International Journal of Latest Trends in Engineering and Technology
Vol.(9)Issue(1), pp.124-130
DOI: http://dx.doi.org/10.21172/1.91.19
e-ISSN:2278-621X

VENTURE CAPITAL: GLOBAL AND INDIAN PERSPECTIVE

Dr. Mamta Jain[1] & Ms Purva Ranu Jain[2]

Abstract: Venture capital is specialized financial intermediaries who combine their unique blend of technological competence and financial skills, to provide both financial and managerial support for entrepreneurs in innovative ventures. Venture capital is playing a significant role in bringing industrial development as it exploits vast and untapped potentialities and promotes growth of knowledge based industries worldwide. In USA and Europe Venture capital has been in existence since many decades and has helped businesses to grow and expand whereas the concept is relatively new for India and major growth has taken place in last 5 to 7 years. Government of India felt the need of venture capital funds due to structural development and growth of small – scale business enterprises. The paper discusses the present status of Indian venture capital, role of venture capital and identifies the major shortcoming and challenges for poor growth of venture capital .Further the paper highlight the worldwide scenario of venture capital industry with special especial emphasis on India. The paper concludes that Indian venture capital industry is on a good track but there is a need to remove the handicaps rooted in the legal, political and economic structure for further development of venture capital industry in India.
Keywords: innovative ventures, knowledge based industries, handicaps rooted, structural development and technological competence.

1. INTRODUCTION

Venture capital is a post war phenomenon in the business world, mainly developed as a sideline activity of the rich in the USA. To connote the risk, adventure and some element of investment involved, the generic name of venture capital was coined. The term venture capital comprises two words, viz., 'venture' and 'capital'. Venture means 'chance' or 'trial' hinting at speculation, to try one's luck , i.e. good or bad involving risk or hazard or exposure to insecurity or danger . The term capital denotes the resources needed to start the enterprise. Therefore, venture capital is capital provided by professionals who invest alongside management in young rapidly growing companies. Venture capital is viewed as a subset of private equity and refers to equity investments made for the launch, early development or expansion of a business.
Venture capital is the organized financing of relatively new enterprises to achieve substantial capital gains. Such young companies are chosen because of their potential for considerable growth due to advanced technology, new products or services or other valuable innovations. A high level of risk is implied in turn and is implicit in this type of investment, since certain ingredients necessary for the success of such projects are missing in the beginning but are addressed later.
The promoter's own inputs are his idea and determination. The venture capitalist provide equity or equity related finance and management support. After the enterprises settle down to a profitable working and investors, backers and bankers are ready to finance it further, the venture capitalist sells out his shareholding and recovers his investment.

2. REVIEW OF LITERATURE

2.1 **Sabrinathan (2017)**in paper "Venture Capital and Private Equity Investing in India – An Exploratory Study" concluded that the venture capital industry has grown in terms of breadth, depth as well as sophistication in fund management practices. VC has the capacity to support enterprises across a range of sectors that have the potential and promise by providing funding across their various stages of development. Venture capital industry has evolved into being a source of growth financing for innovative and technology led businesses. The analysis also revealed that the market for managing VC funds is highly competitive with fairly high rates of entry and exit of fund management entities.

2.2 **Shetty (2017)**, in paper "A Comparative Study on Impact of Venture Capital Financing on Startups in India" concluded that when compared to venture financing in USA and China, Indian venture capital sector performance is relatively less but taking the Indian economy as whole there is substantial growth and rapid investment momentum mainly in the consumer technology sector making it one of the most attractive markets for venture capital investments. Effective research and development, better fiscal initiatives, adequate training and motivation are some major elements that will help venture capital industry become more successful and flourish in India.

[1] Associate Professor, University Of Rajasthan, Jaipur, Rajasthan, India
[2] Research Scholar, University of Rajasthan, Jaipur, Rajasthan, India

2.3 **Rani and Katyal (2015)**, in paper "Venture Capital in India: Sector-Wise Analysis" concluded that Venture Capitalists in India are biased toward technology companies with 68% of investments made in this sector. Other sectors include healthcare and education accounting for 9% and 7% of total investments respectively. The VC industry in India has had a somewhat frustrating run. With too much money chasing too few deals, Indian venture capital is struggling.

