



VENTURE CAPITAL ANDHOW IT WORKS

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ABSTRACT

Report on Venture Capital Finance and a Survey on Founder Challenges and Opportunities were the titles of the paper.

This essay examines venture capital's value as well as the chances and difficulties faced by entrepreneurs when it comes to investing. Using a convenience sampling approach, descriptive analysis is done with 60 respondents. The research employed mean analysis, frequency analysis, independent t test, ANOVA, and factor analysis. The findings suggest that because there are so many different venture capitalists, people seeking venture money may need to adapt their strategy. There are still specialized areas for venture capital due to the structure and rules of capital markets.

KEY WORDS: Venture capital, Descriptive Analysis, frequency Analysis, sampling approach.

CHAPTER 1- INTRODUCTION

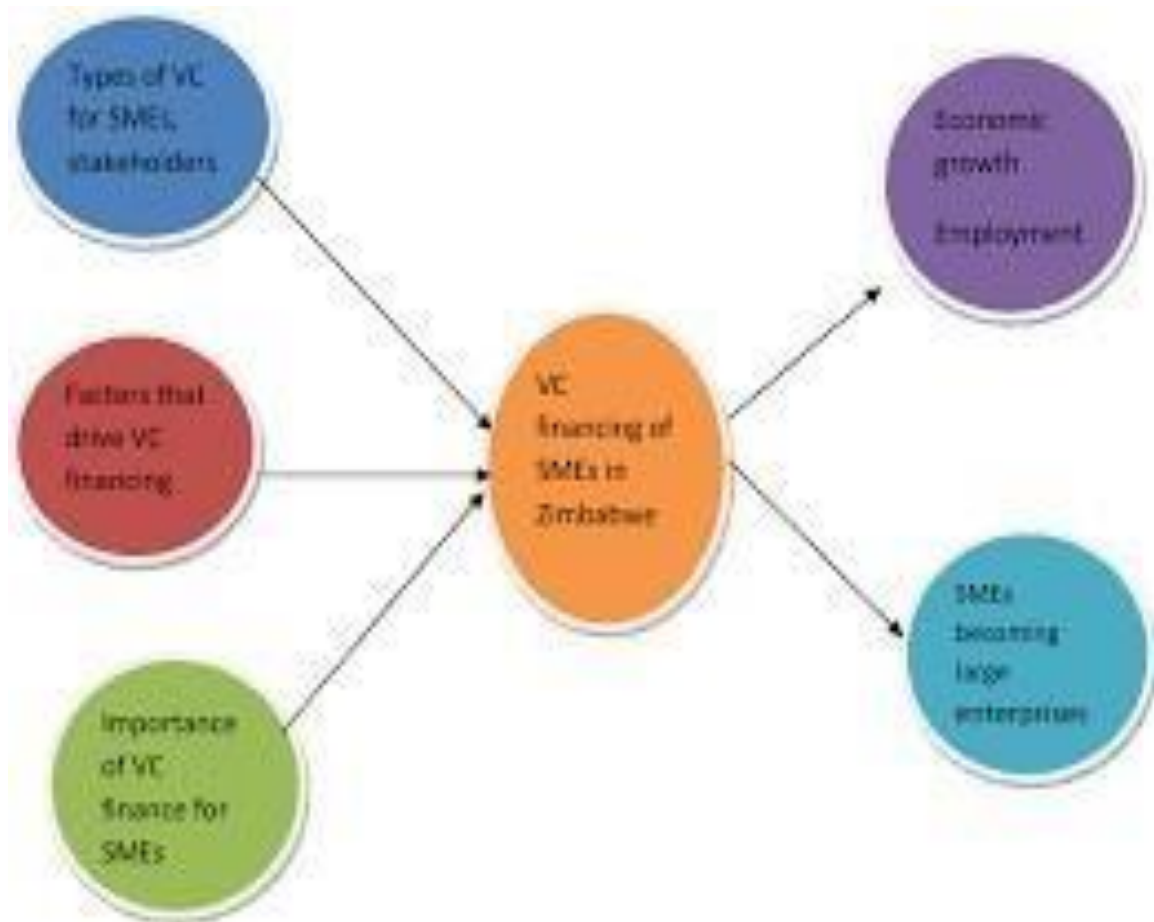
The idea for venture capital was first sparked by a conversation with Graham Bannock¹ on the bus to the airport after an EU conference on small and medium-sized enterprises. Finance in Luxembourg in 1997 (required by a strike by airport workers in Luxembourg) was characterized by venture capital fundraising and investment riding high on a cyclical upswing, business angel finance becoming the focus of more sustained attention, growing government interest and policy involvement in the entrepreneurial finance market, and a booming IPO market.



