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A STUDY ON VENTURE CAPITAL FINANCING AND GROWTH IN INDIA

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ABSTRACT

Venture Capital is finances high and new technology based enterprises where the banks there are a plenty of changes that an entrepreneur has to face. The startup capital for a business venture has always has been a bigger challenge for the enterprises. Venture Capital has long significant source of funding for startups. Venture Capital is financial assistance provided to startup companies potentially for achieving growth over a period of time and growth in the long run due to their unique business model. The Venture Capitalists and Venture Capital funds earn money by investing in the companies of their equity capital. Venture Capital funds will identify and provide their growth and financial assistance for successful execution of the business. Venture Capital is emerging vital sources for newly startup innovative business model with higher risk factor is associated with it. The study describes that to understanding the phenomena of Venture Capital in India.

Keywords: Venture Capital, Private Equity, Challenges Faced By Venture Capital

1. INTRODUCTION

Venture Capital is essential for financial intermediary, differs from traditional sources of finance, the traditional sources of financing are bank loans, bet and collateral will not tend to lend for risky projects. Venture Capital provides financial support through equity and equity linked investment by sharing with risk and returns rather than debt. The Venture Capital also provides has on support to enterprisers in their business activity along with the financial support.

Venture Capital is a type of a private equity of financing provided to the firms or funds to small and startup enterprises. Venture Capital firms or funds invest in these startup companies in exchange for equity and ownership stake in the enterprises. Venture Capitalist take on the risk of financing to risky startups in the hopes that some of the firms they support to become successful. The startup companies are basically on innovative technology or different model business such as information technology and social media.

Venture Capital is a provision of risk bearing capital in the form of participation equity for growth of companies. The Venture Capital provides some value added in the form of management advice and contribution to overall strategy. The high risks for the Venture Capitalists are compensated by the possibility of high return through capital gains in the medium terms.

1.2. VENTURE CAPITAL IN INDIA

The Venture Capital activity is done by development of financial institutions such as Industrial Development Bank of India (IDBI), Industrial Credit and Investment Corporation of India (ICICI) and State Financial Corporation (SFC). The financial institutions promoted to the private sector with debt as an instrument of funding. A long term funds raised from the public were used as a source of Venture Capital. In india need for the Venture Capital is recognized in the 7th five years plan and long term fiscal policy of government of india. Venture Capital financing really started in india in 1988 with formation of technology development & Information Company of india limited. The private Venture Capital fund was sponsored by Controlled Foreign Company (CFC) and promoted by Bank of India.

2. REVIEW OF LITERATURE

B. Raghupathy and A. Thillairajan (2015) study the performance of Venture Capital backed Initial Public Offering (IPO) and Non Venture Capital backed IPO in India. The results infer that the average performance of Venture Capital backed IPO stood higher in terms of profitability, size, and growth rates. The results confirm that the selection of private equity is of superior standards.

Kishan Kumar Shetty (2017) made a comparative study of impact of Venture Capital financing in fostering startups across India, USA and China. The impact found to be comparatively lesser in India than in USA and China. However, the momentous growth in investment is evident consumer technology sector. Larger network, positive cash flows from promising ventures and raising innovations forms the forte for Venture Capital financing in India.

K. Sharma and Smita Tripathi (2016) assessed the stages of Venture Capital investments in infrastructure sector. The results indicated that 64percent of total Venture Capital in the sector was made in the first round. However, the Venture Capital investments in the second round attributed only 23.1 percent. The drastic decrease in the Venture Capital investments in subsequent rounds is evident. The rationale could be failure of

venture backed firms to reach the milestone to earn the subsequent funding from Venture Capital investors. The Venture Capital investments in infrastructure sector are made mostly in established firms rather than starts-ups.

Vaishali Pagaria (2016) brings in the conceptual insights of Venture Capital financing. Venture Capital is considered as alternative source of financing for potential new generation ventures in India. The study states that Venture Capital as risk financing which provides financial assistance to high growth potential and innovative business with risk. This characteristic differentiates Venture Capital from traditional sources of finances.

Yuk-Shee Chan (2018) assesses the role of Venture Capital as a financial intermediary. According to the developed theory of financial intermediation, Venture Capitalist acts as informed agents with imperfect information in a market. Entrepreneurs are the well informed about the qualitative prospects about the project. Entrepreneurs try to push the ventures with lesser prospects of survival and profitability. This forms a hindrance for the Venture Capital investments as it leads undesirable allocation of funds in low return projects.

3. NEED FOR THE STUDY

In India the entrepreneurs' mindset is taking up a shift from risk averse business to invest in new ideas involves high risk. Venture Capital investment is a decision making process and also designed to reduce the risk of adverse selection. Hence there is a need to determine the use of Venture Capitalist to evaluate the flow of capital in India. The Venture Capital will prove to be soon for the young entrepreneurs.

4. SCOPE OF THE STUDY

The present study is quantitative in nature. It captures the Venture Capital investment criteria and growth of Venture Capital flow in India. The study focused on Venture Capital volume and deals which influence Venture Capital in India. For the study the different sector was selected to know the Venture Capital investment in India.

