

Growth and Development of Venture Capital Financing in India with a special emphasis on Selected Sectors

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Abstract

There seems to be no dearth of business ideas/proposals, but what poses a challenge for the fast growing companies is their ability to tap appropriate finance for giving a concrete shape to their ideas. So there emerges an enormous opportunity for organizations offering financial support. Probably triggered by the financial needs of young entrepreneurs, venture capital firms came into existence. They catered the financial demands of the newly set-up organizations to a great extent and still they continue to do so. A major developments in venture capital was noticed during late 1990s. The development was the spurt in formal venture capital markets which not only resulted in emergence of dynamic new industries but also gave birth to excessive behavior and costly mistakes. Venture capital markets around the globe have kept maturing and deepening in varying degrees. Similarly, the venture capitalists vary strongly in features and performance between countries.

In this article, an attempt has been made to observe the performance of the venture capital firms by analyzing their profit after tax and net assets value. Further, in order to judge the overall performance of the venture capital as an activity, the analysis is being done on global basis, region-wise and funding of mergers and acquisitions by venture capital firms, region wise. All the analysis/calculations are based on secondary data.

Keywords: Evolution of Venture Capital in India; Venture Capital Deals / Financing; Global Scenario; Growth Potential in India

JEL Classification: G2 (Financial Institutions and Services)

Full length paper

Introduction

The venture capital investment assist in fostering innovative entrepreneurship in India. It has developed as an outcome of the requirement to provide non-conventional, risky finance to new ventures based on innovative entrepreneurship. An investment in the shape of equity, quasi-equity and at times debt- straight or conditional, Venture capital is made in new ventures, promoted by a technically or professionally qualified entrepreneur. Venture capital implies risk capital. It comprises of capital investment, both equity and debt, which carries enormous risk and uncertainties.

Venture capital has different meanings for different people. It is in fact almost next to impossible to define it with the help of a single definition.

Jane Koloski Morris, editor of the well-known industry publication, Venture Economics, defines venture capital as 'providing seed, start-up and first stage financing' and also 'funding the expansion of companies that have already demonstrated their business potential but do not yet have access to the public securities market or to credit oriented institutional funding sources.

The European Venture Capital Association describes it as risk finance for entrepreneurial growth oriented companies. It is investment for the medium or long term return seeking to maximize medium or long term for both parties. It is a partnership with the entrepreneur in which the investor can add value to the company because of his knowledge, experience and contact base.

According to SEBI Venture Capital Funds (VCFs) Regulations, 1996, A Venture Capital Fund means a fund established in the form of a trust/company; including a body corporate, and registered with SEBI which (i) has a dedicated pool of capital raised in a manner specified in the regulations and (ii) invests in venture capital undertakings (VCUs) in accordance with these regulations.

A Venture Capital Undertaking means a domestic company (i) whose shares are not listed on a recognized stock exchange in India and (ii) which is engaged in the business of providing services/production/manufacture of articles/things but does not include such activities/sectors as are specified in the negative list by SEBI with government approval-namely, real estate, non-banking financial companies (NBFCs), gold financing, activities not permitted under the industrial policy of the Government and any other activity which may be specified by SEBI in consultation with the Government from time to time.

Before the onset of venture capital, Development Finance Institutions (DFIs) had been partially playing the role of venture capitalists by offering assistance for direct equity participation. The requirement for venture capital was felt in the mid-eighties when a substantial chunk of investors burnt their fingers by investing in such endeavors. The venture capital industry in India evolved

in the late 1980s with Government of India according a legal status to venture capital operations in 1988 and has been beguiling attention ever since. Technology Development and Information Company of India Ltd. (TDICI), an equal joint venture of ICICI and UTI, was the first organization to commence its venture capital operations in India. TDICI was the investment manager and the funds were registered as UTI's Venture Capital Unit Scheme (VECAUS). Thereafter in 1996 the regulatory framework of the industry was defined by SEBI (Venture Capital Fund) Regulations, 1996, followed by the SEBI (Foreign Venture Capital Investor) Regulations, 2000 on the recommendation of Chandrasekhar committee stimulating growth in the industry.

With the passage of time venture capital have scaled astral heights. During January- September 2015, 323 deals were inked, enticing an investment of \$1.4 billion.

According to data from Venture Intelligence, a research company, investments made in first nine months of 2015 have surpassed the previous historical high of \$1.2 billion (304 deals) recorded in whole of 2014. The Indian government budget for 2014-15 was a presage of creating an investor friendly environment with a slew of provisions and funds earmarked for start-ups in India. At the same time, a start-up fund worth INR 10000 crore was going to be earmarked. Thus everything sounded positive and all these developments were harbinger of halcyon days for angel investors and venture capitalists (VCs).

Review of literature

The private equity firm is typically made up of limited partners ("LPs") and general partners ("GPs"). The LPs are the outside investors. They provide the capital and typically comprises of institutional investors like, insurance companies, endowment funds (Harvard, Stanford, Princeton and Yale all aggressively invest their endowment in private equity), foundations, banks, retirement / pension funds, family investment offices as well as high net worth individuals. They are termed limited partners in the sense that their liability extends only to the capital they contribute. Generally, the minimum commitment for an LP is \$1 million (*A Primer on the Structure of Private Equity Firms, Boyte Code, March, 2014*).

