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STATEMENT OF THE PROBLEM

OBJECTIVES

HYPOTHESES

RESEARCH METHODOLOGY

RESULTS & DISCUSSION

FINDINGS

RECOMMENDATIONS/SUGGESTIONS

CONCLUSIONS

SCOPE FOR FURTHER RESEARCH

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VENTURE CAPITAL INVESTMENTS IN INDIA

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ABSTRACT

Venture capital has been considered as the engine of economic growth and for promoting equitable development through knowledge based enterprise. Venture capital industry plays a significant role in technological and economic escalation of economy through its direct involvement in the development of wide variety of knowledge-intensive enterprises. The objective of present study is to explore the investment of SEBI Registered Venture Capital Funds and Foreign Venture Capital funds in India. Along with the study also helps to know the sector of economy which gains more prominence by venture capitalists for their risky investments. To achieve the aforesaid objectives the data collected from most reliable website (www.sebi.gov.in). As per researcher study the total investment values of VCF and FVCF in India have reached to Rs. 55,542 Crore as on December 31, 2012.

KEYWORDS

Risky investments, Venture Capital etc.

INTRODUCTION

India has become one of the fastest developing nations in the new millennium. It is one of the hotspots for investments with reaping rich benefits. Beside from the successful information technology, there is a enormous potential for investment, growth and development in several other sectors like Pharmaceuticals, Telecommunications, Healthcare, Electronics, Food Processing and Business Process Outsourcings (BPOs). The competitive edge of India over other developing nations like China, Russia etc., lies in its huge skilled human capital and knowledge entrapped in the research laboratories. There should be a form of finance that links all the available resources for exploration and effective utilization. This link is available in numerous forms such as bank loans, private debt, equity, bonds etc. However each of them has their own pros and cons which leads to inapplicability under different contexts. Development in the high growth sector needs not only high technology and huge capital but also the ability to take huge risks. Venture capital is the vehicle that suits this role. Venture capital is a means of equity financing for rapidly-growing private companies. Finance may be required for the start-up, development/expansion or purchase of a company. Venture capital firms invest funds on a professional basis, often focusing on a limited sector of specialization (e.g. Information Technology Infrastructure, Health/Life Sciences, Clean Technology, etc).

CONCEPT OF VENTURE CAPITAL

The term 'Venture Capital' is understood in many ways. In a narrow sense, it refers to investment in new and untried enterprises that are lacking a stable record of growth.

Venture Capital refers to the commitment of capital as shareholding, for the formulation and setting up of small firms specializing in new ideas or new technologies. It is not merely an injection of funds into a new firm, it is a simultaneous input of skill needed to setup the firm, design its marketing strategy and organize and manage it. It is an association with successive stages of firm's development with distinctive types of financing appropriate to each stage of development.

Venture Capital is long-term risk capital to finance high technology projects which involve risk but at the same time has strong potential for growth. Venture Capitalist pools their resources including managerial abilities to assist new entrepreneurs in the early years of the project. Once the project reaches the stage of profitability, they sell their equity holdings at high premium.

International Finance Corporation. Washington, (IFC) defines Venture Capital as equity or equity-featured capital seeking investment in new ideas, new companies, new products, new process or new services that offer the potential of high returns on investment. It may also include investment in turnaround situations.

VENTURE CAPITALISTS

A venture capitalist is a person or investment firm that makes venture investments, and these venture capitalists are expected to bring managerial and technical expertise as well as capital to their investments. A venture capital fund refers to a pooled investment vehicle that primarily invests the financial capital of third-party investors in enterprises that are too risky for the standard capital markets or bank loans. Venture capital firms typically comprise small teams with technology backgrounds (scientists, researchers) or those with business training or deep industry experience.

LITERATURE REVIEW

Researcher reviewed the studies done by some of our Indian eminent researchers on venture capital financing, some of the important studies are Pandey (1996), Kumar, Asim (1996), Verma (1997), Pandey (1998), Mitra (2000), Kumar, Vinay (2002), Dr. A.K.Mishra (2004), Dheeraj Pandey, Thillai Rajan (2011), Dr. A. Amruth Prasad Reddy and Dr. M Venkata Subbaiah. (2011) etc, most of the study concentrated on investments criteria, Investment process etc.

