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Venture Capital Practices in India

Management
KEYWORDS :

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ABSTRACT

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 private equity and venture capital. Private equity is a broad term that refers to any type of non-public ownership equity securities that are not listed on a public exchange. Private equity encompasses both early stage (venture capital) and later stage (buy-out, expansion) investing. In the broadest sense, it can also include mezzanine, fund of funds and secondary investing. Venture capital (VC) is financial capital provided to early-stage, high-potential, high risk, growth startup companies. The venture capital fund makes money by owning equity in the companies it invests in, which usually have a novel technology or business model in high technology industries, such as biotechnology, IT, software, etc. The typical venture capital investment occurs after the seed funding round as growth funding round (also referred as Series A round) in the interest of generating a return through an eventual realization event, such as an IPO or trade sale of the company. It is important to note that venture capital is a subset of private equity. Therefore all venture capital is private equity, but not all private equity is venture capital. India is poised for technological revolution with the emergence of new breed of entrepreneurs with required professional temperament and technical know how. To make the innovative technology of the entrepreneurs a successful business venture, support in all respects and more particularly in the form of financial assistance is all the more essential. This has necessitated the setting up of venture capital financing Division/ companies during the latter part of eighties.

Introduction
Venture Capital is a significant innovation of the twentieth century. It is generally considered as a synonym of high risk capital. It is also often thought of as "the early stage financing of new and young enterprises seeking to grow rapidly". Venture capital plays a strategic 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 an important source for financing of small scale enterprises.

Venture capital is a growing business of recent origin in the area of industrial financing in India. The various financial institutions set-up in India to promote industries have done commendable work. However, these institutions do not come upto the benefit of risky ventures when they are undertaken by new or relatively unknown entrepreneurs. They contend to give debt finance, mostly in the form of term loan to the promoters and their functioning has been more akin to that of commercial banks. The financial institutions have devised schemes such as seed capital scheme, Risk capital Fund etc., to help new entrepreneurs. However, to evaluate the projects and extend financial assistance they follow the criteria such as safety, security, liquidity and profitability and not potentially. The capital market with its conventional financial instruments/ schemes does not come much to the benefit or risky venture. New institutions such as mutual funds, leasing and hire purchase Company's have been established as another leasing and hire purchase Company's have been established as another source of finance to industries. These institutions also do not mitigate the problems of new entrepreneurs who undertake risky and innovative ventures.

Concept of venture capital
The term 'Venture Capital' is understood in many ways. In a narrow sense, if refers to, investment in new and tried enterprises that are lacking a stable record of growth. In a broader sense, venture capital refers to the commitment of capital as shareholding, for the formulation and setting up of small firms specializing in new ideas or new technologies. It is not merely an injection of funds into a new firm, it is a simultaneous input of skill needed to set up the firm, design its marketing strategy and organize and manage it. It is an association with successive stages of firm's development with distinctive types of financing appropriate to each stage of development.

About Venture Capital (VC)
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 (eg. IT, infrastructure, health/life sciences, and clean technology, 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.

Venture Capital- Meaning
'Venture Capital' is an important source of finance for those small and medium-sized firms, which have very few avenues for raising funds. Although such a business firm may possess a huge potential for earning large profits in the future and establish itself into a larger enterprise. But the common investors are generally unwilling to invest their funds in them due to risk involved in these type of investments. In order to provide financial support to such entrepreneurial talent and business skills, the concept of venture capital emerged. In a way, venture capital is a commitment of capital, or shareholdings, for the formation and setting up of small scale enterprises at the early stages of their life cycle.

Venture capitalists comprise of professionals of various fields. They provide funds (known as Venture Capital Fund) to these firms after carefully scrutinizing the projects. Their main aim is to earn huge returns on their investments, but their concepts are totally different from the traditional moneylenders. They know very well that if they may suffer losses in some project, the others will compensate the same due to high returns. They take active participation in the management of the company as well as provide the expertise and qualities of a good banker, technologist, planner and managers. Thus, the venture capitalist and the entrepreneur literally act as partners.

In addition to angel investing and other seed funding options, venture capital is attractive for new companies with limited operating history that are too small to raise capital in the public markets and have not reached the point where they are able to secure a bank loan or complete a debt offering. In exchange for the high risk that venture capitalists assume by investing in smaller and less mature companies, venture capitalists usually get significant control over company decisions, in addition to a significant portion of the company's ownership (and consequently value).