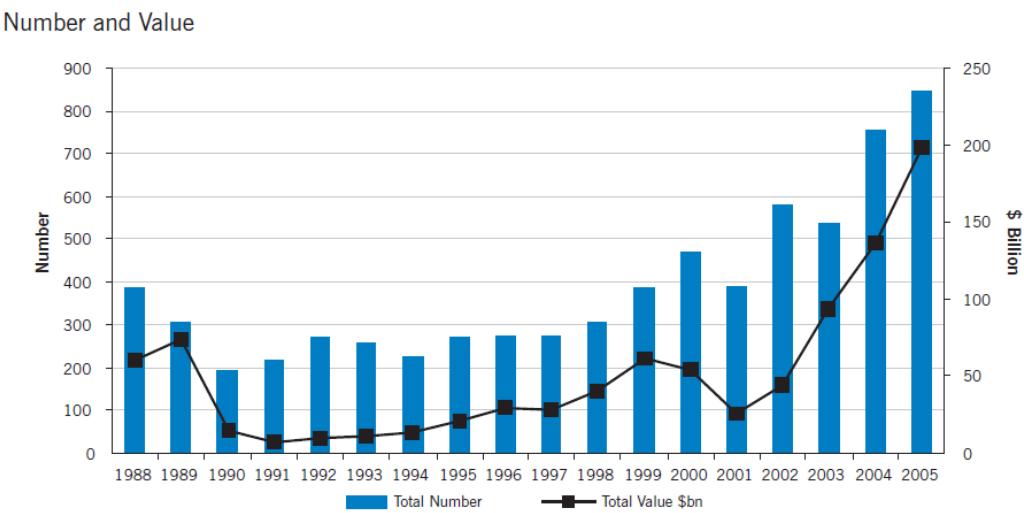
In Indian scenario, private equity transactions differ in nature and can be broadly categorized into three types- early stage and venture capital; growth stage; and buyouts. The target companies for a majority of the private equity transactions that take place in India are either private or closely held public unlisted companies. Private equity investments in listed companies are relatively less frequent, due to acquisitions of listed companies being highly regulated and restrictions on enforceability of a number of shareholder rights typically sought by private equity investors. On account of regulatory reasons leveraged buyouts (LBOs) are not common in Indian, unlike various other jurisdictions including the US and the UK. The most commons structures used in private equity investments in Indian companies involve either a primary

subscription or a secondary purchase of existing securities or a combination of both. Lately, the trend of various private equity investors has been not to take huge amount of direct exposure in the shape of pure equity, but instead to structure their investments as a combination of equity shares and convertible instruments (namely, compulsorily convertible preference shares or compulsorily convertible debentures) that may convert in terms of pre-defined performance milestones or other parameters of a similar nature. Investing through compulsorily convertible instruments is also often resorted to in cases where there is a mismatch between the valuations of the target company as ascribed by the promoter and the private equity investor. In such situations, middle path may be attained by way of an adjustment to the conversion formula attached to compulsorily convertible instrument, depending on the target meeting the pre-agreed performance milestones (*Malik Rupinder, Shankar Siddharrth and Gaur Vatsal, 2013*).

Looking into the global scenario, the private equity or leveraged buyout (LBO) market has grown substantially over two decades. If we move back to 1991, the value of new transactions were \$10 billion and by the latter part of 2005 and first part of 2006 they reached \$500 billion. This annualized total was equivalent to 5% of the capitalization of the U.S. stock market and 1.4% of global GDP. Although the volume of transactions has rose substantially, the salient facet is the growth in the value of both individual and aggregate transactions. In the U.S. the number of transactions nearly doubled between 2000 and 2005, while the value rose four fold (please refer exhibit 1). This growth in value

Exhibit 1

U.S. Buy-outs



Source: Thomson Financial and CMBOR

Objectives of the study

- 1) To comprehend whether there is a significant difference or not in the number of Private Equity-Backed deals by Regions, i.e. North America, Europe, Asia and Rest of World during the period 2006-15
- 2) To understand sector-wise investment scenario of Venture Capital Funds and Foreign Venture Capital Investors (FVCI) in India in four key sectors- Information Technology; Telecommunications; Services Sector and Industry Products.

Research Methodology

F-test (One Factor Model): This statistical tool will assist in accomplishing the above mentioned objectives that is whether there is a significant difference or not in the number of Equity-Backed deals by Regions, i.e. North America, Europe, Asia and Rest of World during the period 2006-15 and selected sector-wise investments in India during the period 2010-2015. The selected sectors are: Information Technology; Telecommunications; Services Sector and Industry Products.

Analysis of Time Series (Method of Semi-Average): With the help of this method it will be helpful to comprehend the trend of investments by Venture Capital Funds and Foreign Venture Capital Investors during the period 2010-2015 in four selected sectors of Indian economy- Information Technology; Telecommunication; Services Sector and Industry Products.

Limitations of the study

- 1) The study is based on secondary data.
- 2) Due to technical and other constraints all aspects pertaining to venture capital financing have not been covered.
- 3) With reference to venture capital funds and foreign venture capital investors investment scenario in India, only four sectors have been studied- Information Technology; Telecommunications; Services Sector and Industry Products.

Venture Capital Financing- The Indian Scenario

Private equity investments in India touched a record high of \$16.8 billion on 2015 (across 661 deals), 16% higher than the previous high of \$14.5 billion (across 529 deals) recorded in 2007

and a massive 50% higher than the \$11.2 billion (across 530 deals) invested during the previous year. The rise was led by continued substantial investments in consumer targeting internet and mobile services companies that accounted for approximately \$5.3 billion or 31.5% of the investment pie during the year. Some of the key highlights of 2015 were- 44 investments of more than \$100 million (compared to merely 19 investments in 2014); IT & ITES companies received 45% of the investment pie at almost \$7.5 billion (across 386 deals); Investments in BFSI crossed Healthcare & Life Sciences and Buyout deals surge to 18% of the value pie (compared to just 6% in 2014).

