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EXAMINING THE GROWTH OF VENTURE CAPITAL ASSETS AS NOVEL AND ADAPTABLE INNOVATION

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Abstract

The growth of venture capital in India has pursued a progressive succession of occasions. Venture capital financing was received at the occurrence of the focal government and government – supported organizations. Venture capital is a type of private equity and a sort of financing that investors give to new businesses and independent companies that are accepted to have long haul growth potential. Inflation is a sustained ascent in overall price levels. Moderate inflation is associated with economic growth, while high inflation can signal an overheated economy. Therefore it is concluded that the vast majority of the investment criteria are related to management, finance and growth possibilities of company. Further, the investigation also watched five least important investment criteria for venture capital providers in the investment decision making process.

Keywords: venture capital, Equity, Funds, gross domestic product, etc.

1. INTRODUCTION

The growth of venture capital in India has pursued a progressive succession of occasions. Venture capital financing was received at the occurrence of the focal government and government – supported organizations. The requirement for venture capital financing was first featured in 1972 by the Committee on Development of little and medium entrepreneurs under the chairmanship of R.S. Bhatt (famously known as the Bhatt Committee) which caused to notice the issues of new entrepreneurs and technologists in setting up industries. Venture capital is long haul stable capital gave to beginning time, high-potential, and growth new businesses. Venture capital assets for the most part put resources into novel and adaptable innovation or plans of action in innovation industries, for example, programming building, buyer web, biotechnology and different industries. Venture capital assets as a rule require confirmation of idea preceding their speculation. Venture capital assets bring area information and skill. Venture capital association can be kept into following three classifications:

- Independents
- Captives

1.1 What is Venture Capital?

Venture capital is a type of private equity and a sort of financing that investors give to new businesses and independent companies that are accepted to have long haul growth potential. Venture capital by and large originates from wealthy investors, investment banks and some other financial institutions. Be that as it may, it doesn't generally take a fiscal structure; it can likewise be given in the type of specialized or administrative mastery. Venture capital is normally designated to little organizations

with excellent growth potential, or to organizations that have developed rapidly and seem ready to continue to expand.

1.2 What is inflation?

Inflation is a sustained ascent in overall price levels. Moderate inflation is associated with economic growth, while high inflation can signal an overheated economy.

As an economy develops, businesses and consumers spend more money on merchandise and enterprises. In the growth stage of an economic cycle, demand typically outstrips the supply of products, and makers can raise their prices. Accordingly, the rate of inflation increases. In the event that economic growth accelerates rapidly, demand becomes considerably faster and makers raise prices continually. An upward price spiral, sometimes called "runaway inflation" or "hyperinflation," can result.

2. OBJECTIVES

- To explore investment criteria utilized by sample venture capital providers.
- To study the hierarchy of investment criteria and variables utilized by sample venture capital providers.

3. GROWTH OF VENTURE CAPITAL IN INDIA

The development of venture capital industry had been in many phases and this development was extremely moderate and belabored because this industry had seen many asset constraints because of the moderate financial development in India. There was always a fear that venture capital firms and ventures may be defaulter, so bank were interested to fund just those ventures where collateral-based funding was required. These circumstances had created issues for new ventures and entrepreneurs because banks were not interested to finance new ventures which were technology and administration based. In the early days it was brimming with fear that these ventures may default and banks may lose their money. This situation had created an issue for the fund raising activity for new undertakings.

- **Phase 1 Early development:**

1. In 1972, a council was established that emphasized for venture capital as a wellspring of funding new entrepreneurs.
2. In 1975, Industrial financial corporation of India (IFCI) had established risk capital and its sole aim was to finance new advances.
3. Industrial development bank of India (IDBI) had set-up seed capital financing and equity capital financing plan in 1976.
4. In 1985, Industrial Credit and Investment Corporation of India (ICICI) had started program for advancement of commercial technology (PACT).

- **Setting-up of an ICICI and Regional Funds:**

- Before 1986, there was no organized venture capital industry in India. So none of the practical reason could be unraveled because of this constraint. However, move of 1986-87 included this point and after that this idea got force in India. A corpus was created by levying a 5 percent cess on all technology which was imported to India.

- World Bank had done an examination for developing venture capital for private segment and based on this investigation administration of India started working on this course and built up an approach framework and guidelines for venture capital fund in 1988. It gave an unexpected force for venture capital industry in India.

➢ **Phase 2 Entry of foreign venture capital funds:**

a. First time in September 1995, Government of India had given guidelines for foreign investment in venture capital in India. These guidelines were framed to give force for overseas investment of the fund in India.

b. Central board of direct taxes (CBDT) had also framed and given guidelines for giving tax-exclusion for this segment and save bank of India had also given guidelines for foreign fund investment into Indian venture.

c. Security and exchange board of India (SEBI) had also framed SEBI venture capital fund regulation in year 1996.