Venture capital is also associated with job creation (accounting for 21% of US GDP), the knowledge economy, and used as a proxy measure of innovation within an economic sector or geography. Every year there are nearly 2 million businesses created in the USA, and only 600-800 get venture capital funding. According to the National Venture Capital Association 11% of private sector jobs come from venture backed companies and venture backed revenue accounts for 21% of US GDP.

Venture capital is long-term risk capital to finance high technology projects which involve risk but at the same time has strong potential for growth. Venture capitalist pool their resources including managerial abilities to assist new entrepreneur in the early years of the project. Once the project reaches the stage of profitability, they sell their equity holdings at high premium.

Venture Capital- Definition

Venture Capital Funds made available for startup firms and small businesses with exceptional growth potential. Managerial and technical expertises are often also provided also called risk capital.

enture capital has a number of advantages over other forms of finance, such as:

- 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.

Scope of Venture Capital

Venture capital may take various forms at different stages of the project. There are four successive stages of development of a project viz. development of a project idea, implementation of the idea, commercial production and marketing and finally large scale investment to exploit the economics of scale and achieve stability. Financial institutions and banks usually start financing the project only at the second or third stage but rarely from the first stage. But venture capitalists provide finance even from the first stage of idea formulation. The various stages in the financing of venture capital are described below:

Development of an Idea: In the initial stage venture capitalists provide seed capital for translating an idea into business proposition. At this stage investigation is made in-depth which normally takes a year or more.

Implementation Stage – Start up Finance: When the firm is set up to manufacture a product or provide a service, start up finance is provided by the venture capitalists. The first and second stage capital is used for full scale manufacturing and further business growth.

Fledging Stage – Additional Finance: In the third stage, the firm has made some headway and entered the stage of manufacturing a product but faces teething problems. It may not be able to generate adequate funds and so additional round of financing is provided to develop the marketing infrastructure.

Establishment Stage – Establishment Finance: At this stage the firm is established in the market and expected to expand at a rapid pace. It needs further financing for expansion and diversification so that it can reap economies of scale and attain stability. At the end of the establishment stage, the firm is listed on the stock exchange and at this point the venture capitalist disinvests their shareholding through available exit routes.

Before investing in small, new or young hi-tech enterprises, the venture capitalist look for percentage of key success factors of a venture capital project. They prefer project that address these problems.

After assessing the viability of projects, the investors decide for what stage they should provide venture capital so that it leads to grater capital appreciation.

All the above stages of finance involve varying degree of risk and venture capital industry, only after analysing such risk, invest in one or more. Hence they specialize in one or more but rarely all.

Stages in Venture financing

Venture capital evolved as a method of early –stage financing, but the notion of venture capital recognizes different stages of financing. It includes development, expansion and buyout financing for those enterprises which an unable to raise funds from the normal financing channels. Venture capital financing also provides turnaround finance to revitalize and revive sick enterprises.

Table-1

1. Early Stage financing	• Seed financing for supporting a concept or idea • Research and Development financing for product development. • Start-up capital for initial production and marketing. • First stage financing for full-scale production and marketing.
2.Expansion financing	• Second stage financing for working capital and initial expansion. • Development financing for facilitating public issue. • Bridge financing for facilitating public issue.
3.Acquition/ Buyout financing	• Acquiring another firm for future growth. • Management buyout financing for enabling operating group to acquire firm or part of its business. • Turnaround financing for turnaround a sick unit.

According to government of India guidelines the Venture Capital financing be confined to the enterprises fulfilling the following conditions

❖ Size	Total investment should not exceed Rs100 millions
❖ Technology	New or relatively untried or very closely held or being taken from pilot to consumercial stage or which incorporates same significant impairment over the existing ones in India.
❖ Entrepreneur	Relatively new professionally or technically qualified with inadequate resources or backing to finance the project.

Venture capital excludes financing of enterprises engaged in trading, broking investment or financial services, agency or liasan work. A Venture capital firm in India is required to invest at least 75% of its funds into the venture capital activity and must be managed by professionals.

In December 1995, the government allowed the entry of foreign venture capital funds on the following conditions.

1. Off-shore investment with the permission of Foreign Investment Promotion Board (FIPB) can invest in appeared Venture Capital funds or Venture Capital Companies. VCFs/VCC.
2. Off-shore Venture Capital Companies can contribute 100% capital as well as set up a domestic management company.
3. Subsequent investment does not require FIPB's permission and will be guided by general principles as applicable to domestic Venture Capital Companies/ Venture Capital Funds.
4. Tax exemptions, similar to the domestic VCCs/VCFs, are available to foreign VCCs. If they do not want to avail tax exception, they are free to invest in any sector.

