DECLARATION

I hereby declare that the project entitled **"Venture Capital in India"** submitted for the MBA Degree is an original piece of work and the project has not formed the basis for the award of any degree, associate ship, fellowship or any other similar titles.

Name of the student: Harshita Jain

Signature of the Student:

Place: DSM, DTU

Date:

CERTIFICATE

This is to certify that Miss Harshita Jain have completed their dissertation report on the topic "VENTURE CAPITAL IN INDIA" under my guidance.

Name of the Faculty: PROF. Archana Singh

Signature:

Place: DSM, DTU

Date:

ACKNOWLEDGEMENT

Dissertation is an opportunity for learning and self-development. I consider myself lucky to have such people who have lead & supported us throughout the completion of this project.

I am grateful to my mentor Prof. Archana Singh for constantly guiding us throughout the project on all technical and non-technical aspects for achieving success.

We are also grateful to Prof. Varuna Madan and Prof. Suri Sir, for advising us not only on issues related to our project but also on other academic and professional aspects.

Last but not the least we feel indebted to all those who shared valuable information that helped.

EXECUTIVE SUMMARY

This dissertation report contains a detail study and analysis of the Indian venture Capital industry, in order to give insights into various aspects that is associated with the topic to become capable for making assumptions relating to future of the industry and give suggestions towards improvement of the industry as a whole.

The Venture capital has become very popular and is considered the bloodline of emerging industries in Indian financial markets. Venture capital, on a nutshell is basically the money (also known as seed capital) provided at a very early phase by either VC firms or an individual upon consultation with the management after scrutinizing the potential of an idea possessing the capability to turn into big thing in future. It is one of the convenient method of raising capital for new startups. The industry (venture Capital) in India has gained a lot of popularity in India and the kind of idea that Indian entrepreneurs are capable of generating has served as the main impetus for investors/professionals. Along with the monetary resources, Venture capitalists also guide entrepreneur by providing help and support in formalizing and reinforcing their ideas to turn into a feasible business. For promoting innovation, enterprise, conversion of scientific technology, ideas (specifically based on knowledge) into a commercial production, there should be very high focus level for promotion and development of venture capital activity. India had achieved a huge success in the information technology area which shows the tremendous growth opportunity of knowledge based industries. Looking at the current situation, IT sector has faced a slowdown because of which other sectors have also been considered by venture capitalists and such interest by venture capitalists into other sectors is very much essential for reducing dependency on one sector only overall economic development of a country.

India has abundant technical manpower and entrepreneurs but there is shortage of capital. Therefore venture capital holds greater significance in India. Startup companies' especially smaller ones can create more jobs. So, Venture capital helps in generation of employment mostly for those people who are skilled and educated. Domestically developed technologies and also those developed by the entrepreneurs of new generation face the difficulty of financing especially in developing countries like India. Financial system of the country finds domestically developed technologies uncertain irrespective of the sector either public or private. In India, after independence there has been an increase in financial institutions specifically focusing on the needs of entrepreneurs and had served a function of debt proving organization.

The initial capital or equity should be raised on their own and public financial institutions would not be that helpful. To overcome this problem, VC financing made a small beginning in India since 1988. In broad terms, venture capital means long term risk equity finance where the primary reward for its provider is eventual capital gain and not the interest/dividend yield. India is considered to be on the brink of a revolution in technology and growth in entrepreneurs with a good idea. A change in the framework that is in existence related to VC financing India is a much needed for achieving higher economic growth.

TABLE OF CONTENTS

INTRODUCTION

Venture Capital is considered to be the most imperative innovation of twentieth (20^{th}) century. It is basically considered as a form of high risk capital. It is financing of new and young enterprises with exceptional growth potential at a very early stage. Venture capital! plays a very important role in financing a small scale enterprises, and a risky ventures which has just started or at times not even started. The venture capital activities are quite popular in developed countries and slowing developing countries are also gaining lot of popularity. Venture capital is the funding that is given by venture capitalists specializing in funding and have got years of experience and their foray is based on immense research. Small firms/companies that have capability to become a powerhouse in future lack the initial capital to expand and introduce themselves to market amid the feasible idea and business plan. Such start-up firms face difficulty in procuring capital from banks and capital markets. So, venture capitalists bridge the gap and provide capital to start-up and smaller firms that have exceptional growth potential. The capital that they provide is procured from HNIs, various corporate, insurance companies and pension funds etc. Not only these, venture capitalists also work actively with management and help them take various decisions and solve various issues. To be more specific, they participate actively in management of the company

Industrial financing has been a prime focus area of venture capital in India. Contribution of financial institutions operating in India for promoting VC industries has been very commendable. However, their main motive is not to assist and take advantage from risky ventures that have been started by new entrepreneurs. Debt finance is provided via term loans to promoters and moreover their operation is mostly related with commercial banks. Various schemes like seed capital schemes, risk capital funding have been invented for supporting nascent entrepreneurs. Capital market which has got various instruments/schemes does not suit risky ventures whereas new financial institutions in the form of mutual funds, leasing etc. have acted as another source of finance to industries.

Apart from various seed capital and capital by angel investors route, VC is considered to be feasible for a completely new companies with a short/limited operating history and have faced problems in raising capital from public markets and from banks. The main motive of venture capitalists is to provide capital to company and help them grow and later on sell their equity holdings once the company is in a very good position thereby extracting profit for them as well.

Need of Venture Capital

- Common people and entrepreneurs who have come up with very good and bright ideas that possess a huge potential to grow lack capital for investing in the same. So, such entrepreneurs require venture capital since it facilitate and ensure the starting phase of ventures.
- Venture capital not only provides capital but also the managerial and technical expertise. So for startup companies technical collaboration and expertise counseling or help will definitely help in the growth.

Advantages

The venture capitalists are not only the investor but also a business partner, who shares both the risks and rewards. Hence reward comes from the success of the business and capital gains. With the kind of experience and exposure venture capitalists have by working with other companies in similar situations, they are in a very good position to provide practical advice and assistance to the company. The contacts of venture capitalists are very good in many areas which helps company in getting the services of key people of the markets, strategic partners and also if required the co-investor/company for additional round of financing in future.

<u>Advantages to Investing Public:</u>

- The public, who have invested in venture fund would be in a position to reduce the amount of risk in terms of unscrupulous management and any illegal activities because those funds will be invested in the equity of new business after significant consideration and use of the expertise and experiences
- The venture capital funds would do research and various studies which would help in analyzing the current scenario and future growth prospect of business. Therefore, investors are not compelled to believe the claims by promoters regarding growth and profitability.

<u>Advantages to Promoters:</u>

- The entrepreneur despite having good idea is not able to start a business/venture due to lack of capital will be provided capital along with management expertise and technical assistance.
- To make a public issue and raise capital dedication and hard work is required ad various activities such as underwriting, publicity (marketing of the issue), statutory sanctions etc. have to be done. But the entrepreneurs do not have the experience to do such things. Hence Venture fund assistance would help

and let entrepreneurs focus on the major activities of the business.

- The cost for public issues of equity shares comes in the form of 10 to 15% of the nominal value of moderate size issue and even higher for small issues. Also company has to bear the expenditures of listing fee in stock exchange, printing and posting annual reports etc. But when a company has assistance from venture fund, it is not required to bear such expenditure by them.

General Advantages:

- A proper set-up of VC institutions will help in reducing the time and expenses incurred between technological innovation and exploitation commercially.
- VC aids in the development of new products/processes in an encouraging atmosphere that is not a victim of corporate bureaucracy thereby enabling in exploiting the full potential.
- Once there is a profit generated by venture capital funds, it would not be that difficult in raising from primary market both in equity and debt form. Therefore, investors can both invest in new business through such funds and also can invest directly in the existing business when venture funds would dilute or dispose of their capital/holdings.
- The economy, coupled with matured and sound venture capital encourages the with well-developed venture capital networks induces the entrance of technocrats in the industry will help in stabilizing industries and creating a pool of trained technocrats capable of building and managing large industries which will ultimately help in industrial development in our country.
- A venture capital firm is like a middleman between both investors that are looking for better returns and entrepreneurs who need capital for their startups.

