ABSTRACT
This paper highlights how the venture capitalists are playing an important role in the development of Indian innovative entrepreneurs. In India, where there are most of the traditional methods of raising finance for which mortgaging asset is a compulsion and that is the obstacle for new entrepreneurs too because they only have their creative idea which would give high returns in future but they don’t have much property to mortgage. Venture capitalists provide finance to those entrepreneurs who could not get easy funds for their ambitious idea which has higher growth prospect too.

Keywords: venture capital, start up, entrepreneur

INTRODUCTION
Venture capitalists provide finance to those entrepreneurs who have high growth potential. They invest in the form of equity, quasi equity and sometimes debt straight or conditional, in already existing or in new venture, promoted by technically or professionally qualified entrepreneurs. Venture capital financing helps the new entrepreneurs in converting their innovative ideas into reality and even they invest in the expansion of existing enterprise. As in India the traditional mode of getting finance is not an easy task because of several compulsory conditions like minimum paid up capital requirements, which is generally not possible for smaller and new firms with viable projects to raise fund from general public and the condition of collateral security for raising funds from financial institution but the potential entrepreneurs generally don’t have that much asset which they could give as a mortgage.

Here the problem of getting easy finance for the conversion of a high growth potential idea into reality is provided by the venture capitalists, they invest in the projects which are new or existing what they need is the scope of higher return.

What Is Venture Capital?
Venture capital is unsecured financing. It is an opportunity to earn higher gains in medium term by bearing a relatively high risk. Venture capital is not just provides funds to the new firm but it also provides an input of skills needed to set up a new firm, design its marketing strategy, organize and manage it.

Venture capital is not a passive finance. It may be at any stage of production cycle, that is, start up, expansion or to improve a product or process, which are associated with both risk and reward. The Venture capital makes higher capital gains through appreciation in the new technology succeeds. Thus the primary return sought by the investor is essentially capital gain rather than steady interest income or dividend yield.

Venture capital commonly describes not only the provision of start-up finance or seed corn capital but also development capital for later stages of business. A long term commitment of funds is involved in
the form of equity investments, with the aim of eventual capital gains rather than income and active involvement in the management of customer’s business.

STAGES CAPITAL/TYPES OF VENTURE FINANCING

Early Stage Financing
1. Seed Capital primarily for the product development and market research.
2. Start-up Capital company has complete business plan, initial marketing begins.
3. Early/First Stage Capital funds for full manufacturing and sales.
4. Second Stage Capital is capital provided for marketing and meeting the growing capital needs of an enterprise that have commenced the production but does not have positive cash flow.

Later Stage Financing funds
1. Expansion/Development Stage Capital is required for larger factories, warehouses, production capacities, developing new or improved product and developing new market by the firm that has already achieved break even and has started making profits.
2. Replacement Finance is related to substituting one share holder for another, rather than raising new capital resulting in the change of ownership pattern.
3. Management Buy-out and Buy- in Financing is a recent development and a new form of investment. The funds provided to the current operating management to acquire or purchase significant shareholding in the business they manage are called management buyout and management buy-in refers to the funds provided to enable a managers from outside the company to buy into it.
4. Turnaround Finance is required when an enterprise becomes sick, it needs finance as well as management assistance for a major restructuring to revitalize growth of profits.
5. Mezzanine/Bridge Finance is the pre public offering or pre-merger /acquisition finance to a company. It is the last round of financing before the planned exit.

PROCESS OF VENTURE CAPITAL FINANCING
1. Deal Origination is the first process where the venture capitalist creates a pool of different investment opportunities.
2. Screening is done of all projects on the basis of some broad criteria.
3. Deal Structuring is the process where the venture capitalist and the venture company negotiates the terms of the deals, that is, the amount, form and price of investment.
4. Post Investment Activity is done when the deal has been structured and agreement is finalised, the venture capitalist generally assumes the role of a partner and collaborator and now he can take some important decisions related to management and he could intervene too.
5. Exit can be done in following four ways by a venture capitalist
   1. Initial Public Offer(IPO)
   2. Acquisition by Another Company
   3. Re –purchase of venture capitalist’s share by the investee company
   4. Purchase of venture capitalist’s share by a third party

FINANCING METHODS OF VENTURE CAPITAL
Venture capital is typically available in three forms in India, they are:
1. **Equity**: All VCFs in India provide equity but generally their contribution does not exceed 49 percent of the total equity capital. Thus, the effective control and majority ownership of the firm remains with the entrepreneur. They buy shares of an enterprise with an intention to ultimately sell them off to make capital gains.