RESEARCH GAP

Researcher found in the review of literature that, majority of the studies on venture capitalists investment criteria's and venture capital investment process in India. So in present study researcher made an attempt to know the investments of domestic venture capital fund as well as foreign venture capital fund in India for the growth of the economy.

OBJECTIVE

To look into the investment of SEBI Registered Venture Capital Funds and Foreign Venture Capital funds in India

SCOPE OF THE STUDY

The present study is confined to SEBI registered domestic venture capital fund and SEBI registered foreign venture capital fund as on 31 Dec 2012 and also data analyzed for the period of six years i.e. from 31 Dec 2007 to 31 Dec 2012.

DATA COLLECTION AND METHODOLOGY

To achieve the above said objectives researcher gathered the data from secondary sources and researcher observed that as on May 31, 2012 registered domestic Venture Capital Funds and foreign venture capital funds in India are 208 and 154 respectively.

PRESENT SCENARIO**TOP FIVE SECTORS ATTRACTED MORE INVESTMENTS BY VCS DURING JAN TO DEC 2012**

Sectors of Economy	Amount (Rs. In Millions)	Deals/Investments
IT and ITES	381	133
Health and Life Science	98	18
Education	53	14
Financial Services	55	10
Energy	62	9

Source: Venture intelligence

Venture capital firms have invested around \$762 million over 206 deals in India during the 12 months ended December 2012. with 133 investments worth about \$381 million, the Information Technology and IT-Enabled Services (IT & ITES) industry retained its status as the favorite among VC investors during 2012 accounting for 65% of the investments (50% in value terms). The volume of investments in IT & ITES rose by 8% over that in 2011.

Healthcare & Life Sciences industry emerged as the second favorite destination for VC investors, attracting 18 investments worth \$98 million during the year. Education industry came in third attracting 14 investments worth \$53 million. Financial services and Energy industry were the fourth and fifth favorite industries attracting 10 investments (worth \$55 million) and 9 investments (\$62 million) respectively.

INVESTMENTS BY STAGE & REGION

Early Stage investments accounted for 82% of all VC investments in volume terms and 58% in value terms during 2012.

- Companies based in South India accounted for 45% of all VC investments (56% by value) during 2012.
- Their peers in Western India accounted for 25% of the pie in 2012 (12% by value).
- Companies based in North India accounted for 23% of the investments in 2010 (22% by value).

FAVORITE CITIES FOR VC INVESTORS

Region	Investments/Deals
Bangalore	62
National Capital Region(including New Delhi, Gurgaon and Noida)	45
Mumbai	39
Chennai	14
Hyderabad	12