Literature Review:

High quality research papers on the functioning and performance of firms in the private equity industry have been published in the last ten years. The purpose of this article is to review the papers I consider have made the most important contribution to our understanding of this topic. The most thorough study of private equity performance in the recent literature is the one by Kaplan & Schoar (2005). They investigate the performance, persistence and capital flows in the industry, focusing both on LBO funds and VC funds. As regards performance they find that, on average, fund returns net of fees approximately equal the return of the S&P 500. Evidence of large heterogeneity in returns across funds and time is presented. Substantial persistence in LBO and VC fund performance is also documented: GPs who outperform the industry in one fund are likely to outperform the industry in the next and vice versa. The authors show fund flows are positively related to past performance, with the relationship being concave in private equity. Similarly, new partnerships are more likely to be started in periods after the industry has performed especially well. But funds and partnerships that are raised in boom times are less likely to raise follow-on funds, suggesting that these funds perform poorly. Finally, the dilution of overall industry performance in periods when many new funds enter is mainly driven by the poor performance of new entrants. The performance of established funds is less affected. The following possible explanation for their findings is put forward: Underlying heterogeneity in the skill and quality of GPs could lead to heterogeneity in performance and to more persistence if new entrants cannot compete effectively with existing funds. This heterogeneity can be reflected in differences in "proprietary deal flow", differences in the provision of management or advisory inputs along with capital, and variation in deal terms. Related to this last point, Hsu (2004) finds evidence that better VCs get better deal terms (in the form of lower valuations, for instance) when negotiating with startups. He developed a hand-collected data set of 148 financing offers (both accepted and declined) made to a group of 51 early-stage high-tech start-ups. In this way, he estimates that a financing offer from a high-reputation VC is approximately three times more likely to be accepted by an entrepreneur. As well, it is shown that highly reputable VCs acquire start-up equity at a 10–14% discount. Moskowitz & Vissing-Jorgersen (2002), using data at the household level, claim to have been the first to provide estimates of the return and risk characteristics of the entire market of nonpublic equity. They find that the majority of household investment in private companies is concentrated in a single, risky, privately held firm in which the household has an active management interest. Despite the risks these investors face in taking on large amounts of idiosyncratic risk, the returns to private equity are surprisingly low. They find that the average return to private equity is similar to that of public equity, leading them to conclude that the diversified portfolio of public equity seems to offer a more attractive risk-return trade-off than that obtained by the typical entrepreneur. They also attempt to answer the question of why people become entrepreneurs and consider five possible explanations: high entrepreneur risk tolerance, large additional pecuniary benefits, large no pecuniary benefits, a preference for skewness, over optimism and misperceived risk. A study that complements very well Kaplan & Schoar (2005) and Moskowitz & Vissing-Jorgersen (2002), is that by Ljungqvist & Richardson (2003). While the former studies analyze aggregate level data, the later article examines micro level data. With access to proprietary data of 73 private equity funds from a large GP, raised from 1982 to 2001, they are able to answer questions that previous papers were not. Their dataset includes precisely dated cash flows, management fees, and distributions of capital gains to investors. They also know the portfolio compositions in terms of the number and types of companies each fund invested in. The cash flow, return, and risk characteristics of private equity are analyzed. Examples of their findings are that it takes six years for 90 percent of the committed capital to be invested, and that the IRR of the average fund does not turn positive until the eighth year of the fund's life. It is shown that private equity has generated excess returns with respect to the S&P 500 over the past two decades in the order of 6% per year. They also document that one of the most important determinant of PE returns in the cross-section is the overall amount of money flowing into the private equity sector as a whole, and the size of the fund itself. An additional paper that explores the performance of venture capital investments is Cochrane (2005). His central research question is similar to that of Moskowitz & Vissing-Jorgersen (2002), namely whether venture capital investments behave the same way as publicly traded securities. For that purpose he follows a very sophisticated empirical strategy to control for selection bias, i.e. the fact that the researcher only observes a valuation when a firm goes public, receives new financing or is acquired. In this way he is able to measure the expected return, standard deviation, alpha, and beta of venture capital investments. He concludes that we see similar phenomenon in public and private markets. Venture capital, therefore, does not follow an anomalous behavior. A much gloomier view of the risk-return characteristics of private equity funds can be found in Phalippou and Gottschalg (2008). Previous research has overstated the performance of these investments, according to their article. The authors present a number of reasons why they think this is the case. Their argument is that in past studies performance is driven by inflated accounting valuation of ongoing investments, and a bias towards better performing funds in the data. Once this is accounted for, they find the average net of fees performance of the industry is lower than that of the S&P 500 by 3% a year. Adjusting for risk would lead to underperformance of the order of 6% per year. In a novel paper, Hochberg et al. (2007) study how relationships and networks in the VC industry affect performance. They focus on the coinvestment networks that VC syndication gives rise to. Their central argument is that syndication networks may both improve the quality of deal flow and help VCs add value to their portfolio companies. Using graph theory to measure how well networked a VC is, they find that VCs that are better-networked at the time a fund is raised subsequently enjoy significantly better fund performance, as measured by the rate of successful portfolio exits over the next 10 years. The size of a VC firm's network, its tendency to be invited into other VCs' syndicates, and its access to the best-networked VCs have the largest effect economically, while an ability to act as an intermediary in bringing other VCs together plays less of a role. These results of Hochberg et al. (2007) suggest that enhancing one's network position should be an important strategic consideration for an incumbent VC, while presenting a potential barrier to entry for new VCs. This is exactly what the same authors study in a subsequent paper, Hochberg et al. (2010). They examine whether U.S. venture capital firms engage in practices designed to increase their bargaining power over entrepreneurs by restricting entry into local VC markets. To begin with, they are able to show that networking can have the effect of reducing entry in the VC market. Second, their results help explain evidence from their 2007 paper that better-networked VCs enjoy better performance. Part of the explanation for this may be due to the lower prices VCs pay for investments in more densely networked markets. Third, they shed light on the process of entry in the VC industry. Successful entry appears to involve "joining the club" by offering the incumbents syndication opportunities in one's home market.

STAGES OF VENTURE FINANCING

Venture capital previously was taken as a method of early stage financing but it has various stages of financing. It includes various stages which are development (also early stage financing), expansion and buyout financing for those enterprises that are facing difficulty raising capital from other sources.. Venture capital financing also provides turnaround finance to revitalize and revive sick enterprises.

1. Early Stage financing	• Seed financing to support idea/concept. • Financing R&D cost for development of a new product. • Capital provided to assist marketing and production function
2. Expansion financing	• Second stage financing which is provided for working capital since company has started selling products but has not generated profits and also for initial expansion. • Development financing and also financing for supporting public
3. Acquisition / Buyout	• Acquiring another firm for growth in future. • Management buyout financing, which helps an operating group to acquire a firm as a whole or some part of its business. • Turnaround financing for helping a sick unit or turning them

Six stages of Venture capital financing are mentioned below:

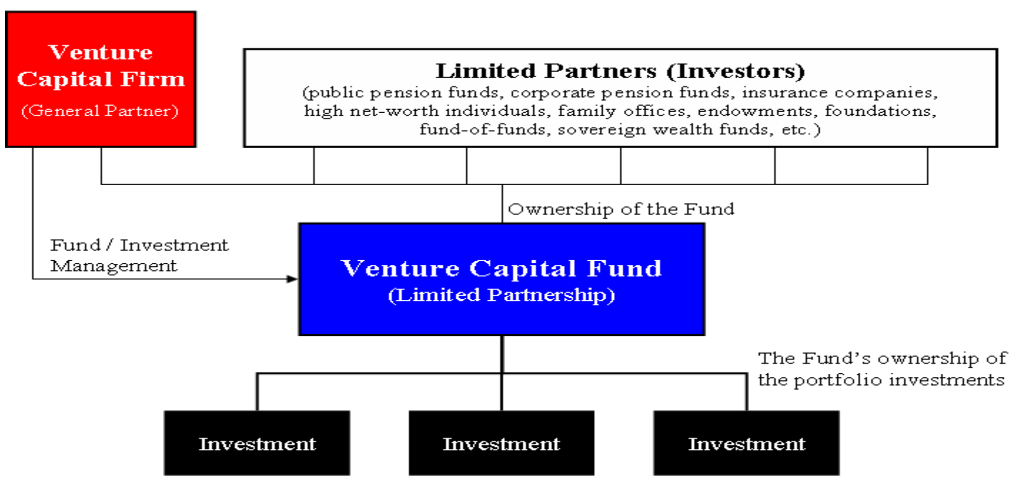
- **Seed Capital:** Initially there is an idea and there is a lack of capital. Hence seed money is low level financing or first stage financing required for proving a new idea. It is mostly provided by rich or angel investors who are the first person to invest.
- **Start-up:** Since early stage firms are very new so they are not known in market. Hence such firms require funding for marketing expenses and product development.
- **First-Round (Series A round):** In this stage financing is provided for early sales and manufacturing funds.
- **Second-Round:** The firms do not generate the profits the moment they start selling the product. So in this stage working capital is provided.
- **Third-Round:** In this stage, firms have generated profits so expansion money is provided. It is also known as Mezzanine financing.

- **Fourth-Round:** Now the company is in a position to go public. So fourth round is mainly for financing the process of public issue. Also known as Bridge financing.

VENTURE CAPITALISTS

They are a professional (an individual) and the investment firm that invests capital and bring both managerial and technical expertise to company. A VC fund is a investment vehicle which raises/pools from various investors and invest in new enterprises that are considered not safe/risky for capital markets or bank loans. Since investors are providing money in a pooled format or combining several investments into a large fund, the investors are diversifying the risk.

Venture capitalists not only earn impressive returns but also have a portion of equity in a startup firms as well as the ability to influence the direction of the company. Because of having an ability to influence the decision of a company, VCs can interfere in various hiring/recruitment, expansion decisions etc. Along with providing capital venture capitalists also works in collaboration with entrepreneurs thereby adding skills which is the key differentiator with buy-out private equity which invests only on those company that has potential to generate revenue.



Structure

The structure of venture capital firms is like partnerships, where the general partners serve both as a managers and investment advisors. In United States, venture capital firms are structured generally as a limited liability company where manager of the firm are managing managers. Limited partners are those investors who invest in venture capital fund and comprise of both HNIs and institutions with large capital base.

History

In the fiscal year 1986 R&D Cess Act came into existence in the year 1986-87, and it is a successor idea of VC as a innovative fiscal and monetary service in our country. Due to this act which obligatory five percent cess that every proficiency costs to generate a group of fund for VC operations.TD (technologican development) Fund was started in 1987 - 88 during the activation of this cess on all technology import payments. TD was started to grant monetary aid to creative and big risk technical programs throughout the IDBI. In the November 1988 the time Controller (Capital Issues) followed up measures to this. This shaped the structure for the starting and operation of finance / companies which can use the fiscal benefits extensive to them. Though, one more type of venture capital which was different to Indian circumstances too exist which was the financing the Green Field project with the retail investment doers subscribe to the IPO of the organizations. Organizations which are such as Jindal Steel that increase finance prior to the commence to construct manufacturing plants started by this way.