In a continuation from 2014, the renowned home grown E-Commerce mammoths Flipkart and Snapdeal captured a total of \$1.45 billion between them, followed by taxi aggregator Ola Cabs that procured \$900 million. Flipkart collected \$700 million at a reported \$15.2 billion valuation in a round that witnessed participation from existing investors Tiger Global and Steadview Capital and taking the total funding raised by the company to \$3.2 billion.

The top PE investments in 2015 (by deal value) also comprised of huge buyout transactions in sectors as varied as Broadband to Cash Management of BPO services. In July 2015, the acquisition of 95% stake in high-speed broadband services provider Atria Convergence Technologies (ACT) by global private equity firm TA Associates combined with India Value Fund by investing \$500 million was in air. In May 2015, Baring Asia acquired 100% stake in cash management services firm CMS Info Systems for \$440 million, thereby, providing an exit to the then PE investor Blackstone.

Going by sector, IT & ITES companies inveigled 45% of the investment pie at almost \$7.5 billion (across 396 deals) continued to wheedle a substantial share of the investor interest. BFSI (Banking, Financial Services and Insurance) companies emerged as the second favorite destination for PE investments in 2015 enticing \$2.5 billion across 42 transactions. Investments in BFSI companies displayed a noteworthy jump of 3.3 times (in value terms) compared to 2014. The biggest BFSI transaction in 2015 was Apex Partners' \$383 million (INR 2,456 crore) buyout of TPG Capital's 20% in publicly listed NBFC firm Shriram Union City Finance. This was followed by the \$295 million (INR 1,950 Cr) investment by Temasek and PremjiInvest in privately held ICICI Prudential Life to purchase a 6% stake from ICICI Bank. Fairfax India Holdings, an investment firm promoted by Canada based Prem Wasta, took over 21.85% stake in publicly listed IIFL Holdings through a voluntary open offer for nearly \$201 million (INR 1,341 crore) taking its stake to approximately 31%. Bain Capital invested \$200 million (INR 1,310 crore) in publicly listed L&T Finance Holdings in a mix of preferential allotment and public market deals to acquire 10.22% stake.

Major buyout deals in the industry were that of Carlyle investing a reported \$200 million (INR 1,200 crore) to buy out the stake held by NSR in Destimoney Enterprises and KKR investing \$

115 million to acquire a 72% stake in homegrown investment bank Avendus Capital. Other notable BFSI deals in 2015 included were \$173 million (INR 1122 Cr) investment in India Infoline Wealth by General Atlantic and the \$165 million (INR 1,019 Cr) investment in Bandhan Bank led by GIC.

Now in order to comprehend whether there is a significant difference or not in venture capital or private equity financing in key sectors of Indian economy during the recent four years i.e. from 2010 to 2015, statistical tool, i.e. F-test (One Factor Model) is being used. The sectors considered for the study are- Information Technology; Telecommunications; Services Sector and Industrial Products.

Hypothesis:

Null Hypothesis (H0) : *There is no significant difference in the volume of investments by Venture Capital Funds and Foreign Venture Capital Investors in the following sectors of Indian economy- Information Technology; Telecommunications; Services Sector and Industry Products*

Alternative Hypothesis (H1): *There is a significant difference in the volume of investments by Venture Capital Funds and Foreign Venture Capital Investors in the following sectors of Indian economy- Information Technology; Telecommunications; Services Sector and Industrial Products*

Years	Information Technology (X1) (INR Crore)	Telecommunications (X2) (INR Crore)	Services Sector (X3) (INR Crore)	Industrial Products (X4) (INR Crore)
March 2010	3360	6976	3059	2326
March 2011	4000	8313	3071	2049
March 2012	4460	7969	4346	2322
March 2013	4653	6517	4524	2723
March 2014	5503	8325	5066	2592
March 2015	6300	7755	5697	2585

	$X^-1 = 28276 / 6$ = 4713	$X^-2 = 45855 / 6$ = 7643	$X^-3 = 25763 / 6$ = 4294	$X^-4 = 14597 / 6$ = 2433
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$$\text{Grand Mean } (X^-) = 4713 + 7643 + 4294 + 2433 / 4 = 19083 / 4 = 4771$$

ANOVA Table

Source of Variation	Sum of Squares	v	Mean Squares
SSC = Between Samples	83673126	3	27891042
SSE = Within Samples	14239527	20	711976
Total			

$$\text{Test Statistic: } F = 27891042 / 711976 = 39.17$$

For $v_1 = 3$ and $v_2 = 20$, the tabled value of $F_{0.05}$ (5% level of significance) is 3.10. Since the calculated value of F is greater than the tabled value, the null hypothesis is rejected. Thus, there is a significant difference in the volume of investments by Venture Capital Funds and Foreign Venture Capital Investors in the following sectors of Indian economy- Information Technology; Telecommunications; Services Sector and Industrial Products.

Trend of investments by Venture Capital Funds and Foreign Venture Capital Investors in four selected sectors of Indian economy- Information Technology; Telecommunication; Services Sector and Industrial Products.