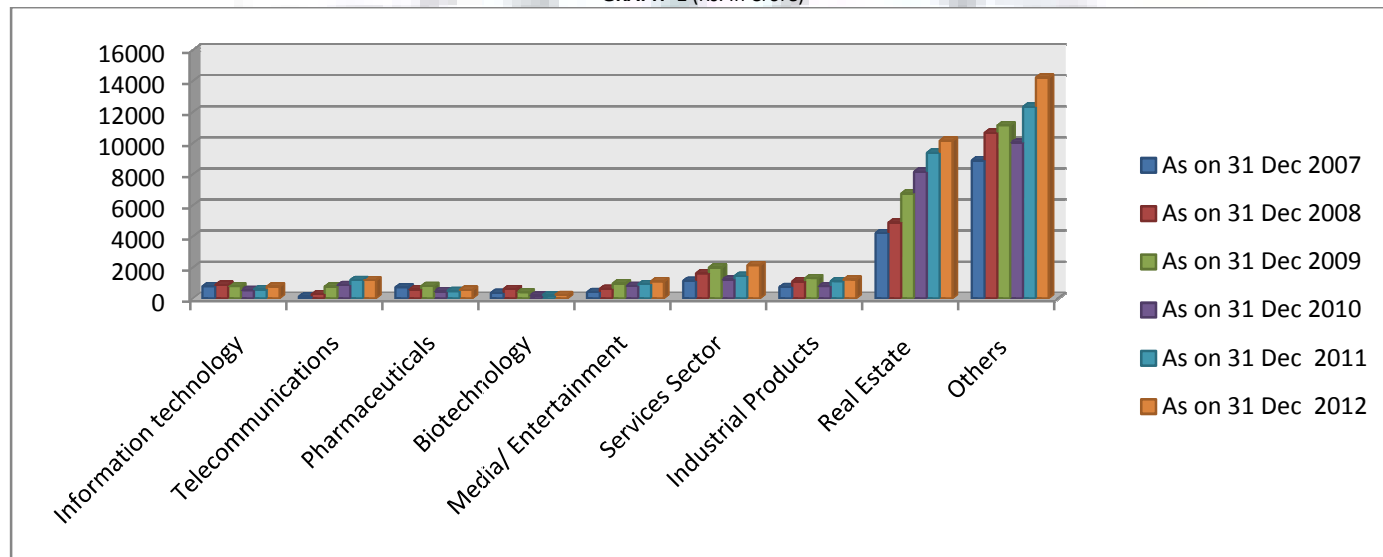
Source: Venture intelligence

Among cities, companies headquartered in Bangalore were the favorite among VC investors during 2012 attracting 62 investments, followed by National Capital Region (including New Delhi, Gurgaon and Noida) based companies that accounted for 45 investments and Mumbai based companies with 39 investments. Chennai and Hyderabad followed with 14 deals and 12 deals.

DATA ANALYSIS**TABLE – 1: INDUSTRY WISE CUMULATIVE INVESTMENT DETAILS OF SEBI REGISTERED VENTURE CAPITAL FUNDS (VCF) IN INDIA** (Rs. In Crore)

Sectors of Economy	As on 31 Dec 2007	As on 31 Dec 2008	As on 31 Dec 2009	As on 31 Dec 2010	As on 31 Dec 2011	As on 31 Dec 2012
Information technology	779	871	782	533	578	770
Telecommunications	118	275	767	858	1185	1182
Pharmaceuticals	716	581	802	460	469	550
Biotechnology	354	603	389	187	188	216
Media/ Entertainment	401	622	965	802	911	1101
Services Sector	1134	1618	1991	1215	1443	2137
Industrial Products	735	1095	1301	783	1110	1224
Real Estate	4207	4887	6753	8155	9373	10159
Others	8881	10664	11143	10029	12336	14218
Total	17325	21216	24893	23023	27592	31556

Source: www.sebi.gov.in

GRAPHICAL REPRESENTATION OF INDUSTRY WISE CUMULATIVE INVESTMENT DETAILS OF SEBI REGISTERED VENTURE CAPITAL FUNDS (VCF) IN INDIA**GRAPH- 1** (Rs. In Crore)

The above table and Graph represents the total investments of domestic venture capital firms made in India as on 31 Dec 2007 to as on 31 Dec 2012. Total investments made by domestic venture capital funds are 31,556 Crore. And also we can observe that, the investments made in Information technology is drastically decrease in 2009 because of the global recession and bad economic condition and same is continued till 2010. After that it recovered 2011 and IT sector again started attract good investments in 2011 onwards. And pharmaceuticals and biotechnology sectors also bears up and down of investments by VCs, where as telecommunications, media/entertainment, service sector, industrial products, real estate and other sectors of economy gaining lot of prominence in terms of investments made by venture capitalists year by year. This leads create a lot of employment opportunities, increase in the standard of living and economic growth of the country.