In year 1987 in the month of march, First company that started venture capital fund scheme for financing ventures which seek improvement and development of technologies of outside technology for a wider domestic application was IDBI. After that, ICICI commenced financing in the field of technology towards creative organizations. I C I C I in alliance to UTI made a VC ancillary namely TDICI which has its headquarters at Karnataka, for proceedings of VC activities. IFCI created RCTC, headquarters at Delhi. They focused mainly on commercialization and development of feasible indigenous, frequently which do not try technologies. Approximately same time, CCVFL was commenced in the Pvt companies. Global financing agencies mobilized financing, in a support of CWDC, London, CCFC, Asian bank (ADB), and BOI, a public bank in our country.

The year 1988 govt declared guidelines on the Ist VC in the lok sabha. These are some of the guidelines that supported chiefly through 1st generation businessmen. Shortly after that in the 89, 4 organizations were chosen through the World Bank under their ITDP to create VC operations in diverse areas in India. ICICI at Mumbai, GIIC in Ahmedabad, APIDC in Hyderabad were chosen.

The last decade and half has shown considerable development in the VC industry. In the year 1990 & 1997 a lot of VC finance have surged to 31 from 12 & 45 in year 2000. The total amount amplified from Rs. 200 crores in the year 1990 to Rs. 4000 cr. in year 1997 and Rs. 500 cr. in 2000. Slow growth has been seen in domestic funds growth, while nineteen outside pvt equity funds had commenced creating investments in Indian organizations. Offshore coming in of funds in VC is quiet substantial after the year 2001 This could be the result of execution of the suggestions of the Report of the operational Group on Structured of VC finance, headed by NRI from USA Extra funds set up 2 of them by companies that exist and by latest ones in the public as well as private sectors. Rise in availability has also been seen of outside finance for the Indian VC investments.

The World Bank has been involved for expansion and progress of VC sectors in economy. This also gave starting assistance by giving finance and giving worldwide familiarity. Additionally it has also given in developing manpower in VC companies in the country to encourage unity. It results in professionalization of the VC. The VC industry commenced rising in yr 1992, 12 domestic VCF created the IVCA. Relationship encouraged the Indian govt update the guidelines for the VC industry in India. The IVCA became the heart for VC operations in India. This right now builds an amazing data warehouse for itself and its members. IVCA, the group of funds there for the investment to its twenty people in 97, Rs. 25.6 billions. From this, Rs. 10 billions invested in 691 projects. 1992 IVCA was created, SEBI was approved authorities with the chief aim of regulating and expanding the securities market of India. With privatization and globalization of the economy and financial reforms and licensing freedom, various foreign equity funds commenced investing in the mixed economy of India from the year 1996 and more of that from the year 2001.

VENTURE CAPITAL FUND REGULATION

The venture capital industry in India commenced during late eighties (80s) which was under purview of central government guidelines that was formulated on the year 1998 on November. The concept of venture capital was limited to the seed capital that was provided by public financial institutions to increase the entrepreneurial base in mainly technology related projects. Guidelines were mainly focused towards the projects initiated by entrepreneurs of first generation. Initially Controller of Capital Issues (CCI) has the power under the guidelines which was vested later in SEBI with the abolition of CCI on May 1992. The SEBI Act 1992 which was later amended on 25 January 1995, gave SEBI the power to regulate and register the operation/working of the venture capital fund in India. The withdrawal of government guidelines took place in the year 1995 when venture capital investments came under the range of SEBI. Apart from SEBI, central board of direct taxes and also IVCA regulates the venture capital activities and sets the standards and practices to be followed in Venture capital industry.

Regulation by SEBI

The SEBI Act lay down the guidelines and gave power to SEBI for regulating the VC funds since these funds are considered to be the good source of capital and also a part of securities markets. SEBI's advisory panel invites top notch venture capitalists to be a part of its committee. It announced regulations related to venture capital funds in the year 1996,with an aim of protecting the interest of investors and also providing flexibility to the fund manager so that they can make a good investment decisions. Since Venture capital is known for the higher amount of risk with higher return kind of business, participants were mostly HNIs and both domestic and foreign institutions with an investment of five lakh at minimum.

Setting up a Venture Capital Fund :

The eligibility criteria is relaxed and private sector can also participate now. A VC fund is held mostly in the form of company or a trust. Appointment of asset management is done to manage the portfolio of such funds. A VC company can take both the activity of of venture capital fund and an asset management company. Previously, prior approval of Ministry of finance and department of economic affairs was required as per guidelines. Also SEBI regulations require organizations to be registered with SEBI and also the certificate for commencement of venture capital financing business. An application fee of twenty five thousand along with application for registration and grant of certificate has to be done in prescribed form as per the annexure.

There should be a minimum corpus of five crore rupees in a venture capital fund before starting any activities. According to guidelines issued by CBDT, a venture capital fund are eligible for investing up to forty percent of paid up capital or up to twenty percent of the fund I one venture.

Investment Conditions and Restrictions :

- As per SEBI regulations, investment of at least eighty percent of corpus of fund must be in the shares (unlisted) of venture capital assisted companies.
- Investment of VC funds on share capital of the companies providing financial services is not allowed which implies that all NBFC, housing and finance companies, leasing companies etc. cannot get any kind of venture capital assistance.
- Apart from venture capital investing, Venture capital fund is prohibited to carry other activities.
- The regulation allows investments of venture capital fund in the equity shares of companies which are considered weak (financially) and are unlisted but sometime can be listed as well. Firms whose networth eroded more than 50 % but not more than hundred percent are examples of such companies. Therefore, it supports sick companies and help in turning around such companies.
- There is no restrictions for venture capitalists for investing in any company that has already received capital assistance in the past.
- Besides investing eighty percent of venture capital fund into unlisted shares of companies, remaining twenty percent can be invested into listed company's shares/securities.

Financing Venture Capital Funds :

Venture capital fund can raise capital/resources from both Indian and foreigners including NRI. Resources can be raised through private placement of securities but only after the completion of three years and for which the venture capitalists are supposed to submit a placement memorandum to SEBI. The memorandum must contain contains the details of various terms like maturity period, procedures of winding up and mode of distributing benefits to investors etc. After expiry of twenty one days of submission of memorandum and if there is no objection by SEBI, such placements can be done with HNIs and institutions. The Indian nationals who is not the stakeholders in VC funds can invest and should be minimum of five lakh.
However, there is a prohibition that venture capital fund cannot raise capital from general public/public offer by issuing securities or units. Mutual funds can invest up to a venture capital fund is prohibited from raising capital from general public by issuing securities or units through a public offer. Mutual funds can invest five

percent and ten percent of the corpus of an open - ended scheme and close ended fund respectively in a venture capital fund..

Winding Up and Other Provisions :

The regulations provide different schemes for winding up of the venture capital funds set up as a trust or company. A venture capital company is wound up as per the provisions of the Companies Act, 1956. The trust can be wound up as per the trust laws on the expiry of the scheme or any date earlier if the trustees consider winding up is in the 'investors' interest and inform SEBI of the same. Trusts can be wound up if fifteen percent of the investors pass a resolution for winding up and forward the same to SEBI. The regulation also provides for inspection and investigation besides action in case of any default by the venture capitalist.

Central Board Of Direct Taxes

The government of India announced concessions on taxes for the investments by VC funds which should abide and comply with the guidelines issued by the (CBDT), and also the venture capitalist industry is regulated and controlled by CBDT have been calm and relaxed from time to time as it has detached and removed the condition of deadline and time bound investments by the venture capital funds and also the lock in period of 3 years.

The VC funds looking for exemption from income tax were required to follow the below mentioned policy:

- It is mandatory to register with security exchange board of India (SEBI).
- Rules also state about the venture capital claiming to get an exemption of capital gains and income via dividends.
- It should not invest any amount larger than forty % in equity of an assisted unit now this rule removed
- In a single company Investment must not exceed 20% of the amount of fund(this rule has been removed now)

VC investments are needed to be put restriction on domestic companies that are engaged in the commercial activities of :-

1. Software
2. IT
3. Drugs Production
4. Biotechnology
5. Agro based activities and similar sectors like other sectors this may be notify through the central government in this relation
6. Production and manufacturing of any product or substance for which the patent has been given to the National Research Laboratory or any other scientific research organisation certified by the Department Of Science and Technology(DST). These rules now replaced by the negative record.

- 80% of the investible funds has to be put in equity shares of domestic companies whose shares are not listed on a familiar stock exchange.
- As dividend income received in India is not taxed, the tax is simply 10 % capital gain tax.
- These all make payments of maximum marginal tax of (35%) in respect of non exempt income like interest from Debentures.

REGULATION OF FOREIGN VCF'S

(SEBI) Foreign Venture Capital Investor Regulation 2000:

In perception of regulating workings of foreign venture capital investment doers and to endow with a level playing field to domestic VC, SEBI notified that Foreign Venture Capital Investors Regulations, 2000 on Sept fifteenth. Foreign investors wanted to make venture capital investment in India are needed to get the crucial agreements from the RBI to make investments in India without going through the way of investing in an Indian fund. Instead it has to apply and subscribe and register themselves with SEBI in order to make VC investments in India. Companies built-in outside India that are given permission to make investment in VC funds or to bring on the activities of a VC fund and keeping up and regulated by an appropriate foreign regulatory authority are entitled to be registered under these set of laws.

