

Pulse and Progress of Venture Capital Financing in India: An Analytical Study

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ABSTRACT

The Main objective of the paper is to examine the current trends and progress of the venture capital in India and the paper also highlights the concept and stages of financing of venture capital. To meet the aim objective of the study the researcher used secondary sources. The required secondary information has been collected through various articles, reports, magazines' and websites. To examine the trends of venture capital in India, IVCA (Indian Venture Capital Association) report is used. For the purpose of examine the data; the statistical tools like Mean, Standard Deviation, Charts and ANOVA, Correlation coefficient have been employed. The study concludes that, the venture capital investment has been increasing in India and this is the positive indication for the country, to curb the unemployment, economic empowerment of people through maximizing startups in India

Keywords: Venture Capital, Investment, Seed funding

INTRODUCTION:

Venture Capital is a type of private equity or a form financing, which is provided by the company or funds to small, early stage or emerging firms, which are deemed to have high potential growth or demonstrated high growth in terms of number of employees and annual revenue. Venture capitalist facing high financial risk, because startups face high uncertainty but investing in startups with hope of, some of the firms they support will become successful. The typical venture capital investment occurs after initial seed funding round. The first round of the

institutional venture capital to fund growth is called the series A round. Venture capitalist providing this financing in the interest of generating a return through an eventual exit event, for eventual exit, the venture capitalists have two options, such as the company selling shares to the public for the first time in an initial public offering (IPO) or doing a merger and acquisition of the company.

The institution of venture capitalism is a difficult one to initiate through policy intervention, particularly in developing countries with unstable macroeconomic environments and histories of state involvement in the national capital and in the composition of the production (R Dossani & M Kenney 2002). The growth of Venture Capital in India was stimulated in the late 1980s with a series of measures to establish government sponsored risk capital corporations and capital gain concessions for venture capital investments (Pruthi S, et.al. 2003)

VENTURE CAPITAL FINANCING STAGES:

The following are the stages of venture capital;

- i. **Seed funding:** The earliest round of financing needed to prove a new idea, often provided by angel investors. Equity crowd funding is also emerging as an option for seed funding.
- ii. **Start-up:** Early stage firms that need funding for expenses associated with marketing and product development
- iii. **Growth (Series A round):** Early sales and manufacturing funds. This is typically where VCs come in. Series A can be thought of as the first institutional round. Subsequent investment rounds are called Series B, Series C and so on. This is where most companies will have the most growth.
- iv. **Second-Round:** Working capital for early stage companies that are selling product, but not yet turning a profit. This can also be called Series B round and so on.
- v. **Expansion:** Also called Mezzanine financing, this is expansion money for a newly profitable company
- vi. **Exit of venture capitalist:** VCs can exit through secondary sale or an IPO or an acquisition. Early stage VCs may exit in later rounds when new investors (VCs or Private Equity investors) buy the shares of existing investors. Sometimes a company

very close to an IPO may allow some VCs to exit and instead new investors may come in hoping to profit from the IPO.

- vii. **Bridge Financing** is when a startup seeks funding in between full VC rounds. The objective is to raise smaller amount of money instead of a full round and usually the existing investors participate.

REVIEW OF LITERATURE:

Pandey I M (1998) his study investigates the process of developing country. The study based on the experience of largest venture capital firm in India. Earlier, venture capital firms in India were facing number of problems to develop their business. The case study of TDICI reveals that, the firm went through the initial constraints of not knowing the venture capital business well and learnt through experience. TDICI faced the problems increasing funds and evaluating prospective ventures and also noticed that, it undertook the number of business development initiatives to popularize the venture capital business in India.

R Dossani & M Kenney (2002) in their study creating an environment for venture capital in India reports the background of the venture capital in India and examined the general Indian environment with respect to venture capital. The study reveals that, the institutions of venture capitalism is difficult one to initiate through policy intervention, particularly in developing countries with unstable macro-economic environment and histories of state involvement in the national capital and in the composition of the production, India has all these constraints. The emergence of thriving software industry after 1985 created raw material that venture capital could finance, thus achieving a critical pre condition for venture capital's growth.