2. **Conditional Loan**: It is repayable in the form of a royalty after the venture is able to generate sales. No interest is paid on such loans. In India, VCFs charge royalty ranging between 2 to 15 percent; actual rate depends on other factors of the venture such as gestation period, cost-flow patterns, riskiness and other factors of the enterprise.

3. **Income Note**: It is a hybrid security which combines the features of both conventional loan and conditional loan. The entrepreneur has to pay both interest and royalty on sales, but at substantially low rates.

4. **Other Financing Methods**: A few venture capitalists, particularly in the private sector, have started introducing innovative financial securities like participating debentures, introduced by TCFC is an example.

**WHAT DOES VENTURE CAPITAL FIRM LOOK FOR**

1. Strong management with relevant experience, drive, self-confidence and expertise
2. A growing market for the product where product can obtain a strong market position
3. A unique product should be there so the investors can take risk on its this quality.
4. Sound business plan is what most venture capitalists expect to see, it should be well thought out and coherent.
5. High return potential should be there in your product or idea can make ba venture capitalists to take risk on your project.

**OBJECTIVE OF THE STUDY**

1. To know the current scenario of venture capital finance in India
2. To study the role and importance of venture capital finance in India
3. To analyse the growth of venture capital finance in India
4. To find out the challenges/issues faced by venture capital firms in India

**REVIEW OF LITERATURE**

In India, the venture capital investment is seen after liberalisation. There was a continuous increase till 2001 and there by drastically reduced. Surprisingly, there was a negative growth of 4 percent in 2001-02 it was continued till and a 54 percent drastic reduction was recorded in the year 2002-2003. Since 2005, there venture capital financing has been at an increasing rate in India. Success stories of venture capitalists backed by companies leading to substantial financial gains made by venture capitalists evoked interest in academic research in this area.

Amit et al., 1990) Commercial banks and other lending institutions required an established track record and collateral before considering any application for funds. This attitude of financial institutions has always left a funding gap for potentially viable ventures which with either insignificant collateral to offer or little history of success. Therefore ‘risk sharing and lack of funds drive entrepreneurs to seek venture financing’.

Thompson et al (1997) found that venture capitalists are becoming proactive in identifying management buy-outs, investors led buy-out and divestment candidate, resulting from corporate focusing programmes.

RESEARCH METHODOLOGY
This is a descriptive research paper based on secondary data like websites, research papers, journals and magazines.

NEED OF THE STUDY
The need of study has following facts

1. The study has been conducted for gaining practical knowledge about venture capital finance in India.

2. There is limited academic literature available regarding venture capital finance in India.

HISTORY OF VENTURE CAPITAL

Venture capital started in 1920 the wealthy families of individual investors provided the start-up money for companies that were having high profitability. Eastern Airins and Xerox are called VENROCK in 1950, to finance new technology famous ventures financed. One of the earlier venture capital funds set up was he Rockfler Family, which started a special fund called VENROCK in 1950. to finance new technology companies. General Doriot, a professor at Harvard Business School, in 1946 set up the American Research and Development (ARD), the first firm, as opposed to private individuals, at MIT to finance the commercial promotion of advanced technology developed in the US Universities. ARD’s approach was a classic venture capital in the sense that it used only equity, invested for long term, and was prepared to live with losers. Investment in Digital Equipment Corporation (DEC) in 1957 by ARD was watershed in the history of venture capital financing. While in its early years venture capital may have been associated with high technology, over the years the concept has undergone a change and as it stands today implied pooled investment in unlisted companies.

VENTURE CAPITAL IN INDIA

In India the need venture capital was recognised in the 7th five year plan and long term fiscal policy of government of India. In 1973 a committee on development of small and medium enterprise highlighted the need to faster venture capital as a source of funding new entrepreneurs and technology.

The first private venture capital fund was sponsored by Credit Capital Finance Corporation (CFC) promoted by Bank of India, Asian Development Bank and the Commonwealth Development Corporation viz. Credit Capital Venture Fund. At the same time Gujarat Venture Finance Limited and APIDC Venture Capital Limited were started by the state level financial institutions. Sources of these funds were the financial institutions, foreign institutional investors or pension funds and high net worth individuals.