As per the policies, a foreign venture capital investment doer is an investor incorporated and established out of the country that has proposed to make an investment in the VC fund or venture capital undertakings in the country and is registered with SEBI. Offshore VC can invest in the country either by starting their own VC funds or by a domestic funding. This funding will get a tax exempt benefit. They are needed to employ a domestic caretaker for the supervision of their securities, enter into an agreement with any bank to function a non-Indian/resident or foreign currency account. All of the registered foreign VC investment doers have to obey by these rules. The amount of the fund will have to be same or almost greater than rupees 5 cr.

All registered foreign investment doers will receive the gain of being able to fetch their investments without going through the process of FIPB provided the investments to come in reach of overall ceiling that is fixed for the Industry. VC funds will be granted permission to make investment in an automatic agreement way even when its investments that results in transferring of the shares of an Indian company to a foreign or NRI or OBC investment makers. Such shifts and transfer are matter to example agreements. The registered out of India VC funds have no drawbacks on investing in competitive technologies and trademarks by the self-driven way. This is to motivate outside funds to take part in awareness and knowledge based and very high risky industries. It will also be exempt from tax from the Reserve Bank of India (RBI) exit pricing rules for all the foreign investors.

Whose preference is continuing to invest in PE funds can do so but it will not entertain the gains of being accorded by all these regulations. The provisions are made especially for outside investors to be able to function in country. Though the business body whose application get cast off are not allowed to carry out any actions.

Investment Criteria applicable for a Foreign Venture Capital Investor:

a. Disclosure of the investment strategy to the board is mandatory.

b. Total funds that have been committed can be invested in one VC fund but cannot be invested more than twenty five percent of the total funds committed to the country in a single VC undertaking.

c. Minimum seventy five percent of the total investible funds should be invested in equity shares of unlisted companies or the equity linked instruments of the VC undertaking and to the extent of not more than twenty five percent can be invested through subscription to IPO of a VC undertaking whose shares are on the process of getting listed with a lock in period of one year and also debt / debt instrument in which investments has already been done by equity.

d. It is not allowed to invest fund in associate companies.

e. The negative list includes Investing in activities clearly specified in as given in the 3rd schedule, which is real estate, non-banking financial services, gold financing and operations which is not permitted under the government's industrial roles is also not allowed.

f. Norms are same for domestic VC in other investments.

SELF REGULATION BY IVCA

In a mutual society, all the qualified institutions jointly come as one to form a body for self - regulation by increasing an intentional code of conduct and making the code binding upon their members. Indian VC companies / funds have formed a voluntary association which acts as their representative & self-regulatory body. Its name is Indian Venture Capital Association (IVCA) and is modeled on the basis of the AVCA. IVCA was formed to coordinate all the activities of all its members. Its objective was to start practices and standards to be followed in the VC industry of the country, to carry better coordination with different VC companies and funds, and to safeguard the interest of VC companies / funds to the government and other control bodies. It also recommends to government and SEBI concerning alterations sought in the VC guiding principle and regulations. It also organizes and arranges programs for teaching the various personnel who were part of venture capital industry of the country

Currently IVCA has to compile a database of the VC industry in India so as to be capable to grant new facts to government agencies, Worldwide VC organizations or companies, angel investors and many others interested in the VC investments to be done in the country. IVCA is established to support the VC industry in country, entrance with the Indian government and the controllers that is SEBI and CBDT. The basic plan is to fetch in a self-regulation system in the industry with the assistance of their members and thus to reduce the scope of outside regulations.

METHODOLOGY

- Research objective
- To understand the various concepts of venture capital and the various sources that are used to finance venture capital startups.
- The situation of venture capital along with various regulations of government as per SEBI and tax department in India.
- To know the sectorial perspective of venture capital in India with respect to various areas and identification of potential sectors.
- To understand the threats and the challenges faced by the industry.

The terminologies and various concepts of venture capital are explained with reference to this project. Data collection for the purpose of analysis is done by the help of secondary research. The research is mostly based on/ conducted by using the secondary data extracted from various online websites and also published material by different authors both online and paper medium. There is a scarcity of resources when it comes to venture capital and due to which there is no theory on venture capital developed as such and also no books related to it. Not only this, there are very less research papers both online and paper based. Mainly the design used in research is descriptive. We have made an attempt to collect various information related with the venture capital industry such as facts and figures, forecasted/projected future demand, problem analysis the entrepreneurs associated with raising capital, assistance that has been provided, kind of venture capitalists that are operating in India and also the impacts created by them on the existing framework.

Secondary Research

- Various published reports of surveys, journals and other popular publications have been analyzed and reviewed to bolster the understanding of venture capital industry. Various books related to entrepreneurs and venture capital scenario of India is also referred to.
- These surveys have been analyzed to explore the various elements of the venture capital business in India and what can startup firms do to benefit more from those elements.
- The problems (both nature and magnitude) that are faced by the VC industry have been listed in particular and were analyzed too.
- Various success stories have also been researched upon which triggers growth of the VC industry in India.

- All the findings & observations are summarized and recommendations were made on the basis of those findings.

The scope of this research comprises of various kinds of venture capital companies that have been in existence as a trust or company itself. Venture capital companies and also venture capital funds that are registered with the market regulator i.e. SEBI are studied/included in report. Since it was not possible to collect factual and reliable details regarding angel investors and their activities therefore they are not included/considered in the research.

- To know the various VC investment perspective opportunities among various sectors of the economy.
- To know the reasons that are responsible for slow growth of VC industry in the country.
- To know and scrutinize the various entry barriers pertaining to both VC investment and capitalists.

Limitations of the Research

- Since secondary data have been used so the accuracy and precision level with the problem or topic of the report might not be consistent or that relevant.
- Venture capital varies according to the sectors and also could link with various areas. Therefore, findings and recommendations should be given consideration.
- Primary data was not easy and also to some extent not possible due to distance pertaining to various entities related to the research & reluctance of various firms to share data which they think are of confidential nature which might affect their reputation. To add on it, the reluctance of venture capitals about revealing the performance and investments has been noted. .
- Venture capital concept in India is fairly new due to which historical data was very limited to post 1993.

SUCCESS STORIES
INDIAN (START-UPS)

India is a country of a growing number of entrepreneurs. Those entrepreneurs work very hard and put a lot of efforts in making a project, website, system etc. with a believe that it could be the important innovation or the next big thing in market.

Mast Kalandar

Mast Kalandar, started small and till date preserves what they had started with. Innovation, freshness, fun, customer service, honesty, homeliness, values and quality. It all started at an offbeat location on Bannerghatta road in Bangalore and till today they have kept their basic principles of business close to their hearts. While adding new stores and new cities to their portfolio, their major focus and priority has always been customer delight. 6 million US dollars were raised from Helion Venture Partners and Footprint Ventures in their 3rd round of funding.

Flipkart

Undoubtedly the most successful of Indian online retailers, Flipkart is one of the biggest and highest earning online company of India. It was one of the early starter in an area of online retail, and now it has the biggest market share in terms of customers. It has a headquarter in Bangalore and Sachin Bansal and Binny Bansal founded it in the year 2007. Initially, it focused on selling book online which was later expanded to various products like electronic, apparel, accessories etc. Payment can be made via various methods such as debit/credit card, net/web banking etc and also money can be paid when goods are supplied as per the orders.

Justdial

Justdial provides local search services over various modes of communication such as Phone, Mobile and SMS, internet/web etc. It has a headquarter in Mumbai, Maharashtra. The process is very simple and only thing that a user has to do is call and tell the person about the service they want. Alerts are sent via texts and emails with various options according to the questions that a caller asks. For raising funds, recently they have come up with an IPO. Just Dial got a very good response and the offer to raise $174 mn was oversubscribed by 12 times. It is considered to be the biggest IPO of the year 2013.

Bookmyshow

It is India's largest ticket booking site for movies, sports, music concerts, plays, events, theater, cinema, amusement and theme parks etc. Apart from all this, it also vivid information about sport schedules, movie and stadium reviews, latest entertainment news, contests, freebies and goodies etc. Network 18 had invested in this company in March 2007. It sells almost 1, 00,000 tickets in a single day on an average.

Mindtree

Mindtree was started by seven Indian businessmen and three IT professionals who were american – Anjan Lahiri, Scott Staples and Kamran Ozair. Mindtree's operations in US has been looked by Mr staples.. Company was started with a $9.1 mn provided by two VC companies named - Walden International and Sivan Securities. There was an additional funding of $14.1 mn. provided by two companies which are Capital Group and Franklin Templeton during the year 2001, August. Mindtree increased their offerings with an aim for including IT and R&D services when there was a turmoil following the attacks of September 11. On December 2006, they had gone public with an IPO fixed with price band of Rs. 365 425. It got listed on the BSE during march at a price greater than Rs. 600 and also surpassed the price of Rs. 1000 within a span of few days. Their IPO got oversubscribed by more than100 times.

VENTURE CAPITAL FIRMS

Intel Capital

Intel capital has been investing in the country from their subsidiary a $250 million Intel Capital India Technology Fund, which was incorporated in the year 2005 during the month of December.As of now, they had done an investment of about 80 % of total corpus in about fory different companies. and had already invested around eighty percent of total fund in forty companies as of now. They had already closed about half dozen deals and still are looking to allot new corpus in India. Yatra.com, Fashionandyou, Dealsandyou, Saankhya Labs, Testing Czars etc. and others too are the investments made by Intel capital so far in India. and several others.

