

## Emerging new Trend on Venture Capital Business



### Commerce

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### ABSTRACT

*It is difficult to pick up a major business publication today without reading about venture capitalists (VCs, defined as professionally-managed VC limited partnerships that invest in early-stage ventures), about their skills in finding great investment opportunities, and about the ventures they fund. And lately in states like Minnesota, it is also about how they can create jobs if the governor would speak favorably about the need for VC and offer some state pension money for them to invest. And since we all like to talk about our successes, the stories are about how entrepreneurs secured VC and soared to wealth in a very short time via an IPO or a strategic sale. This can lead other entrepreneurs to think that this is the only model for success, that there is no other way to build a major company, and that they should write business plans, attend VC conferences, seek VC, and give VCs control of their venture.*

#### Introduction:

Venture capital firms differ in size, geographic focus, industry specialty, and funding stage. Most firms stay closely involved with their portfolio companies, taking board positions, recommending management candidates, providing advice, and identifying valuable contacts.

Entrepreneurs approaching venture capitalists must have a business plan; however, it should be short and concise, rather than presenting the business in full detail because venture capitalists will conduct exhaustive due diligence. The plan should spell out the amount of funding the entrepreneur is seeking but should not detail the terms.

Venture capitalists consistently emphasize the importance of the management team in an entrepreneurial venture and focus much of their due diligence on the key people involved. They assert that a good idea is only executable when implemented by a top-notch executive team. Personal introductions are the best way to give your plan a chance. Use your network to find mutual acquaintances. Introductions give both sides an immediate reference point and raise your request above the incoming noise.

#### Risk Capital for Business

Venture capital firms are professional, institutional managers of risk capital that enables and supports the most innovative and promising companies. This money funds new ideas that could not be financed with traditional bank financing, that threaten established products and services in a corporation, and that typically require five to eight years to be launched.

Venture capital is quite unique as an institutional investor asset class. When an investment is made in a company, it is an equity investment in a company whose stock is essentially illiquid and worthless until a company matures five to eight years down the road. Follow-on investment provides additional funding as the company grows. These "rounds," typically occurring every year or two, are also equity investment, with the shares allocated among the investors and management team based on an agreed "valuation." But, unless a company is acquired or goes public, there is little actual value. Venture capital is a long-term investment.

#### Finding of Venture capital Fund:

VC's and business angels read business plans slightly differently from other professionals. As a first time entrepreneur who's trying to rise funding, you should be aware of that.

#### 1. People

First, VC's and business angels look at the people who are going to run the business, people who are expected to give return on their investment. An old adage in venture capital circles says "I'd rather back an 'A' team with 'B' idea than 'B' team with 'A' idea".

Since the judgment about the future success is based on the past accomplishments, you should highlight what you have already achieved and, importantly, to what extent your knowledge, skills and experience match the opportunity that you have just proposed.

#### 2. The external conditions that you can't control

Next, investors evaluate your business idea in the light of external environmental conditions. They want to know how feasible your idea is, and are you able to realize that idea and convert the opportunity to money. In short they evaluate the conditions which shape the chances for success and return on investment. In that context the very important point is what is the market for the new product/service and how likely it will evolve.

By market is understood the mutual relation between the offering, the customers and the competition. Of course, everybody wishes to have blue ocean (an unexplored area of opportunities), but it is not always possible. Thus, the realistic market forecast is essential for the outcome of the investment decision. Here you have to distinguish between two cases; first when the market does exist; second when the market does not exist.

#### Market exists - focus on differentiation

If the market exists than you have to explain them how your products differentiate from the competition and why do you expect that it will attract the customers.

#### Market doesn't exist - focus on why you will create it

In the second more difficult case when the market still does not exist, you have to teach them about the particular market and why or how your product can create a new market.

#### 3. The 'dial'

Finally if they are satisfied with the first two points they will pay careful attention to the dial. The dial is the legal, contractual relationship between the startup, its supply chain (providers of the complementary resources) and venture capital. It's where you are in the value chain, and how you relate to the other elements of the value chain.

And of course, VC's and investors are interested in the share of the expected profit that each participant in the value chain (en-

trepreneur, investor, suppliers) is going to get. Usually it is very sensitive issue and good deal should reflect rather trust than formal legalese.

**4. Exit strategy**

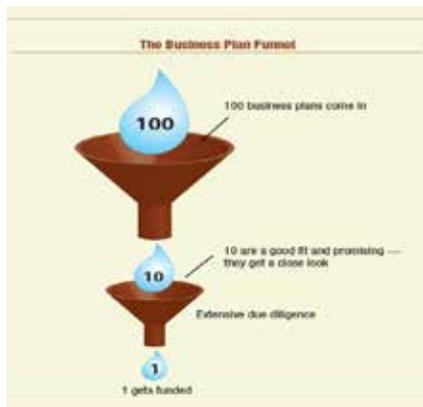
Along with the dial the investors consider the exit strategy. Exit strategy is cashing out the investment. The investors estimate if the new business after few years will be ready for trade sale or initial public offering. The initial public offering is still rare, while the trade sale is the most common way for the investment exit.