4. VENTURE CAPITAL PRE-INVESTMENTDECISION MAKING PROCESS

Venture capitalists (VCs) are professionals who pool funds from high total assets investors and invest these funds into promising youthful business undertakings. Traditionally, companies that have yet to meet listing prerequisites or qualify for bank loans perceive VC as suppliers of financial support and value added administrations. In any case, throughout the years, the VCs job has gotten more challenging. They depend on new business ideas, which can withstand the aggressive condition. Because of the nature of uncertainties in the small business condition, VCs are extremely specific with their investments deals. VC specializes in financing large amounts of capital in small businesses that they find relatively attractive. Along these lines, not all-small business can attract VC investment. VCs have the ability to separate high quality firms from marginal ones. In any case, empirical findings in developing nations reveal that lack of understanding and inappropriate decisions with respect to VCs lead to adverse determination as time goes on.

Accordingly, it is interesting to take note of how VCs make decisions in a domain of high uncertainties. Do they have an organized decision making process? Can the VC decision-making process apply across various nations? A large portion of the examination from 1970's – 2000's records the influence of investment stages on venture capital decision making process. These stages include "seed capital" characterized by small investment which enables youthful business ventures to test their innovation (of item and administrations), "startup capital" characterized by investment siphoned into actual business operations, "expansion capital" supports continuation of business operations and growth and "later stage capital" invested to facilitate takeover, acquisition, divestiture or management buyout process. These investigations also reveal that investment criteria (management capabilities, uniqueness of item, market acceptance, and level of rivalry) influence the decision-making stages the

importance of investment criteria and the influence of cultural contrasts across nations on the venture capital decision-making process. Another issue examined in these investigations is the contrast between the concept of venture capital investment practiced in developing nations and the traditional concept of venture capital investment practiced in created nations. Ongoing examinations, anyway address the importance of understanding the physiological trait of venture capitalists and the oversimplification of investment criteria in the decision making process.

5. VENTURECAPITAL FINANCING STAGES

There are many stages of the investee companies which a venture capital company may decide to invest in. Management specialists have various opinions about these stages because of the distinctive monetary condition. In figure 1, all the stages of venture capital financing have been appeared:

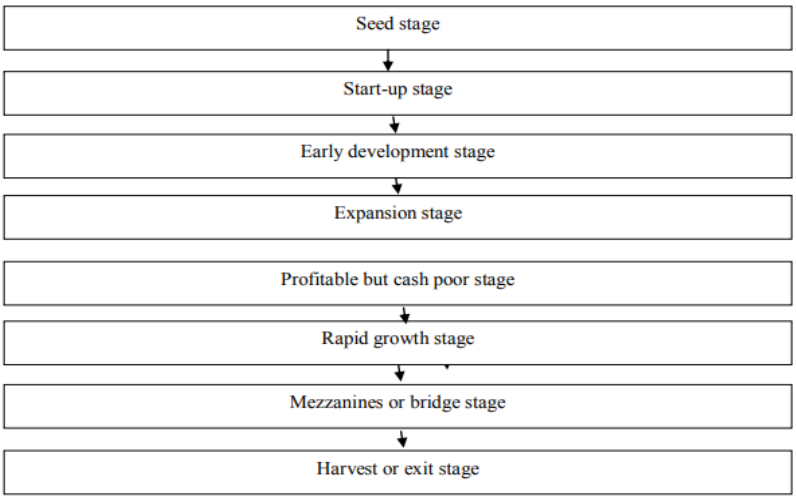

Figure 1: Venture Capital Financing Stages

i. **Seed stage:** An individual with an idea, disclosure or invention – the budding entrepreneur – will initially submit his savings to test his concept. Failing this, or when extra funding is required, he will go to his immediate family and companions with a solicitation for financial support. In any case, funding needs are probably going to rapidly surpass the entrepreneur's own and immediate entourage assets, especially if his concept demonstrates worthy of further development. This is where seed finance is required. This is the stage wherein an entrepreneur initially builds up a concept and makes a dream for the Venture.

ii. **Start-up stage:** It starts when first stage seed capital has been effective. The main activities in this stage are testing of proto sort, recruiting the management team and further developing the vision of business which had been generated in the seed stage. Actual creation doesn't start in this stage. But large amount of finance is required in this stage because of heavy work load. Financing is finished by venture capital companies and business angels.

iii. **Early development stage:** It can be said as the main stage of investment because it starts when item development and market testing have already been finished. In this stage a large amount of fund is required for investing into fixed cost assets, for example, plant and hardware because in

this stage company goes for commercial creations and for sale of the items. Generally business angels give fund in this stage.

iv. **Expansion stage:** As the company expands; its requirements for capital will also develop. Capital may be required to increase the generation capacity, to create items and markets or to give supplementary working capital. By this stage, the company will have the sales income and no doubt it will generate a profit, which, nonetheless, may be inadequate to fund its expansion. It may, therefore, return to its capital supplier for second-/third-stage finance. In this stage, a client satisfying item has already been gotten effective in the market and company sees colossal potential for generating profit in the market further. But cash inflow in this stage is extremely low and capital investment requirement is exceptionally high for expansion.