Nexus Venture Partners

Since its inception in , Nexus has completed about 10 transactions and still focuses on various sectors such as agricultural, technological, business services and various internet startups. Nexus Venture Partners is a $320 million company and had already made an investment in over 30 companies. The firm had made multiple bets in ecommerce companies which includes Craftsvilla.com, BigshowBazaar and others including SnapDeal, Komli and Druva Software. The firm has also backed Aryaka Networks and Genwi.

Helion Venture Partners

The early to mid - stage Helion Venture Partners is a venture capital fund with a capital of $350 million and invest in technology powered business and customer services related with various sectors such as internet, outsourcing, mobile,(education, financial and retail) services etc. The firm had an investment in over 35 companies which includes Exclusively, Komli and Jivox. Other companies where the firm has made investments are Azure PowerAgni, Mast Kalandar, NetAmbit and many others.

Sequoia Capital

It is a US based VC company are involved and backed the very reputed and recognized organizations such as Google, Apple and apparently is making an investment bthe help of $300 mn. raised during the year 2008 and growth fund of about $25 mn which are committed funds for India. Sequoia Capital continues to make an investment in the ecommerce space besides having long time focus on areas like internet, mobile, consumer services, healthcare etc. Sequoia venture capital has invested in companies like Fashionandyou, Druva Software and Sourcebits including many others.

IndoUS Venture Partners

IndoUS Venture Partners gives early to mid - stage funding to new or growing profit making business companies in India. It manages $300 million that were raised over two India - dedicated funds and investment in more than 24 companies had already been done. The space in which IndoUS Venture Partners focuses mainly include internet, software and telecom. Their portfolio companies include Snapdeal, Myntra and Apalya among Attero, Basiz and many others.

10 LARGEST VENTURE CAPITAL DEALS OF THE WORLD

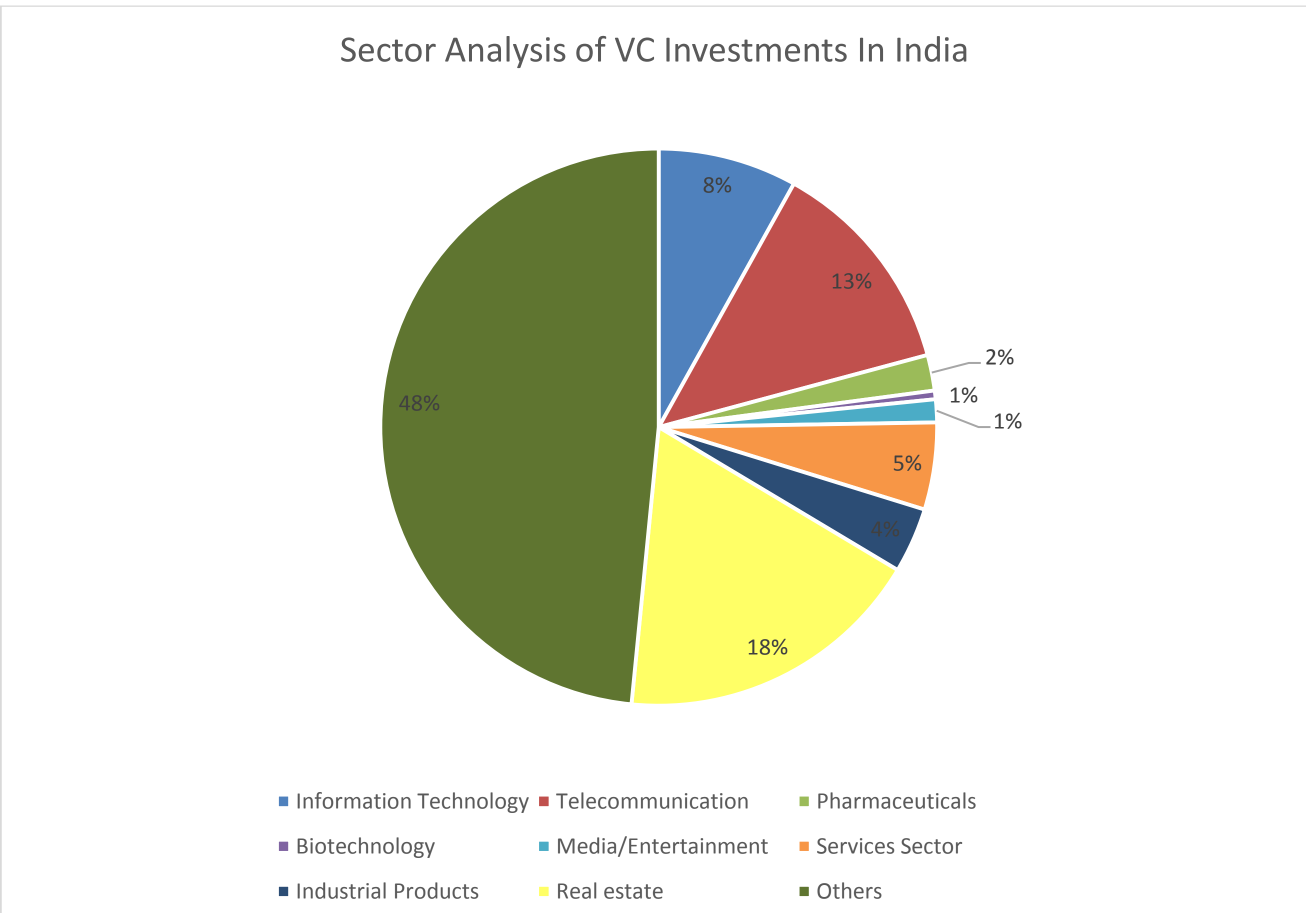
Name	Date	Stage	Deal Size (mn)	Investors	Industry	Location
SquareTrade	Jan-12	Growth Capital/ Expansion	USD 238	Bain Capital, Bain Capital Ventures	Financial Services	US
Element Power	Feb-12	Unspecified Round	USD 183	-	Renewable Energy	US
Drillinginfo, Inc.	Mar-12	Growth Capital/ Expansion	USD 165	Battery Ventures, Eastern Advisors, Insight Venture Partners	Oil & Gas	US
Flipkart	Jan-12	Unspecified Round	USD 150	Accel Partners, Tiger Global Management	Internet	India
Sapphire Energy, Inc.	Apr-12	Series C/Round 3	USD 144	ARCH Venture Partners, Arrowpoint Ventures, Cascade Investment LLC, Monsanto Company, U.S. Department of Agriculture, U.S. Department of Energy, Venrock, Wellcome Trust	Clean Technology	US
Fisker Automotive, Inc.	Apr-12	Unspecified Round	USD 129.72	Kleiner Perkins Caufield & Byers, New Enterprise Associates	Clean Technology	US
Tamar Energy Limited	Feb-12	Unspecified Round	GBP 76.3	Fajr Capital, J Sainsbury plc, Low Carbon Limited, Ludgate Environmental Fund, RIT Capital Partners, Sustainable Technology Investments	Clean Technology	UK
Harvest Power, Inc.	Apr-12	Series C/Round 3	USD 110	American Refining and Biochemical, Inc., Duff Ackerman & Goodrich Ventures, Generation Investment Management, Kleiner Perkins Caufield & Byers, True North Venture Partners	Clean Technology	US
Encino Energy, LLC	Jan-12	Unspecified Round	USD 104.3	-	Oil & Gas	US
Lifelock, Inc.	Mar-12	Growth Capital/ Expansion	USD 100	Bessemer Venture Partners, Cross Creek Capital, Goldman Sachs, Industry Ventures, Institutional Venture Partners, Keating Investments, Kleiner Perkins Caufield & Byers, Symantec Corp	Technology	US