At the end of the day the investors will put their money only if they can find good fit between all three elements: people, business idea, external environmental conditions and out of that can make a good dial. The “dial”, the people and the exit strategy are what make the venture capital investment analysis different than standard business analysis.

**The Business Plan Funnel**

For every 100 business plans that come to a venture capital firm for funding, usually only 10 or so get a serious look, and only one ends up being funded. The venture capital firm looks at the management team, the concept, the marketplace, fit to the fund’s objectives, the value-added potential for the firm, and the capital needed to build a successful business. A busy venture capital professional’s most precious asset is time. These days, a business concept needs to address world markets, have superb scalability, be made successful in a reasonable timeframe, and be truly innovative.

A concept that promises a 10 or 20 percent improvement on something that already exists is not likely to get a close look. Many technologies currently under development by venture capital firms are truly disruptive technologies that do not lend themselves to being embraced by larger companies whose current products could be cannibalized by this. Also, with the increased emphasis on public company quarterly results, many larger organizations tend to reduce spending on research and development and product development when things get tight. Many talented teams have come to the venture capital process when their projects were turned down by their companies.



**Growth of Venture Capital in India**

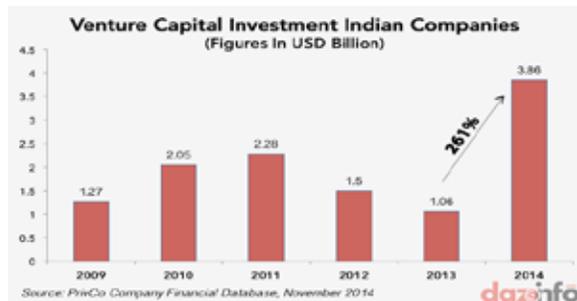
Venture Capital in India was known since nineties era. It is now that it has successfully emerged for all the business firms that take up risky projects and have high growth prospects as well. Venture Capital in India is provided as risk capital in the forms of shares, seed capital and other similar means.

In 1988, ICICI emerge as a venture capital provider with unit trust of India. And now, there are a number of venture capital in-

stitutes in India.

Financial banks like ICICI have stepped into this and have their own venture capital subsidiaries. Apart from Indian investors, international companies too have settled in India as a financial institute providing investments to large business firms. It is because of foreign investors that financial markets have developed in India on a large scale. Introduction of western financial philosophies, tight contracts, focus on profitable projects and active involvement in finance was contributed by foreign investors only.

The financial investment process has evolved a lot with time in India. Earlier there were only commercial banks and some financial institutes but now with venture capital investment institutes, India has grown a lot. Business forms now focus on expansion because they can get financial support with venture capital. The scale and quality of the business enterprises have increased in India now. With international competition, there have been a number of growth oriented business firms that have invested in venture capital. All the business firms that deal in information technology, manufacturing products as well as providing contemporary services can opt for venture capital investment in India.



**These are venture capital companies in India:**

1. Accel Partners India.
2. Artheon Ventures.
3. Artiman Ventures.
4. August Capital Partners.
5. BlueRun Ventures.
6. Jaarwis Accelerator.

**Regulatory frame work for Venture Capital:**

The Advisory Committee on Venture Capital, set up under Chairmanship of Dr.Ashok Lahiri, has submitted its report to SEBI. This report has been placed on the SEBI website (www.sebi.gov.in) for public comments, which would help SEBI in considering the amendments to the regulations that will facilitate the further development of vibrant venture capital industry in India.

Securities and Exchange Board of India (SEBI) has set up an Advisory Committee on Venture Capital under the Chairmanship of Dr. Ashok Lahiri, Chief Economic Advisor, Ministry of Finance and Government of India for advising SEBI in matters relating to the development and regulation of venture capital funds industry in the country.

1. Terms of Reference for Advisory Committee on Venture Capital are - 1. To advise SEBI on issues related to development of Venture Capital Fund industry.
- 2.To advise SEBI on matters relating to regulation of Venture Capital Funds and Foreign Venture Capital Investors.
3. To advise SEBI on measures required to be taken for changes in legal framework / amendments.

**Conclusion:**

As in India, small and medium-sized enterprises with active support from large industries (their customers) and government have turned manufacturing into an art form. To achieve this, these enterprises poured money into R&D and cut other expenses. The government supported them by loosening up the tightly regulated labor market. Large and small manufacturers found unique ways to cut labor costs by sometimes providing an employment guarantee for a fixed period as a quid-pro-quo for less pay. Instead of laying-off workers, managements deployed idled workers to new assignments. The result of such strategies is evident.

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