In India the venture capitalists generally invest in IT and IT-enabled services, Software Products (Mainly Enterprise-focused), Wireless/Telecom/Semiconductor, Banking, PSU Disinvestments, Media/Entertainment, Bio Technology/Bio Informatics, Pharmaceuticals, Electronic, Manufacturing, Retail and now in agriculture also.

RECENT TREND IN VENTURE CAPITAL IN INDIA

In the early stages, venture capital investments were mainly in the manufacturing sector. However, with changing trends and increased liberalisation, companies in consumer services and consumer retail space emerged as top contenders for VC funding, attracting almost 50% of total VC investments. Other key industries included IT and IT-related services, software development, telecommunications, electronics, biotechnology and pharmaceuticals, banking and finance/insurance, public sector disinvestment, media and entertainment, and education.
A completely new field that is attracting venture capital is agriculture. This has been fuelled by the realisation that food security is a vital, long-term necessity. Studies suggest that in future, for every Rs. 100 increase in GDP, Rs. 41 will be spent on food.

At the recently held Global Ag Investing Conference, data released indicated that agro businesses would provide better returns of about 11%, compared to 3-5% yield from bonds and equities.

Agriculture could well become the new Mecca for venture capital investments. Leading VC firms such as Venture Dairy, Anterra Capital (a spin-off of Rabobank’s proprietary venture capital investment team), SAEF (Small Enterprise Assistance Funds) and Rabo Equity Advisors’ India Agribusiness Fund have already entered this market.

**PROVIDERS OF VENTURE CAPITAL IN INDIA**

Development financial institutions controlled by Central Government such as

1. Technology (TDICI) by ICICI,
2. Risk Capital and Technology Finance Corporation Limited (RCTFC) by IDBI and
3. Risk Capital Fund by IDBI

Development Financial Institution controlled by State Government such as

1. Andhra Pradesh Venture Capital Limited (APVCL) by Andhra Pradesh State Finance Corporation (APSFC)
2. Gujarat Venture Finance Company Limited (GVCFL) by Gujrat Industrial Investment Corporation (GIIC)

Public Sector Banks

1. Canfina by Canara Bank and b) SBI-Cap by State Bank of India
2. Foreign Banks or Private Sector Banks and Financial Institutions
3. Indus Venture Fund, b) Credit Capital Venture Fund, c) Grindlay’s India Development Fund

**PROBLEMS OF VENTURE CAPITAL FINANCING IN INDIA**

Following factors are critical for the success of the Venture capital industry in India

a. The regulatory, tax and legal environment should play an enabling role. Internationally, venture funds have evolved in an atmosphere of structural flexibility, fiscal neutrality and operational adaptability.

b. Resource raising, investment, management and exit should be as simple and flexible as needed and driven by global trends

c. Venture capital should become an institutionalized industry that protects investors and investee firms, operating in an environment suitable for raising the large amounts of risk capital needed and for spurring

b. Innovation through start-up firms in a wide range of high growth areas.

a. In view of increasing global integration and mobility of capital it is important that Indian venture capital funds as well as venture finance enterprises are able to have global exposure and investment opportunities.

b. Infrastructure in the form of incubators and R&D need to be promoted using Government support and private management as has successfully been done by countries such as the US, Israel and Taiwan. This is necessary for faster conversion of R & D and technological
innovation into commercial products. The hassle free entry of such Foreign Venture Capitalists in the pattern of FIIs is even more necessary because of the following factors:

i. Venture capital is a high risk area. In out of 10 projects, 8 either fails or yield negligible returns. It is therefore in the interest of the country that FVCIs bear such a risk.

ii. For venture capital activity, high capitalization of venture capital companies is essential to withstand the losses in 80% of the projects. In India, we do not have such strong companies.

iii. The FVCIs are also more experienced in providing the needed managerial expertise and other supports.

CONCLUSION

India is an attractive market with a challenging business environment. Its appeal lies in its competitive labor cost, lucrative domestic market, skilled service workforce, business and management education and telecommunications infrastructure but the weakness are also there for example under developed infrastructure, corporate taxation legislative and administrative environment.

Indian venture capital is yet to be established as a sustainable asset class among institutional investors. Moreover a limited amount of risk capital impacts entrepreneurial activity. Exit challenges exist mainly due to shallow capital markets and dull merger and acquisition environment for small companies. Most importantly, India is yet to create a brand name for IP-led companies like Israel has successfully done.

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