Source: Preqin Venture Deals Analyst Online Service

FINDINGS & OBSERVATIONS

Sector analysis

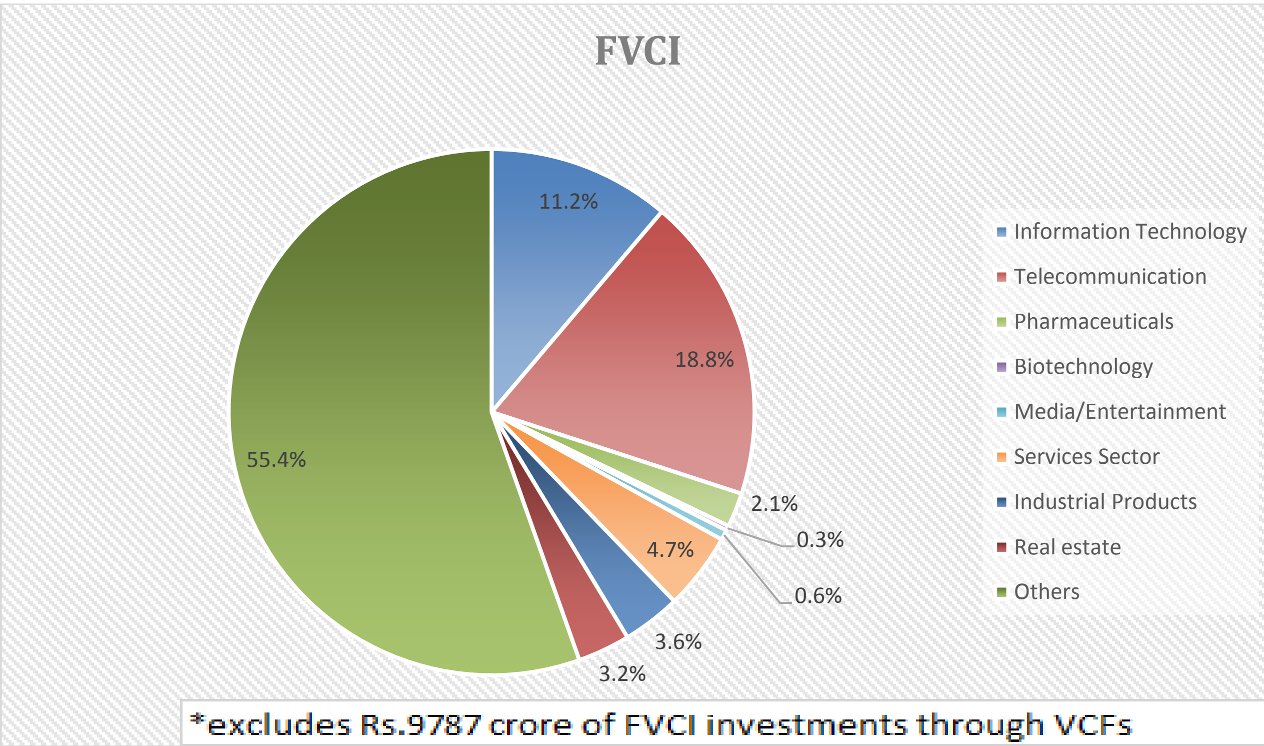
The incessant growth of gross domestic product (GDP) of any country can be increased through creation of new firms which add value (creation of jobs, improving exports etc.) to the economy. On a comparative note, the contribution from the manufacturing industry as a percentage of India's GDP is smaller than compared to the ratios in China or of the USA. Considering that India's GDP is on a growth trajectory, the venture capital industry has a lot of growth prospects and is expected to grow at a rapid pace.
VCs in India are now making investments into a variety of sectors.



Cumulative Investment (Industry wise) Details of Venture Capital Funds that are SEBI bound/registered:

The sector analysis according to the data given by SEBI for the current year shows that the most amount of venture capital investments have been done in varied businesses which mostly includes investments in the e-

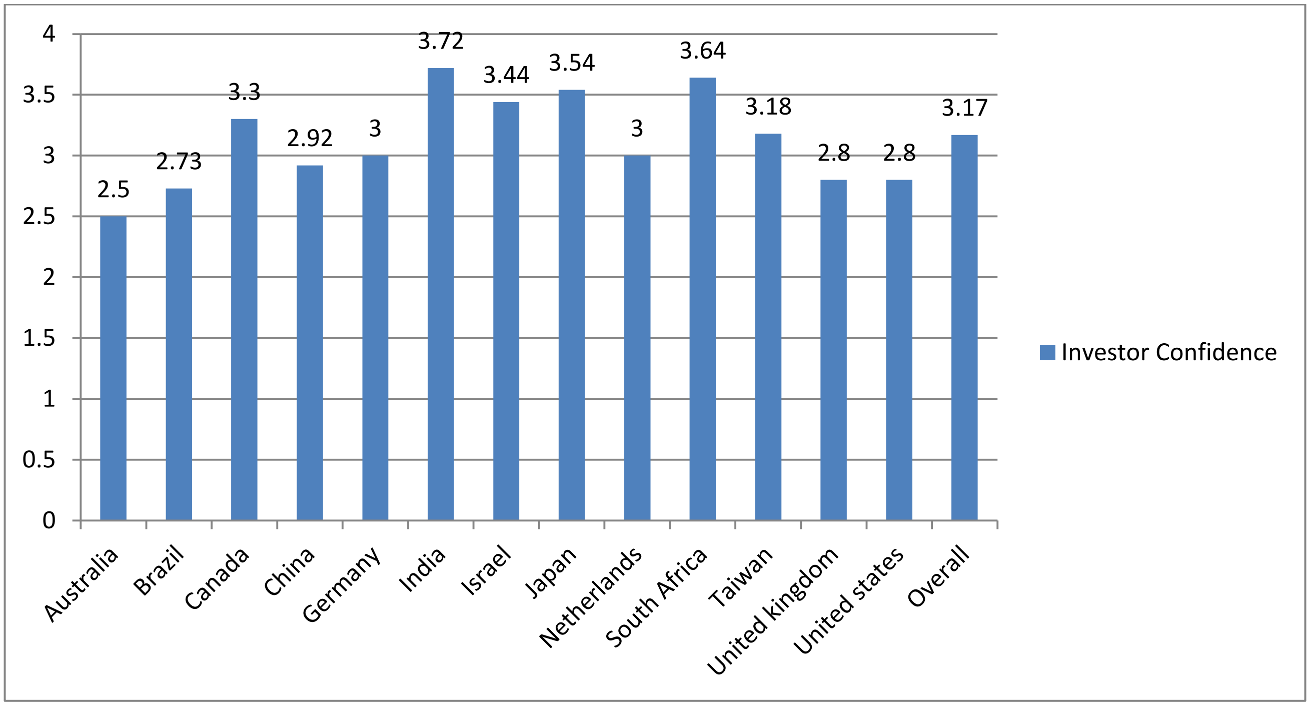
commerce segment. Closely following is the real estate sector which is currently experiencing a boom in the market with the rising amount of investments being made in that sector.
The telecom as well as the information technology sector as usual share a major chunk of the pie as since the beginning of the venture capital industry in India, investors have confidence in investing in these sectors. The rest is shared equally amongst other sectors.



Cumulative Investment (Industry wise) Details of Foreign Capital Investors who are registered with SEBI:

In a total investment of 33773 crores, the major chunk comprises of FVCI's investing in a various sectors of the Indian economy. The largest portion after the same comprises of the telecom sector which is an emerging sector of the economy with a lot potential areas such as 4G & LTE which are still left untapped in the market. Next comes up is the information technology sector which has seen high investments from foreign investors in this decade. The rest of the pie is shared almost equally by the rest of the sectors. A large amount has also been invested by foreign invest through collaborations with Indian venture capital funds.

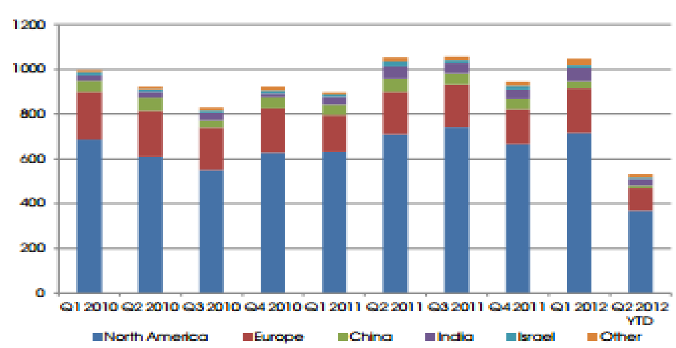
COUNTRY ANALYSIS



2013 survey on global VC confidence of different countries, by Deloitte and National Venture Capital Association

As per the survey, India was most preferred destination to invest in as compared with other countries which is a good sign for all Indian firms. The following was determined as the basis for this achievement-:

- Existence & availability of globally competitive technology and human resources.
- India, being the country with second largest English speaking manpower and a very high number of scientists and engineers are the main reason behind the confidence that an investors have.
- Various Existing and ongoing scientific and technical research by a large number of research laboratories.
- Government of India had taken various initiatives in formulating policies thereby reducing various restrictions, previously creating a hurdle to encourage investors and entrepreneurs.



Source: Preqin Venture Deals Analyst Online Service

No. of venture capital deals by region

CURRENT SITUATION:

VC and PE funds have become more careful in selecting their investment and are also less willing to pay for valuations which are outsized. Not only this, Investors have demanded for the clear exit road map right from the starting phase of an investment and because of this more money is being provided via investments at a early phase/stage.

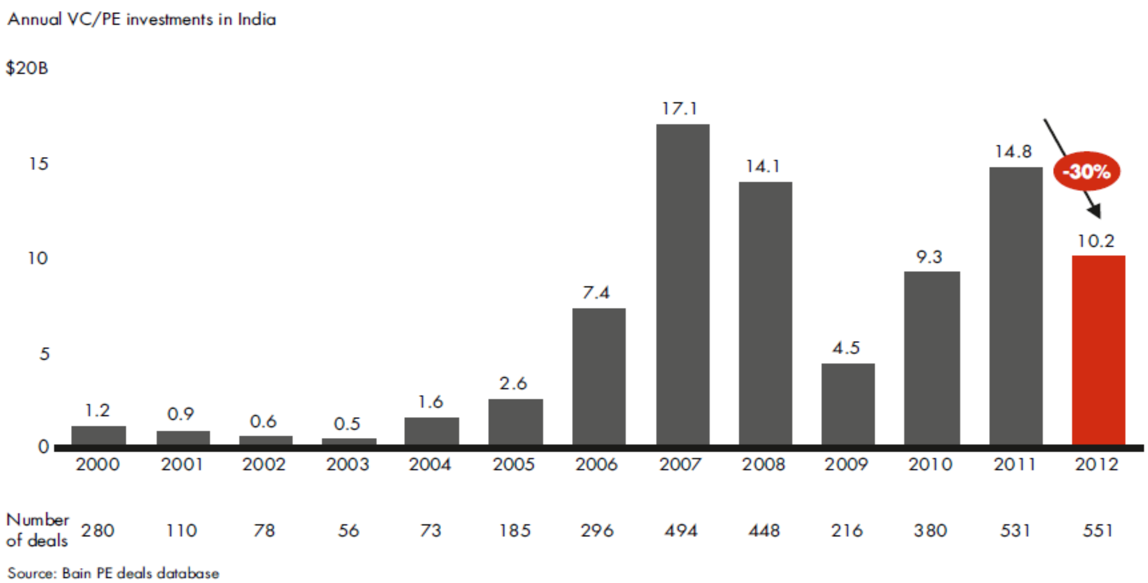
The fiscal started with high positivity regarding the increment in the deal and also the venture capital market future. However that optimism never turned into a reality because throughout the year 2012 there was a slowdown in Indian and world economies and due to which deal was reduced.