Importance of VentureCapital

With the aid of these venture capital organizations, entrepreneurs can turn their ideas into financially successful projects.

- It aids in making innovative, technologically advanced products commercially viable.
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- It encourages export-oriented businesses to generate more foreign currency.
- It offers financial institutions in addition to offering management, technical, and other support.
- It improves the borrowing situation and makes it possible for them to raise their own money through the capital market by strengthening the capital market.
- By encouraging business ventures using new technology, financial institutions promote modern technology.
- After receiving proper care from such Venture Capital institutions, many sick companies recover.



Features of Venture Capital

- **High-risk investment:** Because it provides long-term startup capital to high risk, high reward ventures, it is extremely risky and the likelihood of failure is significantly higher.
- **High tech initiatives:** Due to their higher returns, venture capital investments are typically made in high tech projects or industries leveraging innovative technologies.
- **Participation in Management:** For better or worse, venture capitalists work in concert with entrepreneurs to make decisions about the course of the business.

Investments that are illiquid do not have set payback terms or are not repayable immediately.

Venture Capital in India

Evolution of Venture Capital

When IFCO created the Risk Capital Foundation in 1975, it became the first organization in India to introduce the concept of venture capital. It provided all small and risky projects with the initial funding. However, the budget for the fiscal year 1986–87 was the first to acknowledge the idea of venture capital.

The first study on Indian risk capital was published in 1983. It showed that barriers to equity financing and capital market entry are common for new businesses, which hinders their ability to expand and grow in the future. Additionally, it suggested that, on the whole, the equity cult should be evaluated by ensuring a competitive return on equity investment. The development of venture capital was the result of all of these institutional shortcomings.

Objectives of Venture Capital in India

- It enables the close collaboration of investors and startups/businesses as well as the encouragement of entrepreneurs to concentrate on developing more and more ideas.
 - It produces a setting appropriate for businesses based on knowledge and technology.
 - It aids in transforming ideas based on science, technology, and knowledge into an effective engine of economic growth and wealth creation in the right way.
 - It aims to catalyze India's positioning as a success story around the globe.
 - Process of Financing with Venture Capital
- Six different stages make up the venture capital funding process:

- **Seed Stage**

An entrepreneur is given a small quantity of money at this point to market a better idea with potential. Before making any investments, the investor looks over the business plan. If he is not satisfied with the idea or does not think the product has promise, the investor may decide against funding the project. However, if a portion of the idea is viable, the investor may continue to invest time and resources in the project. Because there are so many unknown factors at this point, the risk factor is extremely high.

● Start-up Stage

The second stage, also known as the start-up stage, of the process is initiated if the idea or product is suitable for further investigation.

- the business plan's executive summary,
- review of the competitive environment today,
- projected financial data in detail,
- Description of the size and potential of the market.
- Details of the management of the company,

The aforementioned analysis must be provided in order for venture capital to decide whether or not to fund the business. This kind of funding is offered to complete product development and launch the first marketing campaigns.

● Second Stage

At this point, the concept has developed into a thing that is bought and sold. At this point, Ventures' major objective is to squeeze in between the competition and take part of their market share. The management is being watched over by venture capital firms to determine the team's capacity in order to guarantee the product's development process and how they handle competition. If businesses learn that their capabilities are inferior to those of the rivals. The Venture Capital might not go to the following step therefore.

Working capital is offered at this step of the financing process for the business' expansion, including expanding accounts and inventory.

● Later Stage

Later stage financing is another name for this phase. An firm with a basic marketing setup is given capital, usually for product development, market expansion, and other purposes. The goal of later ventures is to increase market shares through stronger marketing promotion and product sales.

Venture capital examines current stage goals as well as those from prior stages, such as the second stage, to determine whether the team has reduced costs as anticipated or not.

Because the likelihood of failure in the later stage is low, venture capitalists choose this stage over all others.

Additionally, firms at this stage have a history of management, data on past performance, and a set procedure for financial data.

IPO Stage

This phase is often referred to as the bridge financing phase. It is the final finance round before exit. At this stage, the Ventures receive a specific number of shares, which provides them with opportunities like merger and acquisition, removing competitors, and discouraging new businesses from entering the market. Venture must now assess the position of the product and, if necessary, reposition it to appeal to a new market.

Advantages of Venture Capital

- **Better Management:** Being an entrepreneur does not always translate into being a competent manager of a company. However, because they own a portion of the company's equity, venture capitalists. They will have the ability to influence how the company is run. This is a huge advantage if one is not skilled at running a business. There is also a repayment obligation to investors, just as there would be in the case of a bank loan. Instead, because they are confident in the company's future success, investors assume the investment risk themselves.
- **Firm Expansion:** Venture capital provides significant investment that a company needs to grow. It offers the potential for business expansion that is not attainable with bank loans or other conventional financing.
- **Expertise joining the business:** Venture capitalists offer priceless knowledge, counsel, and contacts in the sector. These professionals can assist you keep your organization away from several drawbacks that are typically connected with startups because they have in-depth understanding of particular market requirements.



