

## **A STUDY ON VENTURE CAPITALIST'S FUNDING IN DIFFERENT SECTOR OF KARNATAKA**

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### **ABSTRACT**

*The Venture Capital sector is the most vibrant industry in the financial markets today. Venture Capital is finance provided by professionals who invest in young, rapidly growing companies that have the potential to develop into significant economic contributors. The present study is focus on venture capitalists funding in different sector of Karnataka. Using survey data researcher found that which sectors of the economy attracting maximum venture capitalists funding in the state of Karnataka. Researcher found that total investment made by Venture Capitalists in the state of Karnataka on different sectors 3,583.43 US \$ Million. Banking, Financial Services and Insurance sector (BFSI) is the largest beneficiary of Venture Capital funding with a share of 22.1% out of its total investment in the state of Karnataka, stood at first place and IT & ITES sector, is the second largest recipient with a total share of 20.44 % out of total investment, stood at second place. Along with this researcher also test hypothesis that, Is sector based investment influence Venture Capitalists funding, hypothesis is proved by using Analysis of Variance (one way ANOVA) and Factorial Analysis where Venture Capitalists funding is dependent variable and sector is independent variable. Researcher can draw conclusion that VC provides important to sectors before funding and by using appropriate statistical tool it is found that sectors have a strong influence for VC funding.*

**Keywords:** Venture Capital Funding, Venture Capitalists etc

### **INTRODUCTION**

Venture Capital can be visualized as 'your ideas and our money' concept of developing business. Venture Capitalists are people who pool financial resources from high net worth individuals, corporate, pension funds, insurance companies, etc. to invest in high risk- high return ventures that are unable to mobilize funds from regular channels like banks and capital markets. The Venture Capital industry in India has really taken off recently. Venture Capitalists not only provide monetary resources but also help the entrepreneur with guidance in formalizing his ideas into a viable business venture. With technology and knowledge based ideas set to drive the global economy in the coming millennium, and given the inherent strength by way of its human capital, technical skills, cost competitive workforce, research and entrepreneurship, India can unleash a revolution of wealth creation and rapid economic growth in a sustainable manner, However, this to happen, there is a need for risk

finance and Venture Capital environment which can leverage innovation, promote technology and harness knowledge based ideas.

### **Venture Capitalists**

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

A core skill within VCs is the ability to identify novel technologies that have the potential to generate high commercial returns at an early stage. By definition, VCs also take a role in managing entrepreneurial companies at an early stage, thus adding skills as well as capital, thereby differentiating VC from buy-out private equity, which typically invests in companies with proven revenue, and thereby potentially realizing much higher rates of returns. Inherent in realizing abnormally high rates of returns is the risk of losing all of one's investment in a given startup company. As a consequence, most Venture Capital investments are done in a pool format, where several investors combine their investments into one large fund that invests in many different startup companies. By investing in the pool format, the investors are spreading out their risk to many different investments versus taking the chance of putting all of their money in one start up firm.

### **STATEMENT OF THE PROBLEM**

Venture Capital is an investment for the medium or long-term ventures seeking to maximize medium or long-term return for both the parties. The research gaps which strike the mind during the observation of investments of Venture Capitalists that, for which sector VCs will give more importance for their investment in the state of Karnataka besides researcher, found from review of literature was no prominence given in study for Venture Capitalist's funding in different sector of Karnataka. In this background researcher preferred the topic for the study as a problem of the study.

### **OBJECTIVES OF THE STUDY**

- To know the VC Funding in Karnataka
- To study sector wise VC funding in Karnataka
- To identify which sectors receiving highest funding by VCs in Karnataka
- To offer suggestions based on findings of the study

### **SCOPE OF THE STUDY**

The present study is confined to domestic Venture Capital firms located in Karnataka under the registration of SEBI. Out of 205 domestic Venture Capital funds which are registered under SEBI as on 31<sup>st</sup> December, 20 Venture Capital funds and 12 of their firms are located in Karnataka and all 12 Venture Capital firms are located in Bangalore alone.

The study is based on the data of these Venture Capital funds and their firms for a period of 15 years between 1998 to 2012.