The political instability with First, the logjam in the country's politics with erratic attempts at reforms concerned many investors who have made investment. Secondly, inflation since 2011, which was rising for the year 2012. Thirdly, low industrial production growth index. Lastly, the depreciating rupee hit a historical low and which affected the investors' confidence and their willingness to commit.

Regulatory uncertainties was one of the key reasons for exodus of investments and investors reluctance. The threat was there of retrospective tax to be applicable on foreign investors who had got the controlling stake in many of our companies was a topic of debate worldwide. There was also the prospect of capital gain tax to be implemented by government on venture capital investment and these very reason caused the negative sentiments among investors. At the start of the year 2013, the venture capital and PE market of India had shown upward trend but now the road seems bumpy.

Trend

There are few reasons considered responsible for the drop in investment such as political and regulatory scenario, financial scenario etc. There was a decline in capital expansion plan across various industries which was the main reason for decreasing growth capital demand in India. Sectors such as energy, telecom, infrastructure were the victim of inadequate momentum of politics along with regulatory uncertainty. 2012 overview indicated that there was emergence of 4 important trends, which will help in shaping the development of venture capital space of India in future.

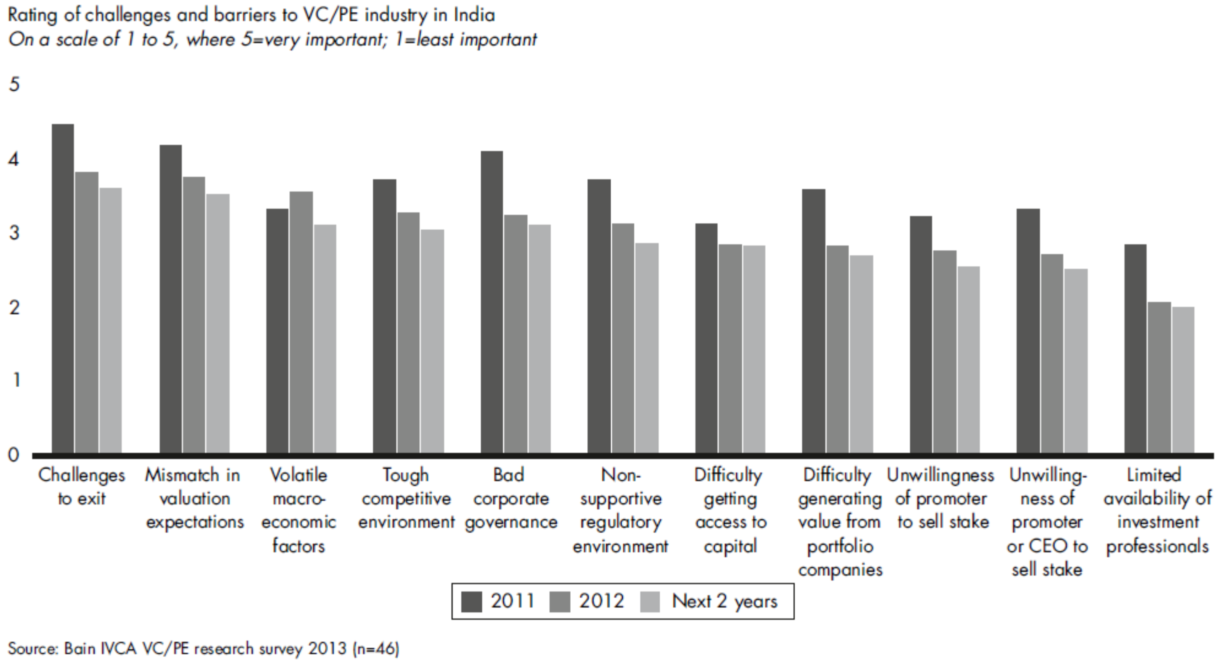


- It has been seen that there is a slowdown in fund raising activity and LP's have been taking full care ahead of committing funds to the country. $3.5 billion, the total funds which is mandatory to be invested in India in the year 2012 is very lower than around $6.9 billion dedicate in year before the year 2011.
- Growth in the early stage in the VC investments is playing an important part in contract making. No of early stage contracts that are lesser than $10 million have increased by around 2 times from somewhat 125 contracts in 2011 to approximately 244 contracts in 2012. The division at present accounts for 1/2 of the total amount contract volume which is 44%, increased from 24% in year 2011 to 16% in the year 2010.
- Investments have been increasing in the consumer industry, mainly in the healthcare department. It has seen an investment tripled from approx. $0.46 billion in 2011 to $1.3 billion the next year. The no. of agreements/deal also increased by fifty percent, as a result contracts/deals made in the year 2012 was somewhere around 44.
- The pressure for investors to exit is building. Existing pressure continues to build on the industry.

- However exits have increased very less in the year 2012, and also there rising log jam of investments which are waiting to exit, mostly more than five year funds or which are older that it. If the capital markets stay unappealing and venture capitalists/ investors carry on favoring initial public offerings which is the route to exit, this backlog may remain growing.

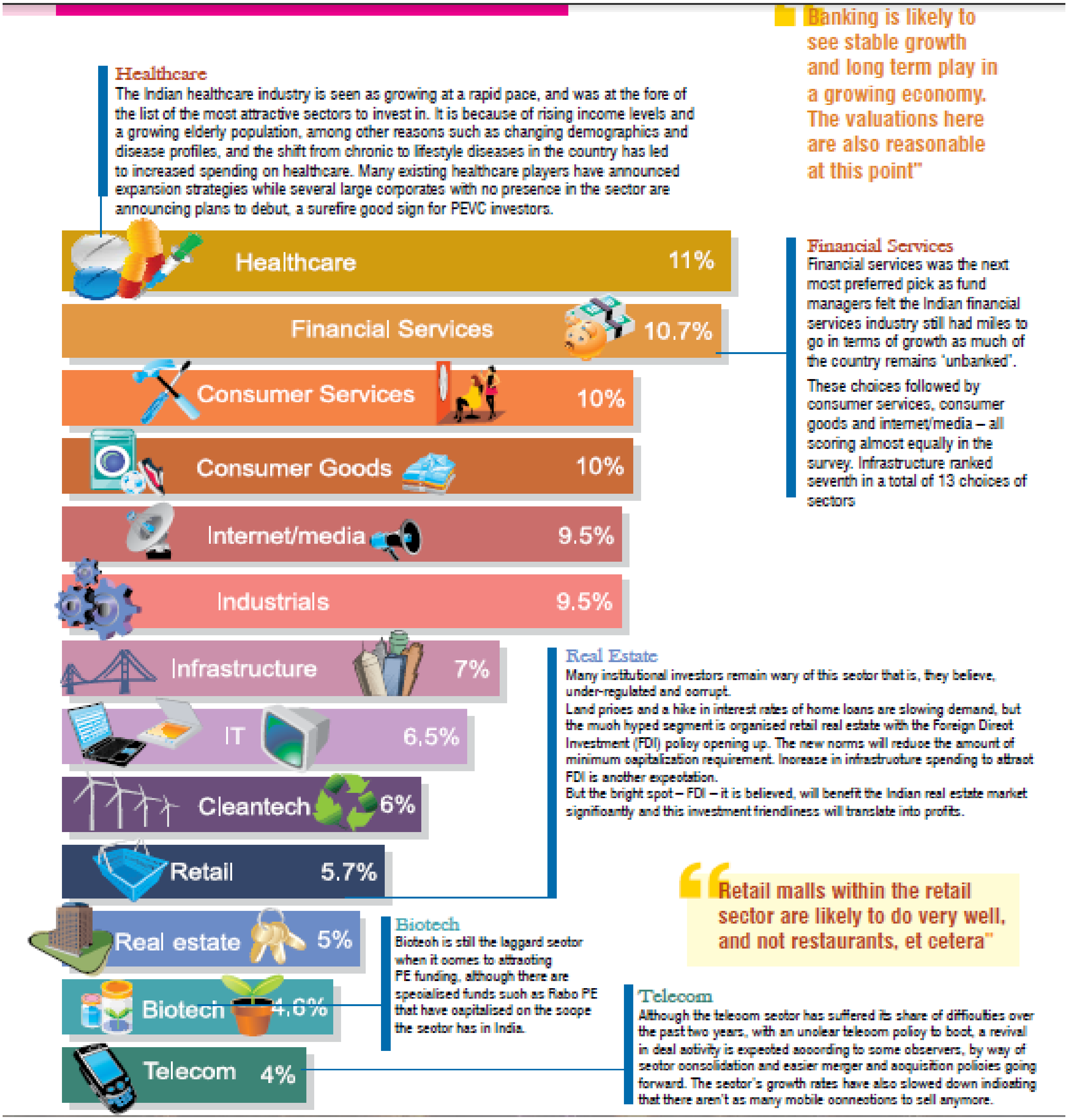
Important issues to consider

However some of these problems formed some reason for concern, the fundamentals of the Indian venture capital industry are sound and there is a reason to believe that. The investors generally have got the faith in both the future of VC and country's growth. Slowdown in economy has been the major issue but still increasing GDP due to spending by consumers, trade flows etc. is the reason to cheer for..