Brander J A et al. (2002) in their study venture capital syndication: improve venture selection Vs. the value added approach, reveals that, syndication arises when venture capitalist jointly invest in project. The researcher model and two possible reasons of syndication and produced different alternative questions and this empirical analysis of the study using the additional data finds that, syndicated investment have higher returns , favoring the value added interpretation.

Lockett A et. al. (2002) have examined the approaches to investee valuation and source of information used by venture capital investors in the US, Hongkong, India and Singapur. The result of the study reveals that, significant difference in respect of the use of asset valuation, EBITDA and option based valuation method and it also found that, there is significant difference in respect of the use of the various sources of the information for valuation, notably the use of business plan data, own due diligence, sales and product information and information relation to entrepreneur.

Lina Sonne (2012) has studied innovative initiatives supporting inclusive innovation in India; Social business incubation and micro venture capital. In this study the researcher discussed that, emerging alternative financing initiatives, which forming an innovation eco-system of support for inclusive innovation and social entrepreneurship. The highlight of the paper are; inclusive innovative entrepreneurs are facing a financing gap but in India, pioneering finance initiatives have been emerging to bridge that gap.

Sabarinathan et. al. (2017), in their working paper, Venture capital and private equity investing in India, Critically examined the trends of venture capital in India and private equity investment, the study concludes that, 850 funds have supported 3699 entrepreneurs across the a wide range of industries, across the Northern, Southern and Western part of the country. The analysis of the paper finds that, the industry has evolved into being source of growth financing for innovative and technology led business and it is also concludes that, the market for managing venture capital funds is highly competitive with fairly high rates entry and exist of fund management entries.

OBJECTIVES AND METHODOLOGY OF THE STUDY

The Main objective of the paper is to examine the current trends and progress of the venture capital in India and the paper also highlights the concept and stages of financing of venture capital. To meet the aim objective of the study the researcher used secondary sources. The required secondary information has been collected through various articles, reports, magazines' and websites. To examine the trends of venture capital in India, IVCA (Indian Venture Capital Association) report is used. For the purpose of examine the data; the statistical tools like Mean, Standard Deviation, Charts and ANOVA have been employed.

HYPOTHESES OF THE STUDY

In order to examine the trends of venture capital investment in India and to determine the association between Number of VC investment and Amount of investment, the researcher formulated the following two hypotheses;

H₁: There is no significant variation in number venture capital investment and amount investment during the study period.

H₂: There is no significant association between numbers of venture capital investment and amount of investment

DATA ANALYSIS AND INTERPRETATION

In this section; researcher examined the trends and progress of ventures capital in India, i.e. Number of venture capital investment in India, amount of venture capital investment, corporate venture capital investment in India, performance of venture capital, and venture capital exit in India;

Table-1: Total Venture Capital Investment in India

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018 (Till Sept)
Number of Venture capital investment	102	123	234	320	404	548	855	746	515	400
Amount of Investment (\$ in Billion)	0.6	0.8	1.7	1.6	1.5	2.7	4.3	2.9	3.4	3.75

