**Role of Venture Capital in Indian startups**

A very important step or decision for a startup is funding its functioning. A startup is a bundle of enthusiasm and unique ideas. But the worst part is- ideas do not fetch money. A final product or service is what is required to survive. Converting an idea into something valuable requires huge amount of money, which most startups do not possess. This is where the venture capitalists or venture capital funding play their roles.

Venture capital Funds are basically investment funds.  These funds solicit private equity stakes in high growth potential startups and hence invests money into their startups.  Such investments are highly risky and can’t be converted easily into money. However, they are supported by well- calculated prospects of high return and growth in future. Hence, setting up a Venture Capital Fund has its own benefits.

Many a times, we have come across some questions where an individual or a group of individuals have shown their interest in investing their funds in the startup sector, without involving in the field directly. Setting up VCF is the appropriate solution for such kind of investors. You can invest your funds in any startup and in any sector. There is no restriction on it. You can also exercise a substantial degree of control as well. These investments are mostly rewarding in the long-run.

**How to set up a Venture Capital Fund (VCF)?**

What do we do before applying for a job? We inquire about the position and verify that we are eligible for it or not. Similarly, for setting up a VCF, you first need to verify that you are eligible or not.  Securities and Exchange Board of India (SEBI) is the sole and supreme authority for granting the license to operate as a VCF. Following are the main eligibility criteria for setting up a VCF under SEBI (Venture Capital Funds) Regulations, 1996:

### ****For Company****

* association should have carrying a short note on of its activity as a venture capital fund;
* it is restricted by its memorandum and articles of association from making an invitation to the public to endorse its securities;
* its director or principal officer or employee is not involved in any prosecution connected with the securities market which may have an bad impact on the business of the applicant;
* its director, principal officer or employee has not at any time been indulged in any offence involving moral turpitude or any economic offence;
* it is a fit and proper person.

### ****For Body Corporate****

* it is set up or registered under the laws of the Central or State Legislature
* the applicant should be eligible to carry on the activities of a venture capital fund.
* the directors or the trustees, as the case may be, of such body corporate have not indulged in any offence involving moral turpitude or of any economic offence.
* the directors or the trustees, as the case may be, of such body corporate, if any, is not involved in any prosecution connected with the securities market which may have an bad impact on the business of the applicant.

An applicant has to apply through Form A under First Schedule of SEBI (Venture Capital Funds) Regulations 1996 along with requisite fees. All documents should be enclosed as specified in the form.

Over a period, the country was losing out to the western world where most of the successful start – ups were being set up and run by Indians. To counter this and also to instil some confidence within the businesses in India that it was serious about assisting start – ups, the government began changing policies slowly and steadily towards venture capital financing by allowing private venture capital.

Venture Capital bridges the gap where traditional sources of funds actively cannot participate in funding new ventures. Venture Capital brought in smart advice, hand-on management support and other skills that helped the entrepreneurial vision to be converted to marketable products. It was these inputs that made Indian open its doors to private venture capital but under regulated norms so as to protect the business environment and India entrepreneurs.

Over the last decade Venture Capital financing has grown phenomenally to the extent that as per a report of Perqin, by August 2015, over 500 deals had been funded in the financial year 2015-16 with an investment of over USD 6bn. It was this phenomenal investment that made the Government of India also announce its own INR 10,000 Cr start up fund in 2016.

There are certain advantages that Venture Capital has along with funding. These advantages make venture capital take the risk of investing time and money behind new ideas. Venture Capital investors

1. are never dormant or sleeping but active;
2. allowed the entrepreneurs to run their business, but they kept a crucial watch and guided them as and when they felt necessary;
3. helped the businesses grow, be it in the form of acquiring new technology, markets, diversifying, backward/forward integration by using their resources which otherwise would not have been possible for the start up
4. are ready to invest in risk prone businesses which disrupted certain markets but then brought about growth and competition which helped the common mass in benefitting.
5. Build a base for quality IPOs in the future which would help the money market to grow.
6. Assist the companies in raising further funds and also financially aiding them at times of stress.

Venture Capital is thus no more only a financing agency but also a tool and a mentoring platform for the startup to grow and seek guidance from. Venture capital’s importance rises from the fact that it is patient and risk capital without which nascent ideas would not be nurtured.