2.4 **Viren Chavda (2014)** , in paper "An Overview Of Venture Capital Financing In India" concluded that there is an urgent need for encouragement of risk capital in India, as this would widen the industrial base of high tech industries and promote the growth of technology.

2.5 **Haritha, Ravi and Reddy (2012),** in paper "Role of Venture Capital in Indian Economy" suggested that high performing manufacturers can build their market position by prioritizing investments in strategic initiatives that support and strengthen their core differentiation. Our framework identifies the innovative and distinctive capabilities that organizations must build to differentiate them from the competition: smart shop floor, market-driven innovation infrastructure, data based decision making and responsive relationships.

2.6 **Popov and Roosenboom (2011)**, in paper "Venture Capital and Industrial Innovation: Evidence from Europe" concluded that VC is relatively more successful in fostering innovation in countries with lower barriers to entry, with less stringent labor regulations, and with higher human capital.

3. OBJECTIVES

1. To analyze the profile of Indian venture capital industry.
2. To study the growth and development of venture capital industry in major countries where the venture capital industry has exhibited significant contribution.
3. To describe the Role venture capital to be played in India in the wake of upcoming knowledge based industries.
4. To identify the major shortcomings and reasons for poor growth of venture capital industry in India.

4. METHODOLOGY OF THE STUDY

Keeping in view of availability of the resources and the scope of the present research paper, the research study is conducted on the basis of secondary sources of data. Secondary data have been collected from various books, Journals, research articles, reports of various economic surveys etc.

5. INDIAN VENTURE CAPITAL SCENARIO

The major highlights of venture capital industry in India which has shown the growth and development since 2012-2016 in following heads are as:

1. Cumulative value of VC investment in 2016 was USD 15.0 billion in 620 deals.

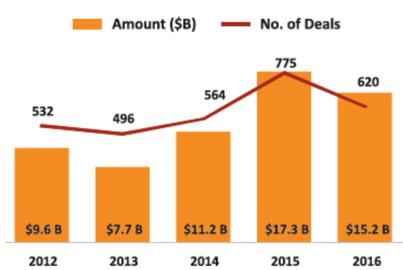

Figure 1: PE/VC investment by year
Source: Venture intelligence: India private equity trend report

2. Information technology sector attracted maximum VC investments (22.3 per cent of the total deal value and 56.6 per cent of the deal volume), followed by financial sector (30.8 per cent of the total deal value and 8.7 per cent of the deal volume).

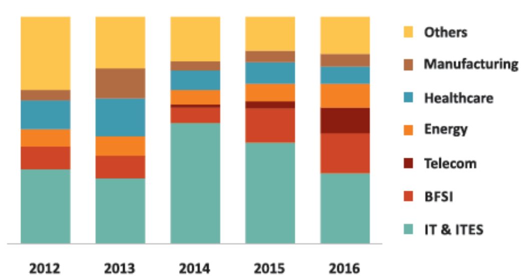

Figure 2: Share Of Investment (By Value)

Source: Venture intelligence: India private equity trend report

3. India had emerged as one of the world’s largest recipient of FDI and FDI was running at an annual rate of USD75 billion in 2016-17.

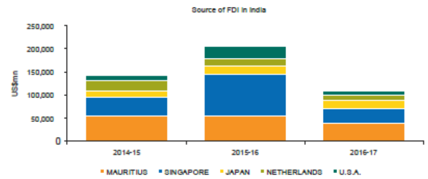

Figure 3: Source of FDI in India
Source : Fourth Wheel 2017

4. Western India accounted for 46% of total investment in terms of value

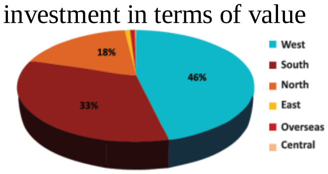

Figure 4: Investment by region (value)
Source: Venture intelligence: India private equity trend report