1. What are the most common external funding models used now in green finance for climate and environmental economic ventures?
2. Are venture capital and private equity companies a new way to start a financial crisis?

CHAPTER 2- RESEARCH QUESTIONS.

3. What impact does the zero-interest policy have on private investors' willingness to take risks, particularly those who are large and can afford significant losses?
4. Does corporate venture capital produce the results that were promised?

CHAPTER 3- LITERATURE

REVIEW.

In 2020, Jeong et al. looked into how venture capital funding affects a startup's long-term development and success at different phases. By examining how VC investment impacts start-up

performance from the perspective of the initial investment, this research broadens our understanding of the effects of venture capital investing. The ability of a start-up to absorb early in its life cycle has an impact on the success of VC investments, which is another significant finding

of the study.

Will Public Venture Capital Aid Resilience in the Collective Economy? by Vanderhaven et al., 2020. was the name of the journal I wrote for. Findings from a social innovation fund in this essay, the use of public venture capital programs to support and expand the social economy is systematically examined through the case study of Heavy Sound Community Interest Company. They draw the conclusion that while SIF financing helped Heavy Sound scale up an endeavor temporarily, more significant scaling could jeopardize the project's success, and long-term survival was not guaranteed.

A study on the difficulties of venture capital investment in India was conducted by Mahesh (2019). The purpose of this research paper is to provide examples of the difficulties and obstacles that Indian venture capital businesses have when trying to secure finance. There is a pressing demand for extremely affordable, high-quality products, which calls for appropriate access to crucial human resources to oversee and manage new initiatives as well as the necessary capital to finance them. India anticipates faster venture capital investment despite the nation's current manufacturing infrastructure issues.

CHAPTER 4- METHODOLOGY

As a source of data for this study, the entrepreneurs have been picked. To collect essential information, questionnaires are employed. "Venture Capital in Uttar Pradesh" is the subject of the questionnaire. There are two sections to the questionnaire: the demographic profile and the factors that are important to venture capital survey investment. From 60 business owners, it was gathered. The following metrics were utilised to assess the findings: frequency, mean, factor, and variance.

CHAPTER 5- RESULTS AND DISCUSSION

An entrepreneur seeking venture capital investment encounters a wide range of opportunities and difficulties, which makes it possible to examine a bigger sample size. As a result, founders do not fully appreciate the importance of venture capital funding. The entrepreneur needs to be familiar with the ideas and practices of venture capital investing in order to manage a successful business. Make a list of potential investors based on important considerations such (a) business sector, (b) acquisition, (c) stage, (d) proximity to the investment target, (e) comparable or rival portfolio companies, and (f) potential investor contacts. Find out as much as you can about the current investment position or activity level of your target investors. Entrepreneurs must demonstrate that there is a sizable market for what they are doing and that significant sums of money are being spent there. Venture financiers expect entrepreneurs to show that they have a capable management team in place.

What are the types of Venture Capital funding?

Venture capital funding can be divided into many forms depending on the ideation stage, the start-up company's age, and its performance over time.

Form of Financing Goal and Funding Amount Prior seed money

Pre-seed capital ranges from \$100,000 to \$200,000 funding given to start-ups that are under a year old. supports market research and R&D.

enlist new participants.

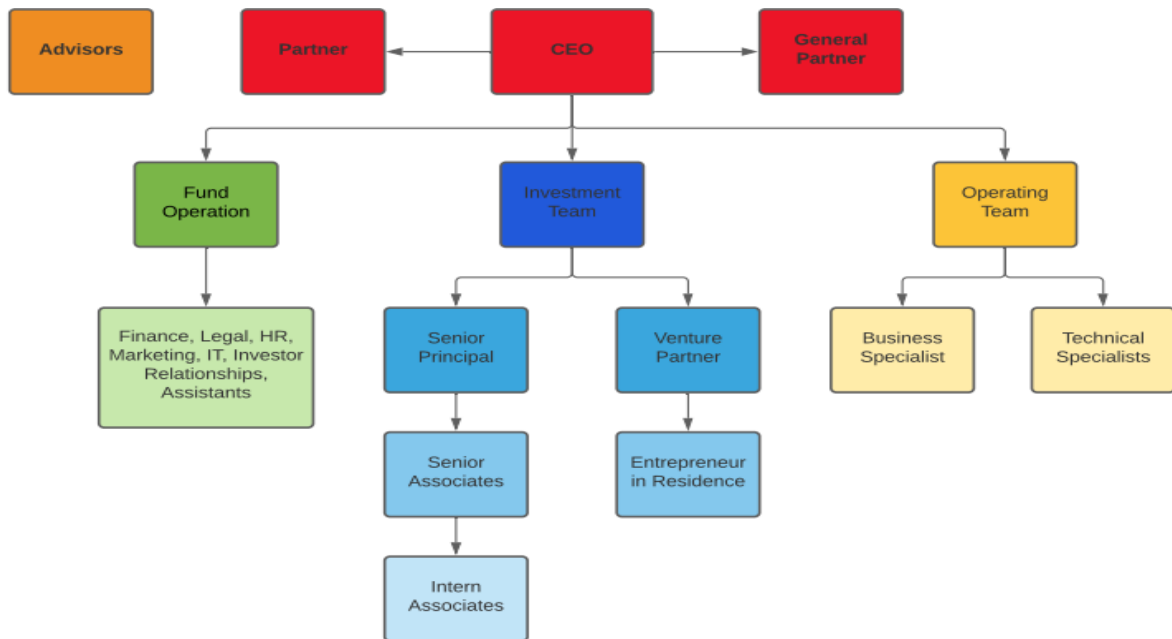
The amount of seed capital funding will be between \$1million and \$2 million.