## RESEARCH METHODOLOGY

Area of study: Karnataka state is chosen Locale for the study.

## DATA COLLECTION

In Karnataka total 20 Venture Capital funds and their firms are registered under SEBI regulations. Both primary and secondary data is collected from respective companies. Primary data was collected using the structured questionnaire and interview schedules. Secondary data was collected from Journals, Articles (International and National Journals), published reports, previous research studies and relevant websites.

**Descriptive Statistics of the Study:** In this study for the testing of hypothesis following statistical tools are used;

**Analysis of Variance (ANOVA):** It is statistical a technique. It is used to test the equality of three or more sample means. Based on the means, inference is drawn whether samples belongs to same population or not. There are two types of ANOVA, namely one way ANOVA and Two-way ANOVA.

**Factorial Analysis of Variance:** Research designs with more than one independent variable are much more interesting than those with only one independent variable. When there are two categorical independent variables (with non -experimental research, these are better referred to as factors, predictors, grouping variables, or classification variables), and one continuous dependent variable (with non-experimental research these are better referred to as criterion variables, outcome variables, or response variables), with all combinations of levels of the first independent variable with levels of the second independent variable (or factor) consider the following design.

## DATA ANALYSIS

**Table 1.** Table showing Sector - wise Investment of Venture Capital in Karnataka

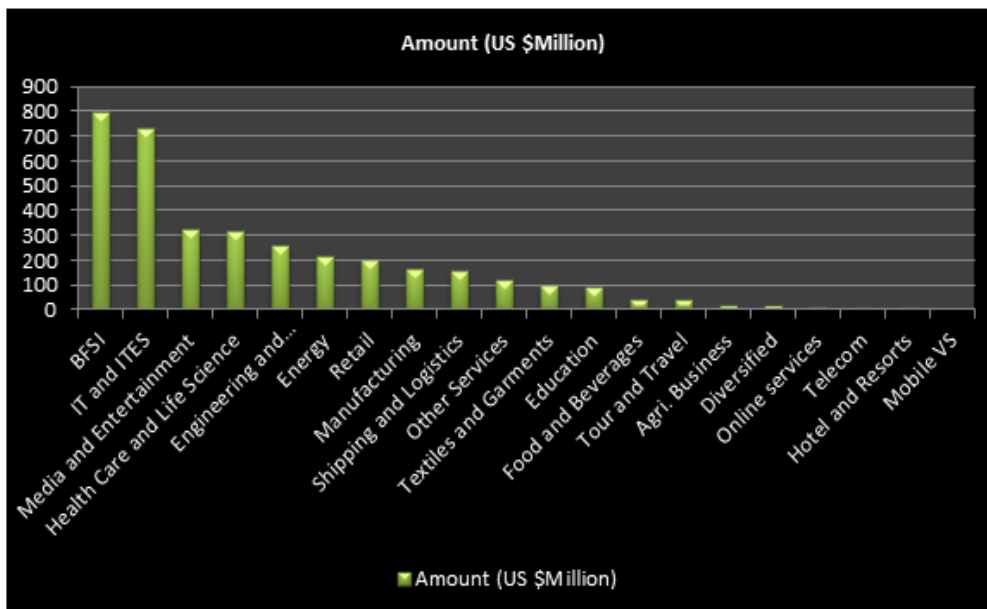
Sectors	Amount (US \$Million)	Percentage
BFSI	791.62	22.10
IT and ITES	732.48	20.44
Media and Entertainment	323.05	9.02
Health Care and Life Science	312.59	8.72
Engineering and Construction	257.45	7.18
Energy	215.97	6.03
Retail	198.85	5.55
Manufacturing	161.12	4.49
Shipping and Logistics	154.77	4.32
Other Services	118.37	3.30
Textiles and Garments	95.86	2.68

**Table 1.** Table showing Sector - wise Investment of Venture Capital in Karnataka  
(Contd....)

Sectors	Amount (US \$Million)	Percentage
Education	89.52	2.49
Food and Beverages	42.11	1.18
Tour and Travel	40.00	1.12
Agri. Business	16.00	0.45
Diversified	14.62	0.41
Online services	9.67	0.27
Telecom	5.60	0.16
Hotel and Resorts	3.78	0.11
Mobile VS	NA	NA
Total	3583.43	100