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5. Off- shore investors' income from India VCC/VCFS subject to existing rate for foreign investors.

Ventures Capital in India

Venture capital as a source of the launch capital either of the American type or the slightly variant (in scope) British type is, by and large, conspicuous by its absence in India. There are, of course, some institutional venture capital funds/ schemes in operation in India. For instance, Industrial Finance Corporation of India set up the Risk Capital Foundation in 1975 with a view to providing special assistance to new entrepreneurs, particularly technologists and professionals for promoting medium-sized industrial projects. Further, with a view to assisting entrepreneurs who have skills but lack finance to bring in the requisite promoter's contribution, Industrial Development Bank of India (IDBI) introduced two seed capital schemes, viz.,

State financial corporations' special share capital schemes under which SFCs extend special share capital assistance to projects in the small-scale sector from their special class of share capital contributed jointly by the concerned state Government and IDBI and IDBI's own scheme for such assistance (operated mainly through State Industrial Development Corporation / State Financial corporation)_ in respect of medium-sized projects costing upto Rs.2 crores. In 1985 the IDBI introduced venture capital fund scheme to assist industry's efforts for technological advancements. Most of the ventures assisted by the Bank have been sponsored by professionally qualified entrepreneurs and the process/technology involved a wide range of new and indigenously developed ones.

In 1986, Industrial Credit and Investment Corporation of India (ICICI) also launched a venture capital scheme to encourage new techno crafts in the private sector in new fields of high technology with inherent risk. Under this scheme ICICI assists projects, with initial investment not exceeding Rs.2 crores, in the form of equity or conditional loan with flexible charges and repayment period or conventional loan. Two new fund were launched recently.

The first one called India fund – floated by the International Division of Merrill Lynch with subscription by non-resident Indians living mainly in the UK and Western Europe is managed by the UTI.

The second one is the venture capital fund with an initial capital of Rs.10 crores established in December 1986 by IDBI to provide equity capital for pilot plants attempting commercial applications of indigenous technology and to adapt previously imported technology to wider domestic application.

To undertake the task on a continuous and systematic basis, the Industrial Credit and Investment Corporation set up with the UTI 'The Technology Development and Information Company of India Ltd.' (TDICI) in 1989. TDICT has started providing venture capital, R & D funds and technical and managerial services including Technology and Information. The ICICI also established in 1988 with UTI 'venture capital fund' with Rs.20 crores, subscribed equally by ICICI and UTI. The fund is being used for providing assistance mainly in the form of equity, conditional loans and convertible debenture, to set up technological ventures which have potential for fast growth.

In January, 1990 ICICI and UTI have jointly launched their second venture fund for Rs.100 crores. It is interesting to note that the commonwealth Development Corporation of the U.K. will also be participating in this fund. Among commercial banks, State Bank of India, Canara Bank and Grind lay's Bank have shown interest in this area. SBI's merchant banking subsidiary, 'SBI capital markets invests in the equity shares of new and unknown companies. Canara Bank has also set up a venture capital fund through its subsidiary, viz., (as bank financial Services) Grind lay's Bank launched India investment fund to provide venture capital assistance to high risk projects.

In July, 1990 The Gujarat Industrial Corporation Ltd., launched a venture capital finance scheme' through a newly registered subsidiary with the help of the Capital Trust Fund worth Rs.24 crores to cater to projects which will enhance the growth of the national economy. The new subsidiary – Gujarat Venture Finance Ltd. – would financially support the entrepreneur having both indigenous and imported technologies not tried before in the country. This organization would finance venture capital entirely through equity participation.

In private sector a few venture capital funds have been established. One such fund is Indus Venture Capital Fund (IVCF). This venture capital has been set up with a capital of Rs. 21 crore contributed by several Indian and international institutions. The fund provides both equity capital as well as managerial support to entrepreneurs.

The other private venture capital firms set up in India are Credit Capital Venture Fund, Twentieth Century Finance Company and Infrastructure Leasing and Financial Services Ltd.

The above venture capital funds / schemes are essential in the nature of equity assistance funds/schemes. There are no full-fledged individual corporate or institutional venture capitalist in India offering a broad spectrum of multi-faced specialist services like the venture capitalist in the U.S. or U.K. Further, having regards to the mammoth task to be performed by venture capital finance in India, the size of the fund would appear to be too small.