v. **Profitable but cash poor stage:** In this stage, venture sees whether there is an enormous growth and sales potential in the market through which tremendous profit can be generated. But in this stage, cash flow is extremely low and it cannot satisfy the necessities of a large capital requirement for fast expansion. In this stage there are three financers in the market: first is venture capitalist, second is a bank and third are retained earnings.

vi. **Rapid growth stage:** In this stage financing and investment activities increases many folds because a decent growth has already been achieved. In this stage default risk is low because great growth has already been achieved and profit margins are high. Funds are as yet required to maintain the degree of the growth. This funding is done uniquely by venture capitalist and banks.

vii. **Mezzanines or bridge stage:** In this stage venture capitalist has already thought to exit from the venture and exit time is very much affirmed to venture capitalist. At this stage funding is done strategically. In this stage venture capitalists and banks are the major fund providing agencies.

viii. **Harvest or exit Stage:** The exit strategy is the venture capital's way of cashing out on its investment in a portfolio company. A venture capital often would like to sell its equity (stock, warrants, alternatives, convertibles, and so on.) in a portfolio company for a time of three to seven years, ideally through an initial public offering of the company. The company gets liquid through the sale of its stock to the public and the venture capital offers its stock to reap its arrival. This is the stage when venture capitalist liquidates its investment for cash. There are three techniques to exit which are popularly known. In the main technique, venture can give initial public offer to venture capitalist. In the subsequent technique, venture can acquire whole investment from venture capitalist and can pay for whole investment and in the third strategy; venture can go for leverage buyout.

5.1 Advantages of venture capital

The major advantages of venture capital are quickly recorded underneath:

- Venture capital comes into a company as an equity fund which gives a strong financial base for future growth.
- Venture capitalist is always a partner into risk and profit as well. As far as profit it gets periodical income and capital gains.

5.2 Disadvantages of venture capital

The major disadvantages of venture capital are quickly recorded underneath:

- There is an agreement between the two parties. First is the venture capitalist and the second is venture. Venture capitalist has proprietorship rights in the company. On the off chance that the deal isn't negotiated appropriately, there are chances that venture capitalist may capture the whole company.
- Venture capitalist has the privilege to drive the firm and if deal isn't going appropriately it can pass information, which may or may not be accepted to the other partners.

6. IMPORTANT ECONOMIC FACTORS THAT AFFECT INVESTMENT IN VENTURES

The following are a portion of the important economic factors which affect investment.

1. Gross Domestic Product (GDP):

The gross national product or the gross domestic product (GDP) means the aggregate value of all the merchandise and ventures created in the economy. Therefore, the GDP mirrors the overall performance of the economy.

Personal consumption use, gross private domestic investment, government use on merchandise and ventures, net export of products and enterprises are a portion of the important factors related to gross domestic product. A healthy growth rate of the GDP mirrors the overall performance of the economy. A higher growth rate brings cheers to the financial exchange.

2. Savings and Investment:

Savings and investments represent that portion of GNP which is saved and invested. Essentially, capital formation is the function of savings and investment. Commercial banks activate the savings of individuals and make them available for productive ventures. Further, the securities exchange channelizes the savings of the investors into the corporate bodies.

In other words, savings of the individuals are distributed over various financial assets like shares, stores, debentures, mutual fund units and so on. The pattern of savings and investment of the individuals significantly alters the pattern in securities exchange. A higher degree of savings and investment accelerates the pace of growth of the securities exchange.

3. Inflation:

As we as a whole know, inflation means the ascent in prices. As Crowther puts it, accordingly, higher rates of inflation disintegrate purchasing intensity of consumers, thereby resulting in lower demand for products. Therefore, high rates of inflation affect the performance of companies adversely. Thus, an investor ought to carefully analyze the inflationary pattern in the economy and concentrate its impact on the performance of the company. At the same time, he should also foresee the inflationary pattern that is probably going to prevail for the foreseeable future.

4. Rates of interest:

The rate of interest prevailing in the economy determines the expense and availability of credit to the companies. A lower interest rate means lower cost of finance for business organizations. With the declining cost of finance, the profitability of the companies increases.

On the other hand, higher rate of interest increases cost of finance which in turn, brings about higher expense of production. Higher expense of production leads to bring down demand of products and lower profitability. In this way, it is necessary on the part of the forthcoming investor to consider the rates of interest prevailing in the economy and carefully analyze their impact on the profitability of companies.

7. CONCLUSION

Therefore it is concluded that the vast majority of the investment criteria are related to management, finance and growth possibilities of company. Further, the investigation also watched five least important investment criteria for venture capital providers in the investment decision making process. These are: 'labor market unbending nature' 'collaborations with competitors', 'geographic location', 'time taken to market the products or services' and last 'wellspring of reference of entrepreneur'. Next, the investigation discovered relative importance of various investment criteria under variables concerned with these investment criteria as well as relative importance of variables according to venture capital providers in India.

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