5. OBJECTIVES OF THE STUDY

1. To study the over view of Venture Capital financing in India
2. To study the sector wise financing of Venture Capital present scenario in India.
3. To study the growth of Venture Capital investments in India.

6. RESEARCH METHODOLOGY

The study based on secondary data over the current year. The study is based on secondary data. The data has been collected from various sources like venture intelligence, SEBI website, research papers and journals, articles related to concerned websites.

7. TOOLS OF ANALYSIS

The data collected for the study has analyzed logically and meaningfully to arrive at conclusions. The statistical tools applied for data analysis are percentage, average, line graphs, Analysis of Variance, correlation coefficient, least squares analysis, etc.

8. HYPOTHESIS

H₀₁: There is no significant difference in volume of Venture Capital funds and foreign Venture Capital in sector wise

H₀₂: There is no statistical relationship between Venture Capital value and No of Deal

9. DATA ANALYSIS

Table-1

Industry wise Cumulative Investment Details of SEBI Registered Venture Capital Funds (VCF) and Foreign Capital Investors (FVCI)					
Particulars	as on September 30, 2022 (Rs. in Crore)				
Sectors of Economy	VCF	% of VCF	FVCI	% of FVCF	Total
Information Technology	35	1.25	3,176	7.20	3,211
Telecommunication	9	0.32	166	0.37	175
Pharmaceuticals	92	3.29	687	1.56	779
Biotechnology	25	0.89	-	-	25
Media/Entertainment	21	0.75	581	1.32	602
Services Sector	205	7.32	206	0.47	411
Industrial Products	97	3.47	42	0.10	139
Others	2,315	82.71	39,239	88.98	41,554
Total	2,799	100.00	44,097	100.00	46,896

Source: SEBI website

Interpretation: The above Table-1 depicts that the cumulative investment of Venture Capital investors and foreign Venture Capital investors made by the different sectors which is registered with Securities and Exchange Board of India (SEBI) shown in absolute and in percentage of total investment. The investment made in economy through Information technology by Venture Capital Fund (VCF) is Rs 35 crore and by Foreign Venture Capital Fund (FVCF) is Rs 3176 and its percentage of total contribution is 1.25 percent and 7.20 percent. The telecommunication sector makes investment amount Rs 9 crore and by FVCF Rs 166 and its percentage of total contribution is 0.32 percent and 0.38 percent. Pharmaceutical sector make investment amount Rs 92 crore and by FVCF Rs 687 and its percentage of total contribution is 3.29 percent and 1.56

percent. In the Biotechnology sector make investment amount Rs 25 crore and by FVCF Rs 0.00 and its percentage of total contribution is 0.89 percent and 0.00percent. Media / Entertainment sector make investment amount Rs 21 crore and by FVCF Rs 581 and its percentage of total contribution is 0.75 percent and 1.32 percent. Service sector make investment amount Rs 205 crore and by FVCF Rs 206 and its percentage of total contribution is 7.32 percent and 0.47 percent. Industrial products sector make investment amount Rs 97 crore and by FVCF Rs 52 and its percentage of total contribution is 0.3.47 percent and 0.10 percent.

H_{01} : There is no significant difference in volume of Venture Capital funds and foreign Venture Capital in sector wise

H_{a1} : There is no significant difference in funding of Venture Capital funds and foreign Venture Capital in sector wise.

Table-1.1

ANOVA						
Source of Variation	SS	df	MS	F	P-value	F crit
Rows	3711274	6	618545.7	0.948123	0.524953	4.283866
Columns	1366563	1	1366563	2.094702	0.197963	5.987378
Error	3914340	6	652390.1			
Total	8992177	13				

Source: Calculated from Secondary Data

Interpretation: It is observed from the data provided in the above Table - 1.1 that the volume and Venture Capital deals of the different sectors F critical value is 4.283866 and p value is 0.524953. It concludes the p value is greater than 0.05 at 5percent significant level, there is no significant difference between no. of deal and Venture Capital funds invested in different sectors.

Table-2

No. of Deals and Investment Details of SEBI Registered Venture Capital Funds (VCF)						
year	No. of Deals	% No.of Deals	Venture Capital Investment in Billion Dollars	% of Venture Capital Investment in Billion Dollars	Growth of No. of Deals	Growth of Venture Capital investment
2017	551	17.0	1.5	14.0	-	-
2018	610	19.0	2	18.0	59	0.5
2019	689	21.0	2.5	23.0	79	0.5
2020	615	19.0	1.9	17.0	-74	-0.6
2021	741	23.0	3.1	28.0	126	1.2
Total	3206	100.0	11	100.0		

Source: SEBI website

Interpretation: It is observed from the data provided in the above Table - 2 that the volume of Venture Capital deals has increased from 551 in 201 to 741 in 2021. During the same period, the Venture Capital deal value has increased from \$1.5 in 2017 to \$3.1 in 2021. The correlation analysis between the volume of no. of deals and deal value (\$mn) is as follows. The growth of no of deals are increased from selected period is 59 to 126 and in the year 2020 it is negative. Growth of the Venture Capital investment form selected period is 0.5 to 1.2 and in the year 2020 it is negative