5. PE/VC exits in India declined by 18% to $7.86 Billion (across 215 deals) during the calendar year 2016.

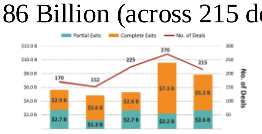

Figure 5: PE/VC Exits in India
Source: Venture intelligence: India private equity trend report

6. ROLE OF VENTURE CAPITAL IN THE WAKE OF UPCOMING KNOWLEDGE BASED INDUSTRIES IN INDIA

Scientific technology and knowledge based ideas properly supported by venture capitalist can be a powerful engine of economic growth and wealth creation in a sustainable manner. Following are the roles which a venture capital can play in the wake of upcoming knowledge based industries in India:

1. Many people who approach venture capitalist have great innovative ideas but they lack necessary skills to convert these ideas into viable business. Venture capitalist can mentor such people in scaling up their business plan.
1. Venture capitalist can play a vital role by providing guidance to firms to develop and commercialize new ideas by lowering the costs of failure and encouraging firms to take risks and experiment with potential growth opportunities
2. They can give valuable advice and help in formulating marketing strategy, growth strategy, financing strategy etc.
3. Venture capitalists introduce entrepreneurs to the networks of customers, financial institutions, consultants, policy makers etc.
4. Venture capitalist helps portfolio firms in raising additional finance as and when needed.

7. VENTURE CAPITAL FINANCING: GLOBAL SCENARIO

The concept of venture capital originated in USA in 1950s when the capital magnets like Rockfeller Group financed the new technology companies. The concept became popular during 1960’s and 1970’s when several private enterprises started financing highly risky and highly rewarding projects. The American Research and Development was formed as the first venture organization which financed over 100 companies and made profit over 35 times its investment. Since then venture capital has grown’ vastly in USA, UK, Europe and Japan and has an important contribution in the economic development of these countries.

The growth and development of venture capital in various countries is highlighted below:

7.1 USA: Venture capital has been primarily an American phenomenon, which has played a constructive role in the industrial development of USA. American Research and development corporation , founded by Gen .Doriot soon after the second world war is believed to have heralded the institutionalization of venture capital in the USA . The real development of VC took place in 1958 when the business administration Act was passed by the US congress. US occupied about 54% of the total global VC investments in 2016. The more mature VC markets of the US favor earlier–stage investments and the main exit route for VC-backed companies is acquisitions (M&A), representing more than 90% of all exits.

Number of VC Firms in Existence	898
Number of VC Funds in Existence	1,562
Number of First Time VC Funds Raised	22
Number of FC Funds Raising Money	253
VC Funds Raised ($B)	41.6
VC AUM ($B)	333.5
Median VC AUM per Firms ($M)	130.9
Median VC Fund Size to Date ($M)	50.8
Median VC Fund Size Raised this Year ($M)	75.0
Largest VC Fund Raised to Date ($M)	4,300.00

Figure 6:2016 Us Venture Industry At A Glance
Source: 2017 Nvca Yearbook Highlights

7.2 UNITED KINGDOM: The early stirrings of the UK Venture capital industry began in 1930s, but it was only in the early 1980s that it really began to develop and expand when the British government made provisions for tax rebate to people for making investment in unlisted companies in the stock exchange, under business expansion scheme. Venture capital is playing phenomenally important role by helping Early-stage fast growth companies to deliver the innovation which is helping Uk economy to improve and grow. The UK's strong venture-capital scene has created a fertile environment for disruptive tech companies. Today, it is a world leader in the financial technology (fintech), enterprise technology, e-commerce, property, and travel sectors. In 2016, 936 deals were completed, delivering €4bn in investments representing 34% of all deals completed in Europe. The UK has the highest concentration of capital in Europe and a significant source of funds for rest of the continent.