In terms of government policy the focus of venture capital in India is a providing Indian Private Equity and Venture Capital Association (IVCA)

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Indian Private Equity and Venture Capital Association (IVCA)

Indian Private Equity and Venture Capital Association (IVCA) is a member based national organization that represents venture capital and private equity firms, promotes the industry within India and throughout the world and encourages investment in high growth companies.

IVCA members comprise venture capital firms, institutional investors, banks, incubators, angel groups, corporate advisors, accountants, lawyers, government bodies, academic institutions and other service providers to the venture capital and private equity industry.

Members represent most of the active venture capital and private equity firms in India. These firms provide capital for seed ventures, early stage companies, later stage expansion, and growth finance for management buyouts/buy-ins of established companies.

Characteristics of Venture Capital

The three primary characteristics of venture capital funds which may them eminently suitable as a source of risk finance are :

(1) that it is equity or quasi equity investments;
(2) it is long-term investment; and
(3) it is an active from of investment.

First, venture capital is equity or quasi equity because the investor assumes risk. There is no security for his investment. Venture capital funds by participating in the equity capital institutionalize the process of risk taking which promotes successful domestic technology development.

Investors of venture capital have no liquidity for a period of time. Venture capitalist or funds hope that the company they are backing will thrive and after five to seven years from making the investment it will be large and profitable enough to sell its shares in the stock market. But a reward is thee for liquidity and waiting. The venture capitalists hope to sell their share for many times what they paid for. If the unit fails the venture capitalists losses everything. The probability distribution of expected returns for most venture capital investment is highly skewed to the right. The success rate is 10-20 percent.

Secondly, venture capital is long-term investment involving both money and time. Finally, venture capital investment involves participation in the management of the company. Venture capitalist participates in the Board and guides the firm on strategic and policy matters. The features of venture capital generally are, financing new and rapidly growing companies; purchase of equity shares; assist in transformation of innovative technology based ideas into products and services; and value to company by active participation; assume risks in the expectation of large rewards; and possess a long-term perspective. These features of venture capital render it eminently suitable as a source of risk capital for domestically developed technologies.

New venture proposals in high technology area are attractive because of the perceived possibility of substantial growth and capital gains. Although venture capital evolved as a method of early sage financing it includes development, expansion and buyout financing for units which are unable to raise funds through normal financing channels. Units in developing countries need funds for financing various stages of development. Such a broad approach would help venture funds to diversify their investment and spread risks.

Trends in Venture Capital in India
India is flushed with investment commitments from the giants of technology. Microsoft, Cisco, IBM, SAP, Intel, and AMD have each committed over a billion to further develop their India presence. So have many of the leading venture capital firms from Silicon Valley. For the longest time, Valley VCs would only invest in their backyard. No more. India, China, Israel are fair game today. The month, Matrix Partners has announced a $150 Million India fund. Sequoia has acquired West bridge Capital, an India focused fund that has been around for five years. Several other major VCs are playing the space – Kleiner Perkins, NEA, Norwest, Battery, Sierra, Canaan Partners.

Yahoo has started investing in Consumer Internet startups, the first of which was announced recently (Bharatmatrimony.com), playing the corporate venture capital game. Together, the committed capital chasing India is abundant.

Business Week writes cover stories on how the new billion dollar companies will emerge from India. Some have, already. Infosys, Wipro, TCS. No doubt, the lure of India for VCs is legitimate. These new darlings of Wall Street were built without their money. They want to make sure the next wave is built with.

In today's India, the commodity in short supply is good entrepreneurs. In VC parlance, fundable deals are few and far between. Historically, India has been the world's back-office. Consequently, the skill-set that has developed in India is that of engineering management and coding. The specifications are provided by teams elsewhere. Elsewhere, the market studies get done. Indian managers do not understand global technology markets. They have hardly had opportunity to learn this aspect of business. Entrepreneurs try to position products without knowledge of the product marketing discipline.

VCs typically do not like this business model. It has low entry barrier. But those who have invested in India in the last five years have also invested in this model and made money off it. It was the only thing that was available. It is, however, becoming less appealing, since those markets are also maturing, and behemoths start to rule.