A product that will be successful in the market is necessary for a start-up firm.

Funding for **Series A**

The funding will be in the \$2 million to \$15 million range.

A product that has been successfully marketed is necessary for the start-up company in order to scale up quickly.



B-series financing

Funding amounts may range from \$7 million to \$20 million. It is believed that this round is less dangerous.

Funding is utilized for marketing and business development.

Funding for Series C

funds for expanding offerings & services and acquiring new businesses

The amount of money received often ranges from \$ 25 million.

Funding for Series D

Few start-ups make it to this point.

Positive factors could include the company's desire to continue operating privately or the necessity for more expansion before an IPO.

The corporation might have fallen short of anticipated expansion ambitions as the bad explanation.

This is a down round of fundraising since confidence in the company's capabilities has diminished.

How is a Venture Capital (VC) fund structure?

- The fund structure today resembles that from 40 to 50 years ago.
- Limited and general partners make up the partnership.
- The fund's life span is between seven and ten years.
- The first two to three years are spent making investments by the VC fund, and the final two to three years are usually when rewards are realized.
- The average amount of money managed and the total number of investments managed today are significantly higher than they were in the past.

Recommendation

The establishment of Private Venture Capital funds should make it simpler to access Venture Capital funding. Instead of a joint venture with banks and other financial institutions, it permits funding independently.

- The investment in venture capital funding should be able to be categorized as "priority sector lending" by commercial banks.
- The government should offer financial assistance by exempting the dividend paid to Venture Capital fund investors from income tax in order to stimulate and develop the venture capital industry.
- The idea that venture capital is only for the high-tech sector needs to alter. The prospects in biotechnology, food processing, call centers, BPOs, etc. should be taken advantage of by venture capitalists.
- As every venture capitalist considers the exit strategy before making investment plans in a firm, create profitable disinvestment options.
- The Indian Venture Capital Association's function has to be expanded. To make information available to individuals who are interested, it should create a database on the venture capital sector.
- It is crucial to establish coordinating bodies across technical institutes since they can supply the skilled labour needed for the industry's success.

CHAPTER 6- CONCLUSIONS

As global marketplaces become more and more competitive, it is important to choose the appropriate human capital to direct and oversee new projects as well as the necessary funding. Indian venture capitalists have made sure that there are more opportunities for growth. A significant portion of the economy, including the pharmaceutical, information technology, and other service sectors, is ready for venture capital investors. As a result, venture capitalists are responding favorably to doing business in India. A comprehensive investigation should be conducted before beginning the process because there is a danger aspect.

CHAPTER 7- LIMITATIONS

Disadvantages of Venture Capital

- **Loss of control over decisions:** Giving up a lot of important decisions about the company's operations is another major issue with venture capital funding. This is due to the fact that venture capitalists must be notified of all important decisions pertaining to business plans and that they frequently have the authority to veto such decisions if they are unhappy with them.
 - **Loss of control:** While adding a team member from a venture capital firm to your management team is typically done to ensure the growth of the business, it can also lead to internal issues.
 - **Long and difficult process** that requires a thorough business plan and accurate financial estimates. The business strategy must adequately satisfy the venture

capitalists before they will invest, regardless of whether they believe the business will prosper in the long run. Therefore, negotiating a contract with a venture capitalist can be a difficult and drawn-out procedure.

- Quick Liquidity: In three to five years, the majority of venture capitalists want to recoup their investment in the company. Venture capital funding might not be the best choice for you if your business plan anticipates a longer timeframe before delivering liquidity.

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