Source: IVCA Report- Perspective of Indian VC Ecosystem, 2018. r =0.837

Table-1.1: Summary of statistics

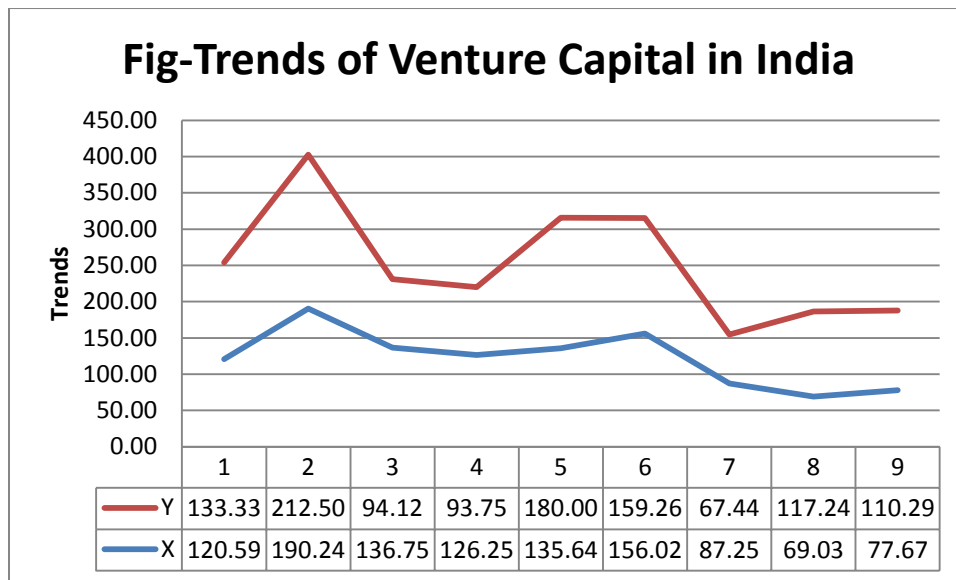
Groups	Count	Sum	Average	Variance
Number of Venture capital investment	10	4247	424.7	61697.12
Amount of Investment (\$ in Billion)	10	23.25	2.325	1.60625

Source: Compiled from Table-1

Table-1.2: One Way ANOVA

Source of Variation	SS	df	MS	F	P-value*	F crit*
Between Groups	892003.20	1	892003.20	28.915	0.000	4.413873
Within Groups	555288.5563	18	30849.36424			
Total	1447291.759	19				

Source: Compiled from Table-1, * 5% level of significance



X-Axis shows that, Trends of Number of venture capital in India
Y-Axis shows that, Trends of amount of investment

From the table-1, it can be observed that, total numbers of venture capital investment recorded during the study period 2009-2018 are 4247 with an amount of 23.25 billion dollars, of which the highest numbers of venture capital investment recorded during the year 2015, i.e., 855 with amount of 4.3 billion dollars, followed by 2016 recorded 746 venture capitals. On an average 423 venture capital investment recorded during the study period, with an average amount 2.9 per year. This result indicates that, the venture capital industry in India has taken off only in the last six to seven years, but the year 2015, 2016 and 2017 in particular started with a lot of expectation and hope. This hope was built on the fact that a drop in the sentiment of investors in the year 2016 would have led to correction in valuations that the entrepreneurs were expecting. However, the year 2017 proved that it was not just about valuations, it was much more than that.

In order to test significant variation in number of venture capital investment in India, One- Way ANOVA has been used; the result of the test indicates that, the calculated F value is greater than the, Critical value at 5% level of significance. Therefore, the H_0 is rejected, hence it can be concluded that, there is significant variation in the number of venture capital investment in India and amount of investment in India. To test the significance association between the Number of investment and amount of investment correlation coefficient has calculated, $r=0.837$, which indicates that, there is high degree of positive correlation between number of investment and amount of investment.

Table-2: Corporate VC investment in India

Year	2013	2014	2015	2016	2017	Mean
Amount of Investment (\$ in Billion)	0.1	0.6	0.4	0.4	0.4	0.38
number of Venutre capital investment	18	31	27	40	57	34.6

Source: IVCA Report- Perspective of Indian VC Ecosystem, 2018

Table- 2, shows that, corporate venture capital in India, during the study period 2013 to 2017 the average numbers of corporate venture capital recorded in India are 34.6 with an mean amount of 0.38 billion dollars. It can also be observed that, there has been increasing trend in the numbers of venture capital, with a consistent amount of investment. Table-3, indicates that, performance of venture capitals in India, venture capital investment consists 4 stages, like, seed funded, series A funded, Series B funded, and Series C funded. It can observed from the table-3 is that, total 3065 startups recorded up to 2018 out of which 916 funded post seed stage, and in series A, B, C funded are recorded 490, 211 and 92 recorded respectively.