H₀₂: There is no statistical relationship between Venture Capital value and No of Deal

H_{a2}: There is a statistical relationship between Venture Capital value and No of Deal

Table- 2.1

Relationship between Venture Capital value and No of Deal		
Particulars	No. of Deals	Venture Capital Investment in Billion Dollars
No. of Deals	1	0.991064
Venture Capital Investment in Billion Dollars	0.991064	1

Source: Calculated from Secondary Data

Interpretation: It is observed from the data provided in the above Table-2.1 the person correlation was used to test the hypothesis and an significant relationship between no. of deals and deal value at 5percent significant level and the $r = 0.991064$, which is high and positive. There for there is a positive association between no. of deals and value of deal during the study period. The Venture Capital investment and no. of deals trend line is shown in the Chart-1 and Chart-2. The trend equation shows that the Venture Capital investment in billion dollars $y = 0.31x + 1.27$ and $R^2 = 0.6322$ (63.22 percent), $y = 38.5x + 525.7$ and $R^2 = 0.6725$ (67.25 percent) shows that the fitted trend line is highly influencing.

Chart-1

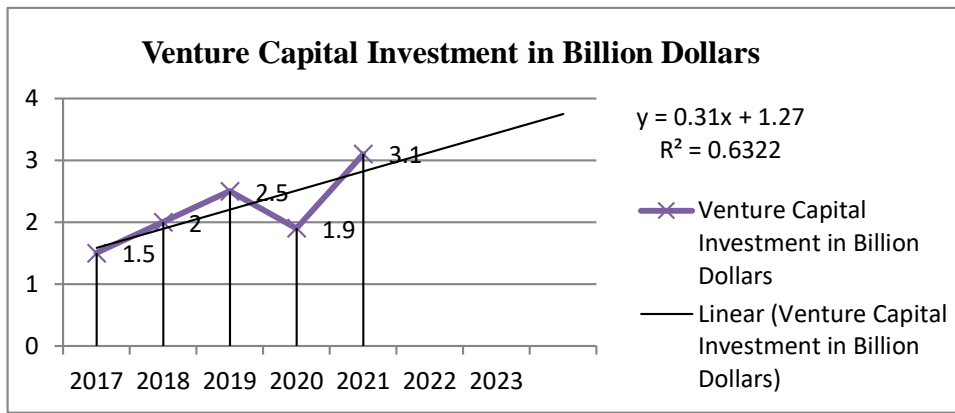
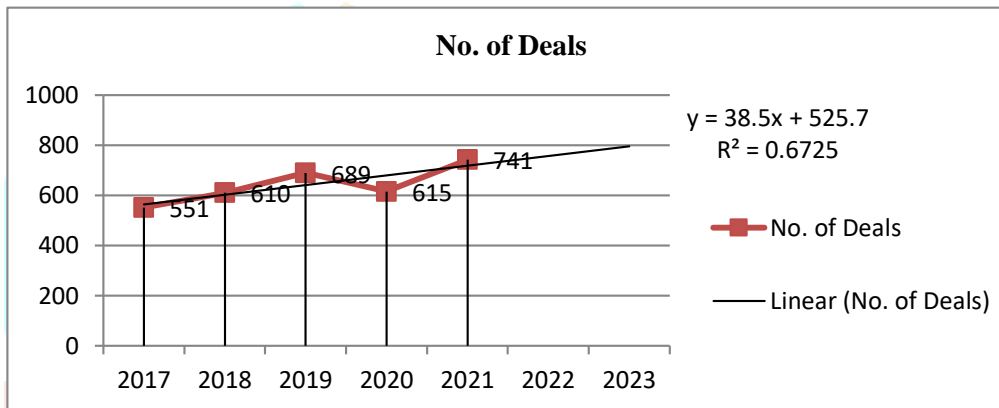


Chart-2



10. CONCLUSION AND SUGGESTIONS:

Venture Capital in India have been witnessing vital growth and paving away for entrepreneurial ventures to explore the untapped opportunities. Entrepreneurial Ventures backed up by Venture Capital has setup new benchmark of success of potential entrepreneurs. India is one of the country has become startup hub in the global. The Venture Capital relies on the development and willingness to share the rights over business. It is clear that the study the growth in number of Venture Capital deals and Venture Capital investments. The results givers and infer that there is a demand in the Venture Capital in the industry.

The Venture Capital investments are possessed the high risk and high returns. Venture Capital prefers apprentice ventures. Venture Capital investor's focus is to earn good returns with rational choice of investments. The study confers that Information Technology (IT) sector and pharmaceuticals sectors are the major sectors Venture Capital investments.

Venture Capital investments are supportive for the growth of entrepreneurial. It is found to be highly concentrated in few sectors. The government should provide incentives and tax wavering for Venture Capital investments in the essential sectors such as agriculture, construction, transports to support the national growth. Government has to consider as a part of entrepreneurial development and crate awareness among the young

potential entrepreneurs. The government policies to monitor the activities of Venture Capital investors would support of safety of entrepreneurial.

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