----- Amount raised (€billion)   ----- No. of rounds

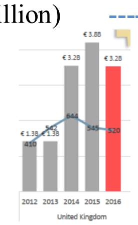

Figure 7: Venture Capital Investment
Source: 2016 European venture capital report

7.3 CANADA: The Canadian venture capital (VC) market is well established and has been growing both in terms of the number of deals and the amount of money invested; however, the average deal size is small compared to that in the United States. In 2015, a total of CAD 2.7 bn in venture capital was invested in Canadian companies. The volume of Canada's VC investment as a percentage of GDP ranked third amongst other developed nations – at 0.08% of GDP. By sector, firms in information and communication technologies (ICT) have captured the largest share of VC investment in Canada (63%).

7.4 EUROPE: Since 1995, Europe has seen a dramatic increase in venture capital investment in companies that are in their seed, start-up or expansion stages but still when compared with leading global economies like US the European venture capital market lag behind both in terms of size and stage of development. The amount of venture capital provided by US investors to start-ups amounts to 0.211% of GDP per annum on average – more than seven times the EU average (as shown in figure). VC firms located in the EU financed more than 28,000 young companies providing a total of EUR 35 bn in venture capital from 2007 to 2015. On average, VC firms invest EUR 1.3 m in companies located in the EU in each funding round. € 16.2B venture capital is raised by European companies in 2016.

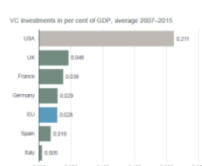

Figure 8: Venture Capital Investment Rate
Source: 2016 European Venture capital report

7.5 FRANCE: The venture capital activity in France came into picture in 1971 with the creation of the Societies Financiers Innovation. Although the French VC market suffered during the economic crisis of 2008–2009, fundraising has significantly risen since and investments are expected to increase in the coming years. In order to create a private VC industry in the seed segment, the French state decided to create a EUR 600 m "fund of fund" program, dedicated to financing seed VC funds, in 2011.

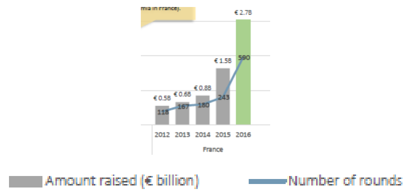

Figure 9: Venture Capital Investment
Source: 2016 European venture capital report

7.6 GERMANY: Like France, Germany has a strong tradition of government support for the business sector that dates back to the post world war II programs dedicated to rebuilding the German industry. Today, Germany is Europe's second largest venture capital market after the UK.

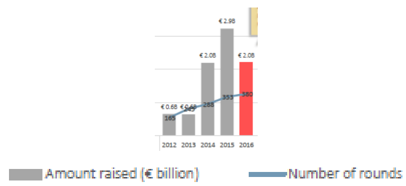

Figure 10: Venture Capital Investment
Source: 2016 European venture capital report

7.7 JAPAN: By taking inspire from American venture companies, several venture capital institutions were established in Japan after Second World War by well known financial institutions for financing of high technology industries, in which the names of DIAWA Securities, SANYO Securities and Yamiechi Securities group and International bank of Japan desire mention. Venture capital financing in Japan was mainly started in 1970's when the listing norms were relaxed alongwith registration requirement of the stock exchange. The formation of OTC in 1982further added momentum to the growth of venture capital in Japan .In Japan the venture investments are primarily equity made in more mature private companies. Normally the venture capital firms in Japan do not invest in startups.

7.8 SINGAPORE: The first venture capital fund set up in Singapore was South East Asia Venture Investment ("SEAVI") in 1983, with participation from the U.S venture capital firm Advent International. The first public investment in venture capital fund was in 1986 by the Economic Development Board of Singapore (EDB). In 1993, the Singapore Venture Capital Association (SVCA) was established. The World Bank has named Singapore as the world's easiest place to do business. Singapore's stable legal systems, pro-business tax regime and government incentives for technology start-ups have been very attractive pull factors for the setup of early stage enterprises and venture capital funds. Through the years, Singapore continued to be a major investment hub with Singapore-based fund managers accounting for more than 55% of total private equity and venture capital investments into Southeast Asia. There are around 153 venture capital firms. VC investments in Singapore achieved historic figures with 100 deals with an aggregate value of $3.5b recorded in 2016. According to a report by global valuation firm Duff and Phelps, the technology sector accounted for the majority of deal volume at 53% and deal value at 34%.