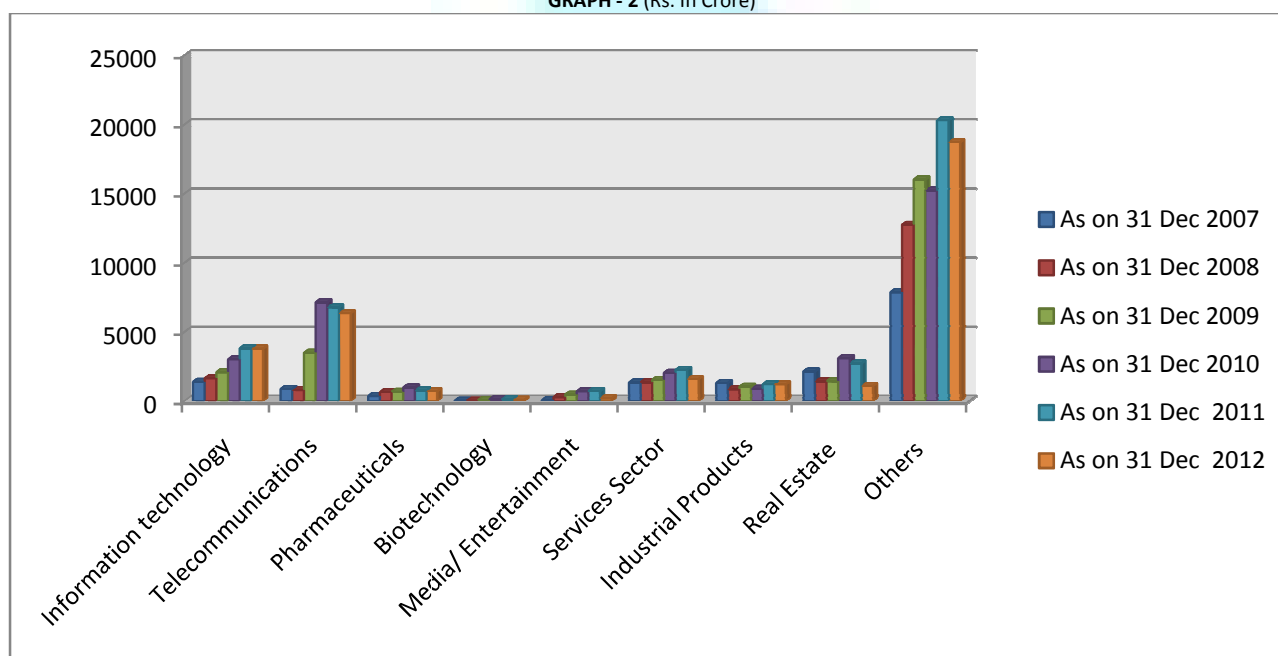
TABLE – 2: INDUSTRY WISE CUMULATIVE INVESTMENT DETAILS OF SEBI REGISTERED FOREIGN VENTURE CAPITAL FUNDS (FVCF) IN INDIA (Rs. In Crore)

Sectors of Economy	As on 31 Dec 2007	As on 31 Dec 2008	As on 31 Dec 2009	As on 31 Dec 2010	As on 31 Dec 2011	As on 31 Dec 2012
Information technology	1390	1649	2082	3016	3813	3787
Telecommunications	872	801	3502	7145	6778	6352
Pharmaceuticals	360	648	675	985	775	713
Biotechnology	31	31	72	140	140	100
Media/ Entertainment	69	284	469	701	720	209
Services Sector	1341	1358	1538	2039	2256	1596
Industrial Products	1312	856	1043	886	1217	1211
Real Estate	2141	1424	1432	3107	2725	1091
Others	7868	12749	16015	15223	20307	18716
Total	15384	19800	26827	33241	38730	33773

Source: www.sebi.gov.in

GRAPHICAL REPRESENTATION OF INDUSTRY WISE CUMULATIVE INVESTMENT DETAILS OF SEBI REGISTERED FOREIGN VENTURE CAPITAL FUNDS (FVCF) IN INDIA

GRAPH - 2 (Rs. In Crore)



The above table and Graph depicts the total investments made by foreign venture capital funds (FVCF) in India as on 31 Dec 2007 to as on 31 Dec 2012. Total investments made by foreign venture capital funds are 33,773 Crore. Along with it also depicts total investments made by FVCF in different sectors of economy. It clearly indicates that telecommunications, information technology, service sector, industrial products, real estate, and others got more magnitude by FVCF for their investments compare to biotechnology, pharmaceuticals, and media/entertainment during 2007 to 2012.

CONCLUSION

India is one of world's fastest budding economies, apart from China; no other country has as high an economic growth rate as India. Our country offers several fiscally feasible advantages to domestic venture capitalists as well as foreign venture capitalists. In spite of this, there is slow growth of venture capital industry compare to some of the advanced countries like USA, UK etc. In India the growth of VC industry is slow, because of Multiplicity of regulations, tax policy, IPO norms, lack of Flexibility in investment ceiling, sectoral restrictions and other regulatory mechanism etc.

At last no doubt, the growth of venture capital market in India is not so bad but scope for further improvement is plenty. In this context there is an urgent need by our government to take appropriate steps for the growth of venture capital industry to attract good investments for different sectors of the economy for the balanced regional development of the economy through knowledge intensive industries.

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