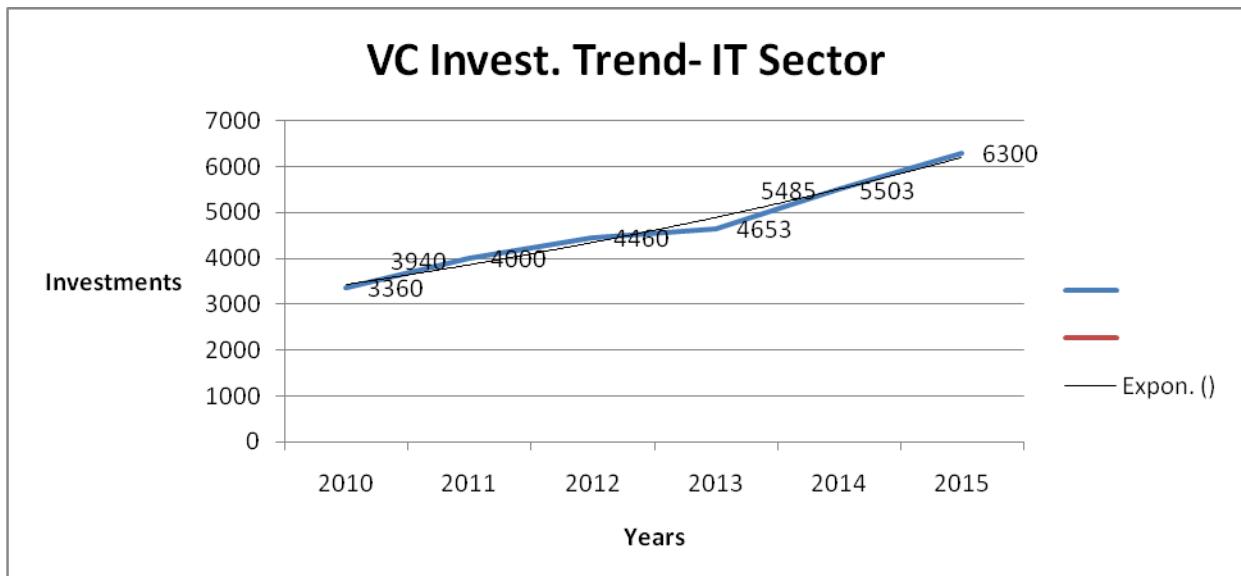
Information Technology Sector

Years	INR Crore
2010	3360
2011	4000
2012	4460

2013	4653
2014	5503
2015	6300

The Average of first three years (2010- 2012) = 3940

The Average of last three years (2013 – 2015) = 5485



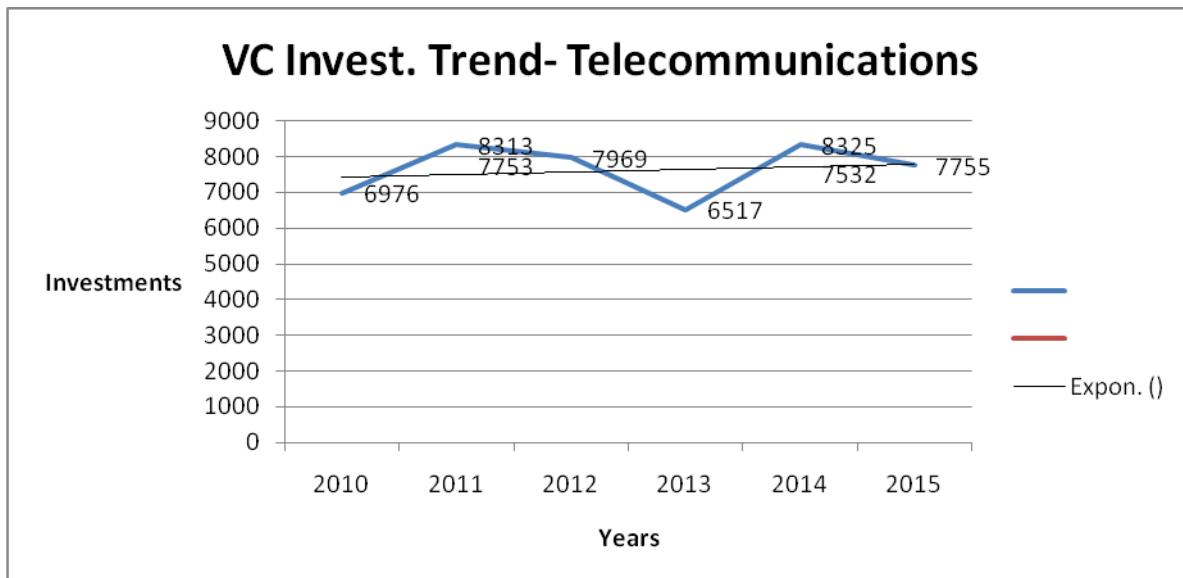
Telecommunication Sector

Years	Investments (INR Crore)
2010	6976
2011	8313
2012	7969

2013	6517
2014	8325
2015	7755

The Average of first three years (2010 – 2012) = 7753

The Average of last three years (2013 – 2015) = 7532

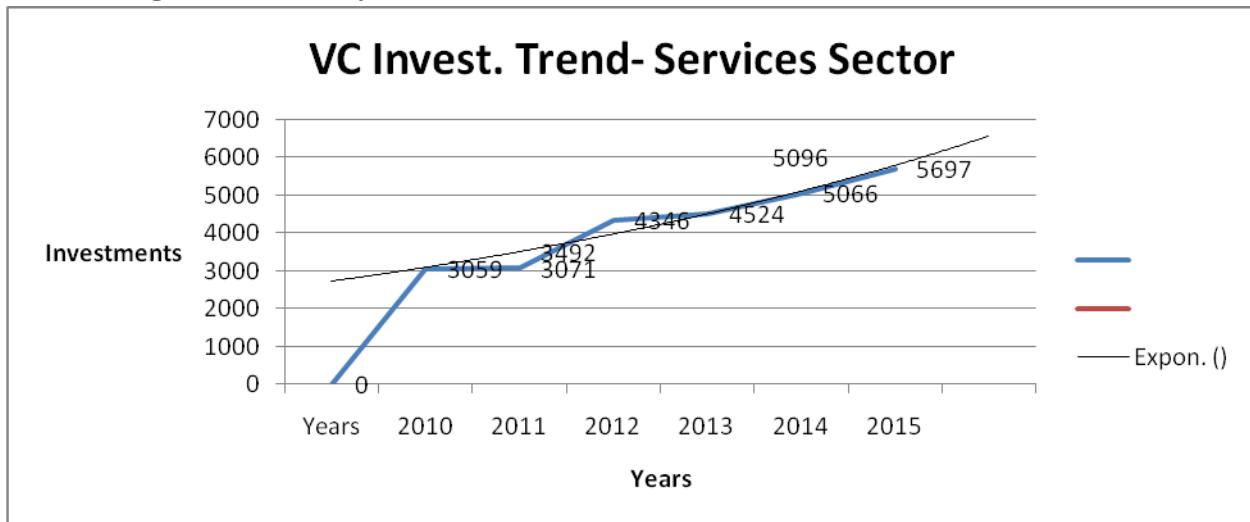


Services Sector

Years	Investments (INR Crore)
2010	3059
2011	3071
2012	4346
2013	4524
2014	5066
2015	5697

The Average of first three years (2010 – 2012) = 3492

The Average of last three years (2013 – 2015) = 5096

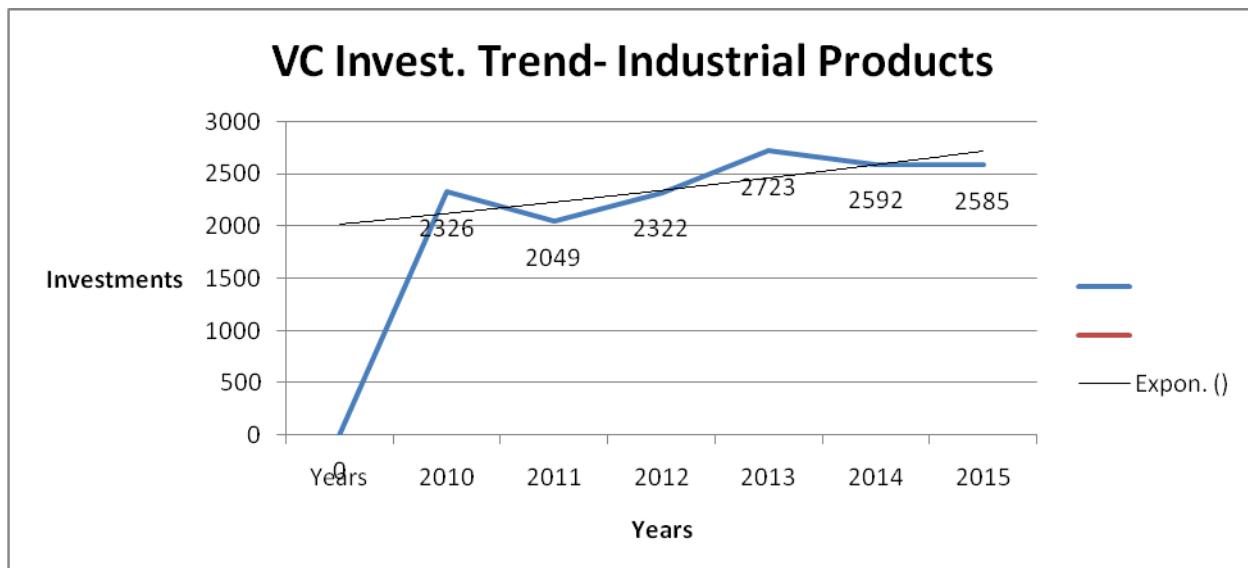


Industrial Products Sector

Years	Investments (INR Crore)
2010	2326
2011	2049
2012	2322
2013	2723
2014	2592
2015	2585

The Average of first three years (2010 – 2012) = 2232

The Average of last three years (2013 – 2015) = 2633



Global Scenario

The year 2015 proved to be a standout year for the VC industry in the US. At US\$72 billion, funding hit its highest point since 1992, growing 24% on the prior year, despite a marginal 4% fall in deal numbers to 3916 a pattern revealed in the 18% enhancement in median deal value from US\$5 million to US\$ 6 million. The year also witness more corporate houses attaining unicorn status than in any previous year. Investment volumes would have been even more had it not been for a marked falling off during the last quarter of the year of 4% compared to 3Q15, reflecting concerns around valuations, investment overload and the rate of capital depletion by investees.

Taking the case of our neighbor, i.e. China, the VC investments almost tripled in 2015 and one of the highest since 2000, when VC funding started to take off on a global basis. China almost tripled VC investments from US\$17.3 billion (in 2014) to touch US\$48.9 billion in 2015. Over the same period, deal volume moved north by nearly 50% and the average deal size more than doubled.