7.9 ISRAEL: Another country in which Venture capital originated relatively early is Israel. The evolutionary process of the industry in Israel is quite similar to that of the US. There was a high technology sector in Israel requiring funds for commercialization. The formation of Athena in 1985, the first formal venture capital firm, marked the origin of the industry in Israel.

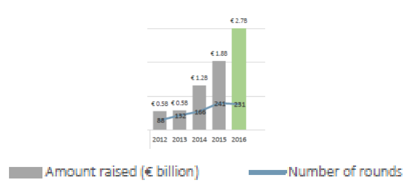

Figure 11: Venture Capital Investment
Source: 2016 European venture capital report

7.10INDIA: Venture capital originated too late in India in 1973 on the recommendation of Bhatt Committee. The first Venture capital fund in India was established in 1975 by Industrial Finance Corporation (IFCI) of India. The Indian venture capital industry is dominated by public sector financial institutions. In India venture capital funds are regulated by SEBI. Cumulative value of VC investments in 2016 was USD 15.0 billion in 971 deals in 2016. Information technology companies and tech – oriented startups dominated, accounting for 56.6 percent of deal volumes and 22.3 per cent of deal values.

7.11CHINA: In China the venture capital industry started in the mid 1980s when the government felt the need for developing high technology industries. The initial efforts were not successful because of the unfavorable regulatory environment in China. In early 1990s, majority of the venture capital backed firms were State Owned Enterprises (SOEs). Most of the venture capital funds were organized as joint venture funds with SOEs initially. In China, the industry grew in 1999-2000 in tandem with the growth in the IT sector. Venture capital markets of China generally prefer less risky later-stage companies. In China IPOs represent the vast majority of exits for VC-backed companies .VC funding has grown seven fold in the last five years in China. In 2015 total funding of US$49b through 1,635 deals is there as compared to US$7b in 2010. At the same time, deal size has doubled from US$15m in 2010 to US$30m in 2015.

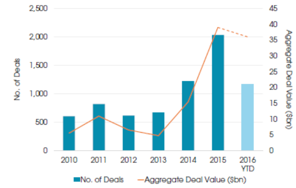

Figure 12: Number and aggregate value of Venture capital Deals in greater China 2010-2016
Source: Preqin Private Equity Online

8. REASONS AND SHORTCOMINGS FOR POOR GROWTH OF VENTURE CAPITAL INDUSTRY IN INDIA

1. The venture capital ecosystem is relatively weak in India. The industry is fragmented. Angel investing is still at a nascent stage. Entrepreneurs are finding it difficult to get seed stage funding.
2. Presently high net worth individuals and corporate are not provided with any incentives for investment in VCFs. In absence of any incentive, it is extremely difficult for domestic VCFs to raise money from this investor group that has a good potential.
3. As the venture capital scheme emphasizes on new innovations and technologies development. This requires regular interaction between industry and research institutes and laboratories. However, there is little interaction between research institutes and industry in India.
4. So far VCFs are concentrated in few big cities and are mainly benefitting entrepreneurs located in these big cities. Venture Capital Fund should be established in semi-urban and rural areas also to use the potential of budding new entrepreneurs.
5. Long gestation period and high risk associated with investments made in the form of shares or debt in startup companies is a quite challenging task for VCs.
6. Compliance of local SEBI regulations, FDI rules, FEMA and adherence to CBDT rules for claiming tax exemptions by VCs are great hurdles in growth of venture capital industry.

9. CONCLUSION

The venture capital sector is experiencing its own paradigm shifts, reflecting an increasingly globalized world. Financing new enterprises offering innovative products/services, technology ventures and small and medium enterprises has been and continues to be a challenge in every economy. In the era of globalization, technological self reliance is crucial for the development of the economy and for building competitive advantage. The growth of small and medium enterprises should be encouraged as they generate employment opportunities and contribute to the GDP. Large companies continue to dominate in economy, and are no doubt generally stronger and more likely to survive and prosper than small and medium-sized enterprises (SMEs). Still, societies cannot rely solely on what was established in the past. New products and ventures need to be developed. Organizational change and entrepreneurship should be embraced. Whereas many countries have recently adopted new policies to support the provision of seed and venture capital, it is important that venture capital issues are not addressed in isolation.