Table-3: Performance of VC in different stage of financing

Stages	Number of Startups	
Seed funded	3065	916 -funding post seed stage
Series A funded	1041	490 - funding post series A stage
Series B funded	434	211 -funding post series B stage
Series C funded	185	92- funding post series C stage

Source: IVCA Report- Perspective of Indian VC Ecosystem, 2018.

Table-4: Annual VC exit in India

Year	2014	2015	2016	2017	2018
Amount of Investment (\$ in Billion)	1.3	2.3	1.4	4.2	19.6
number of Venutre capital investment	145	181	116	95	155

Source: IVCA Report- Perspective of Indian VC Ecosystem, 2018.

Table-5: Venture Capital Companies exit in India

Startups/ Assets	VC/Investor name	year	Exit Value (in \$M)
Flipkart	Kalaari Capital, Tiger Global, IDG Ventures India, Accel India, Soft Bank Corp, Greenoaks Capital, Naspers, Others	2018	16000
	Tiger global	2017	800
Star Health Insurance	Tata Capital, Sequoia Capital India, ICICI Venture, Apis Partners, Tata Capital Growth Fund, Others	2018	930
Ola	Tiger Global	2017	500
Freecharge	Sequoia Capital, SofinaSocieteTybourne Capital, Valiant Capital,	2015	450
MakeMyTrip	SAIF Partners	2017	400
PayTM	SAIF Partners	2017	400
	Citi Venture Capital, Infrastructure Development Finance, Baring Asia Private, Samara Capital	2017	250
Myntra	Kalaari Capital, IDG Ventures India, Accel India; Tiger Global, others	2014	240
SCIO Health Analytics	Sequoia Capital India, Saama Capital, Madison India	2018	240

Source: IVCA Report- Perspective of Indian VC Ecosystem, 2018.

It is observed from the table-5 is that, the highest exit value is recorded during the from Flipkart, Which deal contributes ~80% to exits in 2018, amounts 16000 million dollar, the major venture capital investor in this company are Kalaari Capital, Tiger Global, IDG Ventures India, Accel India, Soft Bank Corp, Greenoaks Capital, followed by star health insurance company amounts 930 million dollars.

CONCLUSION AND RECOMMENDATIONS

As world markets are becoming more and more competitive, thus, it is necessary to choose the right access to human capital to guide and monitor along with the requisite funds necessary for new projects. Venture Capitalists in India have ensured newer avenues and expansion. There are large sectors of the economy that are ripe for venture capital investors like IT, Pharma and other service industries too. Therefore, Venture Capitalists are having positive response to do business in Indian. As there is a risk factor, one should do a thorough study before getting into the process. It is also observed in the study is that, the venture capital investment has been increasing in India and this is the positive indication for the country, to curab the unemployment, economic empowerment of people through maximizing startups in India.

Recommendations

- i. To promote and develop the Venture Capital business, the government should provide fiscal relief by exempting the dividend paid to Venture Capital fund investors from income tax.
- ii. Venture Capital funds should be made easier by establishing Private Venture Capital funds. It allows funds independently rather than a Joint Venture with banks and financial institution.
- iii. Commercial banks should allow categorizing the investment in Venture Capital Funding as “priority sector lending”.
- iv. There must be a change in perception that Venture Capital is only for the high tech industry. The Venture Capitalist should seize the opportunities such as biotechnology, food processing, call centers, BPO’s, etc.
- v. Create profitable disinvestment opportunities as every Venture Capitalist identifies the exit route before it plans for investing in a company.
- vi. The role of Indian Venture Capital Association should be strengthened. It should build a database on the Venture Capital industry so as to enable, to disseminate information for those who are interested.
- vii. It is essential to create coordinating bodies among technology institutes, as it can provide high-quality manpower which is essential to the success of the industry..

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