In line with the global trend, China witnessed robust investor preference for the consumer services sector in 2015. With US\$32 billion in funding through 777 deals, the sector accounted for approximately two-thirds (65%) of VC-backed investment during the year. The quantum of money invested grew more than three times with close to 50% growth in deal count compared to 2014.

It is interesting to note that nine out of top ten VC deals in 2015 involved consumer services companies including the year's biggest deal, the US\$ 3.3 billion investment into China Internet Plus Holding Ltd. In addition, there were five major deals in the sector that surpassed the US\$1 billion mark, especially in the consumer information services and travel and leisure subsectors.

Despite a fall in VC funding in 4Q15, after a standout third quarter, the appetite continued to remain on the higher side. However, one cannot ignore some downside risks including ongoing stock market volatility and a weakening currency, together with recent market concerns around valuations, burn rates and overfunding. However, endeavors by the Chinese Government in terms of monetary and fiscal policy including the recent announcement of new five year plan should continue to support VC fundraising and strengthen investor confidence.

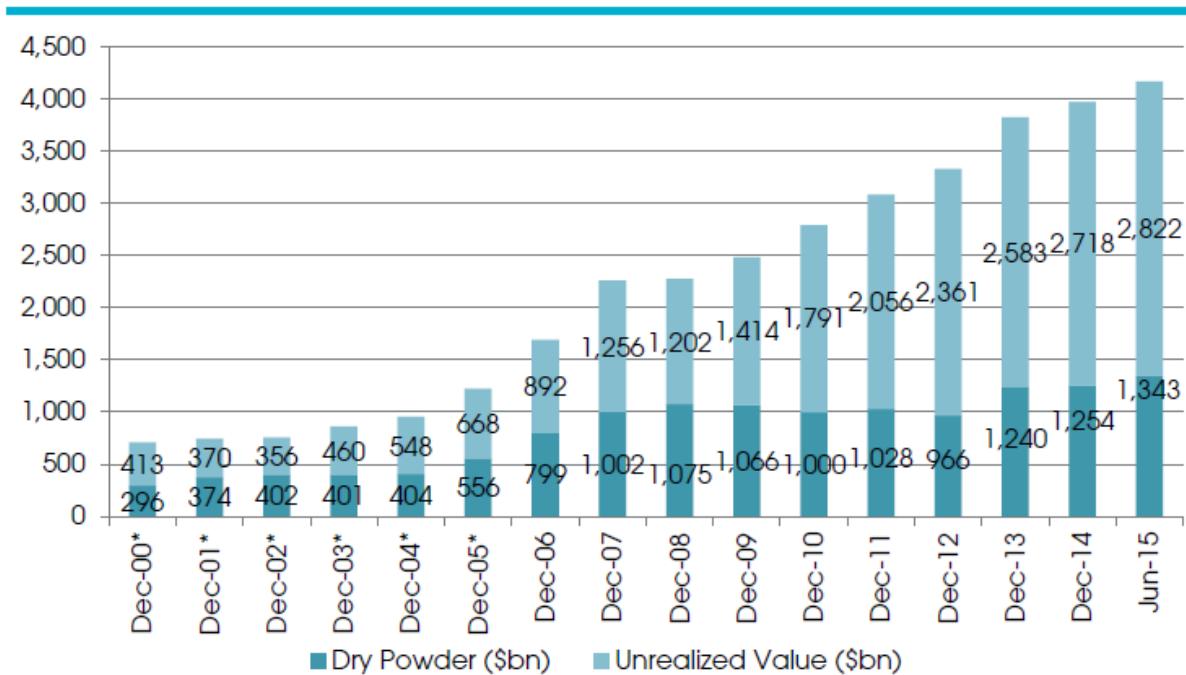
Coming to Europe, funding levels in 2015 reached their highest levels since 2001 as VC investment moved up for the third straight year- reaching US\$14.4 billion, up from \$US11.3 billion in 2014. Meanwhile, the region witnessed a slight drop in volume, to 1589 compared to 1634 in the previous year.

The years since the global financial turmoil, the private equity industry continue to grow in both prominence and size, with private capital assets under management touching \$4.2 trillion as on 30th of June, 2015. What is important to note is that the asset class is becoming an ever more integral component of investors' portfolios. According to the 2016 Preqin Global Private Equity & Venture Capital Report, 43% of LPs surveyed stated that they are going to increase the amount of capital they invest in private equity in 2016.

It is heartening to note that since December 2000, the private capital industry has grown five-fold in terms of assets under management (please refer exhibit 2).