The next stop for VCs, the most recent wave, has been Consumer Internet and Mobile offerings. India's growing mass of connected consumer population is the target wallet. Travel, Matrimonials, Jobs, Games, Mobile Payments are all segments getting substantial capital infusion. This trend is likely to continue for the next 18 months. The engineering required in building these sites is marginal, marketing being the big differentiator.But it will still not consume the available capital. Those who understand the subtleties of these dynamics have started diversifying their portfolios with Retail, Bio Tech, Real Estate. Sequoia's Royal Orchid Hotels is a case in point. Oak Investment Partners has set up a $200 Million venture fund to focus on the retail boom in India. Veteran retail investor Jerry Gallagher visited India and was astounded by the revenue per square feet in the malls and stores. He came back and convinced his partners to commit capital.

Bio Tech has produced one of the flagship entrepreneurs for India, Kiran Majumdar-Shaw, who is now pulling her weight to drag the entire industry up. India has a better opportunity in this field for the same reason as Retail: domestic producer, domestic consumer. Tests can leverage a gene pool that is perhaps one of the most diverse and universal in the world. If Indian policy-makers can get their act together, then India could even lead a stem cell research effort that is so far faltering in the US. VCs would be delighted to play.

Real Estate, however, is a different animal. For the longest time, the old money in India had only one legitimate investment vehicle. That was buying properties. Indians know a lot more about Real Estate entrepreneurship than any other kind of entrepreneurship. There is a financial eco-system around Real Estate that works, and by and large, venture capital is unnecessary, even unwelcome. Private Equity investors, however, are playing this market. Conspicuous by its absence in the above discussion is traditional technology venture investing, the game that VCs know best. The reason being, it is almost absent from the technology firmament of India.

Intriguing, but entirely logical. Technology innovation takes intense domain knowledge. Be it in software, hardware, chips or communications, the engineers capable of innovation of this nature are inside the multinationals, harvesting unthinkable salaries, enjoying unbound luxury and lifestyle with servants, chauffeurs, maids, nannies, and cooks coming out of their ears. A $200,000 salary in India effortlessly affords a grand lifestyle that even multi-millionaires in the US cannot dream of.

People become entrepreneurs for two reasons: either they have a chip on their shoulder, and have something to prove to themselves and to the world around them. Or, they want to afford a lifestyle that is substantially above their current means. India is banking on the motivation of the former category alone, to find its technology entrepreneurs. The onus, I am afraid, comes back to Silicon Valley to come up with technology innovation, which Indian back-offices can then implement and scale.

Venture capitalists will continue to go on their eco-tourism trips to India, then return. In the words of Marcel Proust, *The real voyage of discovery consists not in seeking new landscapes, but in having new eyes.*

Importance of venture capital
Venture capital is of great practical value to every corporate enterprises in modern times.

I Advantages to Investing Public:
The investing public will be able to reduce risk significantly against unscrupulous management, if the public invest in venture fund who in turn will invest in equity of new business. With their expertise in the field and continuous involvement in the business they would be able to stop malpractices by management.

Investors or have no means to vouch for the reasonableness of the claims made by the promoters about profitability of the business. The venture funds equipped with necessary skills will be able to analyze the prospect of the business.

The investors do not have any means to ensure that the affairs of the business are conducted prudently. The venture fund having representatives on the Board of Directors of the company would overcome it.

Absence of this constitutes an insurmountable obstacle for an institution to develop venture capital activities in the countries.

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The presence of this factor constitutes a clear to an incentive to an institution for developing venture capital activities in the countries. The presence of this factor may influence favourable the decisions of an institution for but doe not constitute a decisive factor.

II. Advantages to Promoters

1. The entrepreneur for the success of public issue is required to convince tens of underwriters, brokers and thousand of investors but to obtain venture capital assistance. The will be required to sell his idea to justify the officials of the venture fund.
2. Public issue of equity shares has to be preceded by a lot of efforts viz. necessary statutory sanctions, underwriting and broker arrangement, publicity of issue etc. The new entrepreneurs find it very difficult to make underwriting arrangements require a great deal of effort. Venture fund assistance would eliminate those efforts by leaving entrepreneurs to concentrate upon bread and butter activities of business.
3. Cost of public issues of equity share often between 10 percent to 15 percent of nominal value of issue of moderate size, which are often even higher for small issues. The company is required, in addition to above, to incur recurring costs for maintenance of share registry cell, stock exchange listing fee, expenditure on printing and posting of annual reports etc. These items of expenditure can be ill afforded by the business when it is new. assistance from venture fund does not require such expenditure.