- For getting the better insights on the various hindrance/barriers related with the growth of this sector, Bain & Co has researched out major industry stockholders and also asked to find challenges for those barriers. The crucial learnings are mentioned below:-
- **Related to returns.** All the investments have not generated the type of profits probable from them. This is related with respect of the investments done mainly during the good times or boom years that lasted for few years (2004-07), which got matured now. Investment returns are cause of concern.
- **Expectations not matching above asset valuations**. In spite of the movement being towards more practical valuations, investors thinks that soaring quality contract/deals are still expensive and will continue that trend
- **constant pressure on exits.** Current fiscal year, exit pressure was ranked by the investors as the prime challenge that was faced. The no. of exits probably have enlarged in the year 2012, but still a long go away. A lot of investments during the year 2006 and 2007 have increased their 5 year investment periods..
- **Value creation:** Still there lacks a openness in the entrepreneurs regarding VC funds participation in operations and various strategies related with business. Therefore VC funds can only get minority stake.

- **Macroeconomic environment**. The performance of India as per various macroeconomic factors like Gross Domestic Product, inflation and others too were unsatisfactory all through the year 2012. Hence, those factors were more concerning and were in the top five concerns of investors as compared to unsupportive and erratic regulatory environment. As the present government planned structure remains unsure and continues to obstruct investment, reforms started towards the last part of 2012 have prepared a lot to dismiss marketplace sentiment.



Most Attractive Sectors

RECOMMENDATIONS/SUGGESTIONS

- The regulation of government, legal environment of a country and tax structure must act as an enablers by being more transparent and making friendly regulations so that entrepreneurs can attract VC funds both domestically and internationally.
- Investments at various stage and, management and exit route for investors have to be simplified and flexible in line with the global scenario.
- Venture Capital must be given priority as a industry that safeguards both firms and investors rights and should be made an industry which is institutionalized and which protects investors and firms functional in a dynamic and erratic environment appropriate for acquiring huge risk capital as required by the help of startup firms in a gamut of growth and profitability.
- In the perspective of raising integration globally and movement of capital, it is very crucial that the VC funds in India and also venture financing enterprises are capable of getting global exposure and investment access.
- Infrastructure development via incubators, Research & Development needs to be encouraged by the backing of both private and government management which has been done very nicely various places such as US, Israel and Taiwan. It is very important for faster transformation of Research & Development along with technological innovation centered around commercial products and services.

LESSONS FOR KEY STAKEHOLDERS

General partners

Firstly, the partners should work on building stronger relationships with entrepreneurs much earlier in the deal cycles. In fact, networking and relationship management is more critical in our country than in other markets given the current quality of deals being made. Secondly, they should explore areas to invest in with existing promoters or to restructure existing investments. This would give them a natural advantage from the start and bar unnecessary competition. Thirdly as seen, it is essential to focus more on holistic diligence. Fourthly, they should take care to discuss their investment structure and value creation blueprint with the investment taker throughout the deal making process. A carefully prepared document can act as a differentiator with the entrepreneur, demonstrating an understanding of the business and facilitating agreements on key objectives.

Indian entrepreneurs

One of the important points for Indian businesses is to be open and transparent from the start. Venture capital should not just be seen as a way to access cash, but rather thought of as an activist capital, which may bring in vast expertise, network and fiscal discipline. Startups should also take care to agree on the operating model within the private equity fund to decide the latter's level of involvement right from the start and align with the management accordingly. It is equally crucial to understand that the investors come in with a set exit time frame in mind and it is best to align on the exit road map early in the beginnings of the relationship.

Limited partners

The key trend for funds in India is lack of patience when faced with a growing portfolio. They may need to re-evaluate their exit options in some cases and make tough calls on the IRRs that they have been looking for. With the increasing number of un-exited investments over 5 years old, investors need to be extremely choosy about the partners with whom they work, scrutinizing their exit & investment track records. An important learning here is to create a clear exit road map on all the new investments made. This should form an integral part of the diligence process.

Public policymakers

Looking at 2013 and beyond, there is much that can be done to stimulate Indian venture capital investment and promote growth in the economy. Policymakers of the industry should realize the benefits of venture capital funding making capital available with a shared risk. Recognition should be given to the value that venture capital can bring to the entrepreneurs in India with terms of expertise and guidance. Venture capital funding will only grow in India if the policy framework and the government is supportive. The governing bodies need to be quick and decisive in the creation of new legislations. When the policymakers hesitate as with the GAAR case, confidence over the country as a potential investment arena is inevitably affected more.

Except all this, the government also needs to give due consideration to opening up other avenues to obtain domestic funding.

CONCLUSION

The year 2013 was indeed a very challenging year. Nevertheless, there was many progressive and encouraging signs in the form of many increasing welcome exits due to better regularity clarity. The year saw both parties-investors and entrepreneur more comfortable with their own roles and it can be considered a good sign of venture capital market of India getting matured with time.

- Regarding the entrepreneurs, willingness to be engaged with VC investors and acceptance of the assistance/support (management, technical etc.) along with funding has increased remarkably. Slowly Venture capital has emerged as acceptable source of capital due to which entrepreneurs are being able to utilize their potential.
- Regarding the investors, attitude towards new firms/startups has changed. They have understood the market properly now which might be erratic at any point of time. Therefore they are very concerned and careful regarding investment. In fact, VC investors have been more inclined towards startup firms if they found the idea to be sustainable and profitable.
- The fiscal year of 2012-13 might not be the fruitful/lucrative year regarding venture capital industry in India. But still the year showed lot of changes in terms of view of various stakeholders. Therefore we can be very optimistic and hopeful regarding the future of the industry. With the growth of entrepreneurs and venture capital being perceived to be one of the easiest mode of getting capital, we are very hopeful that in the coming year venture capital would be increased. Stakeholders of the venture capital should work and collaborate with each other with a trust and transparent so that there would be a healthy atmosphere for investment.

BIBLIOGRAPHY

Books:

- Sahai. Pankaj (2009). Smooth Ride to Venture Capital. Vision Books.
- Romans. Andrew (2013). The Entrepreneurial Bible to Venture Capital. McGraw-Hill.
- Panwar. Vandana (2009). Venture Capital Funding. New Century Publications.

Websites:

- Venture Capital. In Wikipedia, Free Encyclopedia. Retrieved September 28, 2013 from-:
- http://en. wikipedia.org/wiki/Venture_capital
- Top VC firms in India. In Siliconindia Startup. Retrieved September 28, 2013 from-:
- http://www.siliconindia.com/shownews/Top_VC_Firms_In_India_In_2011-nid-101829-cid-100.html
- Top 10 most successful startups in India. In Expressions Blog. Retrieved September 28, 2013 from-:
- http://99expressions.blogspot.in/2013/05/top-10-most-successful-start-ups-in.html
- Industry wise cumulative investment details. In SEBI archives. Retrieved September 28, 2013 from-:

Publications:

- IVCA RIPE (Reporting on Indian Private Equity & Venture Capital) / Volume 1 / 5th Edition / 2012
- India Private Equity Report 2013, Bain & Company Inc.
- Preqin Special Report: Venture Capital, May 2012.
- IOSR Journal of Business and Management. Volume 4, Issue 2 (Sep-Oct.2012).
- Dr. V. Santhi, S. Revathy (2012). “Venture Capital Practices in India”.
- Chandrasekhar K., Dossani & Singhvi L. (2009). The Securities and Exchange Board of India’s report on venture capital.

LEARNINGS

- Venture capital is very important for India because of the idea Indian entrepreneurs are capable of generating. For the growth of economy as a whole, new firms with innovative /unique ideas are very essential and venture capital helps in growth of economy as well as startup firms.
- Venture capital also generates employment for the educated and skilled workforce.
- Venture capitalists are the professional/organizations that provide seed capital for the young startup firms using their years of experience. Not only this they also bring managerial and technical expertise with them which help the startup firms to grow and nurture further.
- Venture capital fund which is provided to innovative ideas with an exceptional growth opportunity is pooled from various investors, HNIs etc. and are invested with a careful consideration based on research and surveys. Hence it is a win-win situation for both the investors and venture capital organization.
- As per the SEBI regulations, Venture capital fund can invest in sick and financially weak companies. Hence any companies can be turned around if they received investment and assistance at a right time. Therefore venture capital plays an important role to help weak and sick companies.
- Public issue for a new company after generating profits with the assistance of venture capital fund is a very difficult task. Venture capitalists/institutions will help new entrepreneurs/companies with the public issue which includes finding underwriters, brokers, printing of annual reports etc. so that companies can focus on their business.
- India has been considered the preferred destination of venture capital fund to park their money as per the research conducted by Deloitte. Also different companies such as flipkart, mindtree, justdial etc. which received funding initially shows the faith towards the indian entrepreneurs and Indian companies by investors.
- The government, tax and also legal environment of India should be made friendly so thatthere would be more capital flow and also exit route should also be simplified or hassle free when venture capitalists motive is over.