Exhibit 2

Private Capital Assets Under Management, December 2000- June 2015



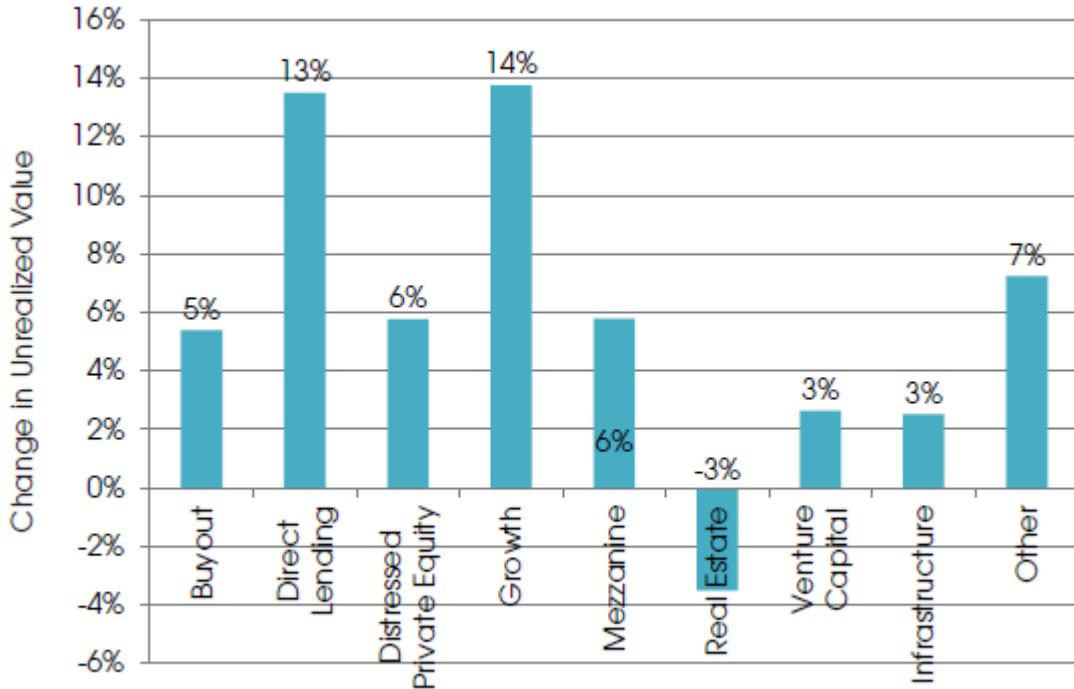
*Direct lending is excluded prior to 2006.

Source: Preqin Performance Analyst

It highlights the growth in terms of both dry powder and unrealized value, the amount available for investment and invested in private capital respectively. Further report stated that during the six months, i.e. from January to June, 2015, total unrealized value enhanced by 3.8%, despite the portfolio values of real estate funds declining by 3%. As can be observed from exhibit 3, all other fund types have witnessed rising valuations for portfolios companies, in particular growth funds.

Exhibit 3

Change in Unrealized Value by Fund Type between December 2014 and June 2015



Source: Preqin Performance Analyst

Now to comprehend whether there is a significant difference or not in number of private equity-backed buyout deals by region-wise, i.e. North America, Europe, Asia and Rest of World during the period 2006 to 2015, F-test (One Factor Model) is being used.

Hypothesis

Null Hypothesis (H0): *There is no significant difference in the number of private equity-backed buyout deals region-wise, i.e. North America, Europe, Asia and Rest of World.*

Alternative Hypothesis (H1): *There is a significant difference in the number of private equity-backed buyout deals region-wise, i.e. North America, Europe, Asia and Rest of World.*

Years	North America (No. of Deals) (X1)	Europe (No. of Deals) (X2)	Asia (No. of Deals) (X3)	Rest of World (No. of Deals) (X4)

2006	1,567	1,202	224	174
2007	1,823	1,322	392	228
2008	1,396	1,115	272	267
2009	1,119	644	257	171
2010	1,493	1,065	375	210
2011	1,826	1,216	460	240
2012	1,946	1,069	397	261
2013	1,800	1,069	355	234
2014	2,072	1,146	324	254
2015	2,016	1,074	243	223
	$X^-1 = 17,058 / 10 = 1706$	$X^-2 = 10,922 / 10 = 1092$	$X^-3 = 3299 / 10 = 330$	$X^-4 = 2262 / 10 = 226$

$$\text{Grand Mean } (X^-) = 1706 + 1092 + 330 + 226 = 3354 / 4 = 839$$

ANOVA Table

Source of Variation	Sum of Squares	v	Mean Squares
SSC = Between Samples	14505480	3	14505480 / 3 = 4835160
SSE = Within Samples	1931416	36	1931416 / 36 = 53650
Total	SST = 16436896	39	

Test Statistic: $F = 4835160 / 53650 = 90.12$

For $v_1 = , v_2 = 36$ and for $\alpha=0.05$, the table value of F is **$F_{0.05} = 2.84$**

Since the calculated value of $F = 90.12$ is greater than the tabled value $F_{0.05} = 2.84$, so that the null hypothesis is rejected. Hence there is a significant difference in the private equity-backed buyout deals region-wise.

Findings & Suggestions

From the F-test (One Factor Model) applied to observe whether there is a significant difference or not in the venture capital investments in four selected sectors of the Indian economy- Information Technology; Telecommunications; Services Sector and Industrial Products, it can be observed that there is a significant difference, meaning thereby, the mentioned sectors are unable to inveigle uniform investments. As India is growing at an astounding pace, it is imperative to accelerate the velocity of investments in the aforesaid sectors. Similarly, by applying the Analysis of Time Series (method of semi-average) for the period 2010 to 2015, on the venture capital investment pattern of the above mentioned four sectors of Indian economy, it can be seen that the Information Technology sector's investment have followed a linear pattern and the investments during the period 2010 -2015 have increased gradually. With reference to the telecommunication sector, the investments have been quite random, i.e. in the year 2010 it was INR 6976 crore, which enhanced substantially to INR 8325 crore and then taking a nose dive to the level of INR 7755 crore. Similarly, random investments pattern can be observed for services sector also, whereas to a great extent a linearity of investments can be observed in case of industrial products sectors. Regarding services sector, from INR 3059 crore it rose to INR 5697 crore in the year 2015. Information technology and industrial products sectors have more or less a linear trend, whereas non-linearity can be observed in case of telecommunication and services sector.