III. General:

1. A developed venture capital institutional set-up reduces the time between a technological innovation and its commercial exploitation.
2, It helps in developing new processes/products in conductive atmosphere, free from the dead weight of corporate bureaucracy, which helps in exploiting full potential.
3. Venture capital acts as a cushion to support business borrowings, bankers and investors will not lend money with inadequate margin of equity capital.
4. Once venture capital funds start earning profits , it will very easy for them to raise resources from primary capital market in the form of equity and debts. Therefore, the investors would be able to invest in new business through venture funds and, at the same time,, they can directly invest in existing business when venture funds dispose its own holding,. This mechanism will help to channelise investment in new high=tech business of the existing sick business. these business will take-off with the help of finance from venture funds and this would help in increasing productivity, better capacity utilisation.

5. The economy with well developed venture capital networks, induces the entry of large number of technocrafts in industry, help in stablising industries and in creating a new set of trained technocrafts to build and manage medium and large industries, resulting in faster industrial development.
6. A venture capital firm serves as an intermediary between investor looking for high returns for their and entrepreneurs in search needed capital for their start ups.
7. It also paves the way for private sector to share the responsibility with public sector.

Financing stages

There are typically six stages of venture round financing offered in Venture Capital, that roughly correspond to these stages of a company's development.

- Seed Money: Low level financing needed to prove a new idea, often provided by angel investors
- Start-up: Early stage firms that need funding for expenses associated with marketing and product development
- First-Round (Series A round): Early sales and manufacturing funds
- Second-Round: Working capital for early stage companies that are selling product, but not yet turning a profit
- Third-Round: Also called Mezzanine financing, this is expansion money for a newly profitable company
- Fourth-Round: Also called bridge financing, 4th round is intended to finance the "going public" process between the first round and the fourth round, venture-backed companies may also seek to take venture debt.

Venture capital firms and funds

Venture capitalists

A venture capitalist (also known as a VC) is a person or investment firm that makes venture investments, and these venture capitalists are expected to bring managerial and technical expertise as well as capital to their investments. A venture capital fund refers to a pooled investment vehicle (often an LP or LLC) that primarily invests the financial capital of third-party investors in enterprises that are too risky for the standard capital markets or bank loans. Venture capital firms typically comprise small teams with technology backgrounds (scientists, researchers) or those with business training or deep industry experience.

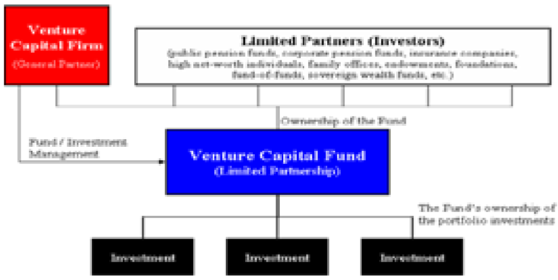

Diagram of the structure of a generic venture capital fund

Discussion

The venture capital industry is emerging in India as a result of internal and external factors. The World Bank, with its agenda of decreasing government regulation, funded the creation of the first venture capital funds. These funds were the beginnings of a process of legitimatizing venture investing and they were a training ground for venture capitalists who later established private venture capital funds. It is unlikely that the venture capital industry could have been successful without the development of the software industry and a general liberalization of the economy. Of course, this is not entirely surprising, because an institution as complicated as venture capital could not emerge without a minimally supportive environment. This environment both permitted the evolution of the venture capital industry and simultaneously allowed it to begin changing that environment and initiating a co evolutionary dynamic with other institutions. . As a consequence, most venture capital investments are done in a pool format, where several investors combine their investments into one large fund that invests in many different startup companies. By investing in the pool format, the investors are spreading out their risk to many different investments versus taking the chance of putting all of their money in one start up firm.

Conclusion

The natural instinct for Indian entrepreneurs is to build outsourcing services companies. BPO. Software Development. Chip Design. Those ventures take less capital, and become revenue generating fast. None of the Operating Loss period of a pure play product company is necessary, and hence, venture capital is also unnecessary. India still remains a difficult environment for venture capital. Even in 2010 the Indian government remains bureaucratic and highly regulation-oriented. To encourage the growth of venture capital will require further action, and it is likely that the government will continue and even accelerate its efforts to encourage venture capital investing. The role of the government cannot be avoided: it must address tax, regulatory/legal and currency exchange policies, since many of these affect both venture capital firms and the companies that they finance. More mechanisms need to be developed to reduce risk if funds for venture capital must come from publicly held financial institutions managed by highly risk averse managers. India is an example of how purposive action in an environment replete with resources can have long-term impacts on the NIS.

REFERENCE

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