The cumbersome regulations and legal procedures, lack of intellectual property led investment opportunities, entrepreneurs' conservative approach to business and unwillingness to accept failures, share information and control of the enterprise are the major challenges and hurdles faced by venture capitalists in India.

Greater efforts are needed in many countries as well as in India to remove such challenges and obstacles to experimentation and risk taking in the economy.

10. REFERENCES

[1] G.Sabrinathan (2017), Venture Capital and Private Equity Investing in India – An Exploratory Study, IIMB-WP N0. 542, http://www.iimb.ac.in/sites/default/files/research/files/workingpaper/WP%20No.%20542_0.pdf.

[2] Kishan Kumar Shetty (2017) , A Comparative Study on Impact of Venture Capital Financing on Startups in India , International Conference on Education, Humanities and Management (ICEHM-17) March 14-15, 2017 Dubai (UAE), http://heaig.org/images/proceedings_pdf/IAH0317513.pdf.

[3] Pallavi Rani and Hitesh Katyal (2015), Venture Capital in India: Sector-Wise Analysis, International Journal of Research & Development in Technology and Management Science –Kailash, ISBN - 1-63102-450-7, Volume – 21,Issue 6 ,MARCH 2015 , https://journal.rtmonline.in/vol21iss6/053074.pdf.

[4] Viren Chavda (2014) , An Overview on Venture Capital Financing in India, RESEARCH HUB – International Multidisciplinary Research Journal, ISSN: 2349-7637 (Online), Volume-1, Issue-2, September 2014, http://www.rhimrj.com/admin/upload/-upload-SEPT14010211.pdf.

[5] M Haritha , V Ravi and Maruthi Reddy (2012) , IOSR Journal of Business and Management (IOSRJBM) ISSN: 2278-487X Volume 4, Issue 2 (Sep,-Oct. 2012), PP 46-70, http://www.iosrjournals.org/iosr-jbm/papers/Vol4-issue2/G0424670.pdf?id=5440.

[6] Alexander Popov and Peter Roosenboom (2011), Venture Capital and Industrial Innovation: Evidence from Europe, 2nd Draft Manuscript for Economic Policy September 5, 2011, http://www.economic-policy.org/wp-content/uploads/2013/03/popov_roosenboom.pdf.

[7] 2017 NVCA yearbook highlights busy year for venture industry and NVCA, https://nvca.org/pressreleases/2017-nvca-yearbook-highlights-busy-year-venture-industry-nvca/.

[8] Venture capital in UK , Barclays , https://www.barclayscorporate.com/content/dam/corppublic/corporate/Documents/Industry-expertise/venture-capital-in-the-uk.pdf

[9] KPMG private equity review 2016, https://assets.kpmg.com/content/dam/kpmg/in/pdf/2017/02/Private-Equity-Report-review-2016.pdf.

[10] EY Global venture capital trends 2015 , http://www.ey.com/Publication/vwLUAssets/ey-global-venture-capital-trends-2015/$FILE/ey-global-venture-capital-trends-2015.pdf

[11] Financial insight : venture capital , http://sbr.com.sg/sites/default/files/singaporebusinessreview/print/SBR_JuneJuly2017_24-26.pdf

[12] Preqin special report: Asian private equity and venture capital , https://www.preqin.com/docs/reports/Preqin-Special-Report-Asian-Private-Equity-&-Venture-Capital-September-2016.pdf.

[13] Venture Intelligence: India private equity trend report 2017 , http://www.ventureintelligence.com/downloads/pe-trend-report-2017.pdf.

[14] 2016 European venture capital report, dealroom.com, https://www.slideshare.net/yoramw/dealroom-2016-european-venture-capital-report.