number of underutilized firms. Venture capital is considered to be a young industry that is still in its early stages. The reason for this is a lack of sufficient funding as well as a reluctance on the part of investors to put their money into high-risk initiatives. Exit tuitions that are too low, as well as a lack of a competent legislative framework and legal procedures, have all hampered growth.

There have been a plethora of studies conducted on “Venture Capital investment activity, Venture Capital specialization, Venture Capital evaluation of criteria, Venture Capital investors and investment performance”, as well as the impact of internal and external environments on Venture Capital investment throughout the world. "There is no study on venture capital investors and investment performance in India," says the researcher. The new study is a step in the right direction in that regard.

It was the purpose of this research to evaluate the growth, development, and investment patterns of “Venture Capital Companies/Funds in India” across time. The nature of the link between VCCs/VCFs and their aided units was investigated in this research.

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