**Source:** Survey data

**Analysis:** The above table shows the Sector - wise investment of Venture Capital in Karnataka. Banking, Financial Services and Insurance sector is the largest beneficiary of Venture Capital with a share of 22.1%. IT and ITES sector, is the second largest recipient with a total share of 20.44 %. Media and Entertainment stood at third place with an investment of US \$ 323.05 million, making it 9.02 %. Health care and Life Sciences attracted 8.72% of the total share.

**Graph 1.** Graph showing Sector - wise Investments of Venture Capital (Amount in US \$ Million)

**Inference:** The above graph states that BFSI sector (Banking, Financial Services and Insurance), attracted the maximum share of Venture Capital during 1998 to 2012 followed by IT and ITES sector. Media and entertainment, Health Care and Life Sciences were the most preferred sectors after BFSI and IT and ITES.

### TESTING OF HYPOTHESIS

H<sub>0</sub>: Sectors based investment do not influence Venture Capitalists investment

H<sub>1</sub>: Sectors based investment influence Venture Capitalists investment

To test the null hypothesis, Anova and Factorial analysis is used, where Venture Capitalists investments are dependent variable and sector is independent variable. And also here factorial analysis is used to evaluate the criteria for various sectors of economy.

**Analysis:** VC provides importance to Sectors which is clearly suggested in table 2 and the combined effect Note: indicates 76.1% a strong influence for investment. It can be evident in last column of table No. 2, i.e. 0.761 and Show Sig = .000 which is smaller than 5 percent.

Therefore the null hypothesis is rejected and the alternative hypothesis is accepted.

**Table 2.** Tests of Between-Subjects Effects of VC firms and Sector

ANOVA : Dependent Variable: AMOUNT						
Source	Type III Sum of Squares	Df	Mean Square	F	Sig.	Partial Eta Squared
Model	388064.223 <sup>a</sup>	69	5624.119	10.124	.000	.835
INVESTORS	106951.870	10	10695.187	19.252	.000	.582
SECTORS	53800.017	18	2988.890	5.380	.000	.412
INVESTORS* SECTORS	243984.360	40	6099.609	10.979	.000	.761
Error	76665.955	138	555.550			
Total	464730.178	207				

**Note:** a. R Squared = .835 (Adjusted R Squared = .753)

### CONCLUSION

India's services sector has emerged as a prominent sector in terms of its contribution to national and state incomes, trade flows, FDI inflows and employment. For more than a decade the sector has been pulling up the growth of Indian economy with great stability. The share of services in India's GDP at factor cost (at current prices) increased from 33.3% (1950-1951) to 56.5% in 2012-13, as per advance estimates. Including construction, this would increase to 64.8%. With 18%, trade, hotels and restaurants are the largest contributors to GDP among the various sub sectors. This is followed by financing, insurance, real estate and business services with 16.6% share. Community, social, and personal services with 14%

share stand in the third place. This is followed by construction at fourth place with 8.2% share.

The services sector is a vital cog in the wheel of the Indian economy. The Indian service industry has emerged as one of the largest and fastest-growing sectors on the global landscape and hence has made substantial contribution towards global output and employment. Growing at faster pace as compared to agriculture and manufacturing sectors, Indian service segment comprises of wide range of activities, such as trading, transportation and communication, financial, real estate and business services, as well as community, social and personal service.

As it mentioned above it can inferred that service sector is dominating the market, from the present study it found that service sector attracting highest fund of venture capital from venture capitalists not only in India even in the state of Karnataka.

Hence, it can be concluded that Venture Capital firms are giving more prominence to service sectors like BFSI, IT and ITES, Media and entertainment, Health Care and Life Sciences which are knowledge intensive in nature and promotion of this sectors leads as a boon for Indian economy. At last Venture Capitalists should also focus on other sectors of the economy, at this juncture only it is possible to achieve balanced regional development in all the sectors of the economy.

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