When it comes to region-wise private equity backed buyout deals, i.e. North America, Europe, Asia and Rest of World, it is clearly evident that there is a significant difference in the region-wise private equity backed buyout deals. It is important to note that Asian economies needs to enhance the pace of industrialization, in order to cajole venture capital / private equity financing. Further, India being one of the emerging economies of the globe can play a pivotal role in inveigling private equity / venture capital. Moreover, India can leverage its Make-in-India campaign to entice venture capital investments, thereby strengthening its industrial base and increasing its National Income and Per Capita Income.

Way Forward- Venture Capital in India

It is being increasingly observed that irrespective of funding stage, Consumer Internet & Ecommerce have emerged as the most preferred industry segment across start-ups. Other popular industries Fintech, Logistics and Foodtech. What is encouraging is that in recent years, the Indian startup ecosystem has really put up a splendid performance and come into its own- driven by factors, like, substantial funding, consolidation activities, evolving technology and a mushrooming domestic market. The prognosis speaks about this fact, i.e. from 3,100 startups in 2014 to 11,500 by 2020. The Indian Government's Economic Survey Report of 2015 further highlights the emergence of substantial number of start-ups in India and has ranked India as the 4th biggest start-up hub in the globe. In terms of investment, over USD 1 billion has been invested in the last 3 years in the start-up space alone. These investments are not restricted to the poster boys of the Indian start-up ecosystem (Flipkart, Snapdeal and PayTM) but are widespread with global conglomerates investing into diverse start-ups in India. As such, India continues to hold high promise for the emergence of a start-up ecosystem.

On the contrary, the World Bank's '*Doing Business Report 2015*' report ranks India at 158th on the yardsticks concerning the ease of commencing a business. Accordingly, whilst there is adequate promise for India to develop as a start-up hub, the Indian start-up system is still quite nascent, underdeveloped and functions within the locale of multiple regulators, tax ambiguity and the realities of establishing / operating businesses in India. A well-known instance would be the recent proposal to regulate Indian e-commerce entities by nine different governmental ministries.

Before we draw the curtains down, it will be of immense academic and research value to discuss some noteworthy developments in the space of venture capital by perusing the approaches of KB Chandrasekhar committee. The SEBI Committee on venture capital was formed in July 1999 to identify the impediments and suggest suitable measures to provide fillip to the growth of venture capital activity in India. Also taking into account the need for a global perspective, it was decided to associate Indian Entrepreneurs from Silicon Valley in the committee headed by KB Chandrasekhar. These guidelines were further amended in April 2000 with the objective of stoking up the growth of VC activities in India. The recommendations were as follows-

- a) Multiplicity of regulations – need for harmonization and nodal Regulator.
- b) Double taxation for Venture Capital Funds need to be avoided
- c) Mobilization of Global and Domestic resources
- d) Flexibility in Investment and Exit of Venture Capitalists
- e) Flexibility in the matter of investment ceiling and sectoral restrictions
- f) Relaxation in IPO norms

- g) Issue of Shares with Differential Right with regard to voting and dividend.
- h) Global integration and opportunities – Incentive for employees; Incentive for shareholders and Global investment opportunity for Domestic Venture Capital Funds (DVCF).
- i) Development in Infrastructure and R&D
- j) Self-Regulatory Organization (SRO)

It was envisioned that implementation of KB Chandrasekhar Committee will usher in a renaissance in the sphere of venture capital in India. No doubt noteworthy developments were observed but to a great extent, in the form of Reserve Bank of India giving nod to the applications from foreign venture capital investors (FVCI). But at the same it brought great astonishment for the venture capitalists, since the approval letters issued by FVCIs issued to venture capital firms provided for a new clause that substantially curtailed the investment horizons to ten investible sectors. These were- infrastructure, biotechnology, information technology, nanotechnology, research in new chemical entities in the pharmaceuticals sector, dairy and poultry industry, among others. Now the sectors prescribed were similar to those provided under section 10 (23FB) of the Income Tax Act, 1961, for availing tax pass-through treatment for domestic VC funds. The objective of introducing the FVCI regime was to create a congenial investment milieu in India in comparison with Foreign Direct Investment (FDI) as envisaged by the KB Chandrasekhar Committee Report of January 2000. The report emphasized the importance of sectoral flexibility for FVCIs and noted sectoral restrictions for investment by VC funds are not consistent with the start-up ventures that are built on innovation and technology and can emerge in any business. As discussed, contrary to the recommendations of the report of the committee, the regulators did not show much interest in providing stimulus to the venture capital investments in several sectors, including manufacturing, media, outsourcing, among others, many of which are still in a growth phase, have dearth of capital, and have high employment generation capabilities.

Thus, it can be said that the impact of KB Chandrasekhar's Committee recommendations were partially adhered. However, looking at the current scenario of venture capital financing it can be opined that the scenario is changing, especially, looking at the stupendous growth in venture capital financing for start-ups, i.e. start-ups working on a marketplace model basically ecommerce enticed the highest amount of funding given its capital intensive nature of business at, \$442 mn in first quarter of 2016. Further, in terms of number of Accel Partners (5), Blume Ventures (5) and Saif Partners(5) were major VC funds, while, Ratan Tata (9) took the position of most active angel investor, Mohandas Pai(9) and Traxn Labs invested in over 7 startups. So there is a light at the end of the tunnel and the India is all set to wheedle venture capital investments.

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