VENTURE CAPITAL FUNDS IN INDIA

A PROJECT REPORT

Submitted by

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DECLARATION

We hereby declare that the project report entitled "**Venture Capital Funds in India**" submitted by us to PEC University of Technology, Chandigarh for the fulfillment of the requirement for the award of the degree of B.E in COMPUTER SCIENCE AND ENGINNERING is a record of bonafide project work carried out by us under the guidance of **Prof. Parul Grover**. We further declare that the work reported in this project is completely genuine and authentic and has not been copied from any other source. Although, we do have referred our work from certain sources, all of which are duly mentioned at the end of the project.

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Executive Summary

India has been witnessing dramatic shift in the size and composition of foreign investment inflows over the couple of years. Institutional investors in developed countries, for their portfolio diversification, are continuously seeking new destinations and innovative and alternative asset class. The Venture Capital is one of the alternatives to raise money from an investment.

The project deals with understanding the role of venture capital in India, analyzing their investment strategies, their success in the Indian financial market, future of Venture Capital in India, regulatory norms in India and how it is beneficial of Indian companies.Venture capital is a broad subcategory of private equity that refers to equity investments made, typically in less mature companies, for the launch, early development, or expansion of a business. Investments are made in a company through a negotiated process which typically involve a transformational, value-added, active management strategy. The investment pattern follows various stages, which are: seed, start-up, expansion and replacement stages. It also follows a definite process, which is Deal Origination (Deal Sourcing), Due Diligence, Deal Negotiation, Deal Closing (Acquisition), Post Acquisition Monitoring and Exit (IPO, Trade Sale or Buy back).

This study of Venture Capital Funds in India touches various horizons- both qualitative and quantitative with respect to venture capital investments from the point of view of an investor as well as an investee. The objectives are spaced across both these entities in an almost equal proportion for a venture capital investment is not a zero sum game but a win-win situation. The data required for the study has been compiled from various dispersed sources over the web. The findings are based on clear evidences derived using several models such as multiple regression, statistical analysis, frequency distribution and growth curves.

Most of the times, entrepreneurs fail in raising investment as they are not having the technical know-how of how to approach a potential VC for his funding needs. Even venture capitalists are not aware of evaluation parameters to decide on which business plan to venture and end up in investing non profitable business. The study helps to bridge this gap by analyzing the domain of conditions checked by the VC firms before heading towards funding the venture and proposing an appropriate way of reaching a VC highlighting top four factors taken into consideration by every VC.

The project has an analysis of the summary of financial statements of early stage start-ups and a description of the reasons in the change in their capital structure, revenue and capital requirement over time. The project in this interest uses a parent VC Info Edge India Pvt. Ltd. and its investees Zomato India and Meritnation to understand the same change in behaviour and factors affecting it such as economy, change in market structure, internal and external policies and growth in human resources. Also, the project proposes a self-documented and self-cooked example of an Investment teaser to be made before seeking investment from a venture capitalist.

Results of data analyzed show that the VCs prefer well documented plan and seek to have more interest in new, promising and innovative projects. More funds are available in start-up stage than in expansion and turnaround stage. Information technology and Real Estate are sectors with high growth in VC investments whereas Pharmaceuticals and Biotechnology are sectors with declining VC investments.

The report suggests the need to consolidate and substitute the multiple regulatory frameworks with one single regulation of SEBI to provide for uniformity, hassle free single window clearance.

The report also investigates the fact that the analysis conducted has limitations. Some of the limitations include:

- All the data presented for the venture capital financing are limited to few firms and for the last 5 years. The information may be over simplifications of facts over generalization from insufficient data.
- Financial analysis of fund seeking ventures does not measure the qualitative aspects of the business. It does not show the skills, technical know-how and the efficiency of its employees and manager.

With India becoming a preferred investment destination, this heightened level of venture capital investment is likely to continue for more time to come.

Chapter 1: Introduction

Business requires capital, and getting it at the right time is very important. There are several alternatives to fund the business. A brief heading to name a few would be:

- Owner or proprietor's capital
- Equity partner
- Debt Finance

These can further be branched to many options giving entrepreneur several options to choose among. In this study the focus would be more on venture capital which comes under equity partner as well as under debt financing.

Venture capital is a broad subcategory of private equity that refers to equity investments made, typically in less mature companies, for the launch, early development, or expansion of a business. Venture investment is most often found in the application of new technology, new marketing concepts and new products that have yet to be proven. Venture capital is a risk financing in the form of equity or quasi-equity. It gives the business funds based on their potential and their interest as perceived by the investor. Funds might be required for seed stage funding, expansion/development funding or for acquisition financing. Venture Capital firms invest funds on any business with a professional outlook, they focus on their primary segment which vary among different specializations (e.g. e-commerce, Oil & Gas, Healthcare, Manufacturing, Health/life sciences, etc.)

Venture capital is often sub-divided by the stage of development of the company ranging from early stage capital used for the launch of start-up companies to late stage and growth capital that is often used to fund expansion of existing business that are generating revenue but may not yet be profitable or generating cash flow to fund future growth.

Venture capital in India today has three forms

- Equity
- Conditional loans
- Income Notes

The number of venture capital firms are raising in India due to the well-developed avenues for buying and selling of shares within SME's, huge tax benefits for the venture capitalist and support from government policies. Venture capital plays a strategic role to build potential business/enterprises to reach a level where they can reap their capital gains and can cash out these gains by leading directing their financed venture to any of the following exit routes:

- Initial public offerings (IPO)
- Acquisition by other company
- Purchase of venture capitalist's share by other investors or promoters

This is done when the Venture capitalist realizes the required return on his primary capital invested on the business to take the exit route. Venture capital financing helps both the entrepreneurs as well as the venture capitalist to realize their goals. With venture capital financing, the venture capitalist acquires an agreed proportion of the equity of the company in return for the funding that he offers.

This could be summarized as follows:

- Equity participation
- Long term investment
- Participation in management

The rate of return on this capital lies within the success of the business venture. Venture capital Equity finance thereby offers the advantage of having no interest charges. It is "patient" capital that seeks a return through long-term capital gain rather than immediate and regular interest payments, as in the case of debt financing. Given the nature of equity financing, venture capital investors are therefore exposed to the risk of the company failing. As a result the venture capitalist must look to invest in companies which have the ability to grow very successfully and provide higher than average returns to compensate for the risk.

Venture capitalist's management approach differ to that of a lender or a bank. The bank does not participate with the management and keeps its ties away from the venture's management, operations and other decision making. When venture capitalists invest in a business they typically direct and guide the venture so as to lead it towards capital gains. They are a crucial part of the company's decision making and occupy a place in board of directors. These professional venture capitalists act as mentors and aim to provide support and advice on a range of management, sales and technical issues to assist the company to develop its full potential.

1.1 Stages of Venture Capital Financing

Venture Capital investments can be classified into:

1. **Seed stage** Financing provided to research, assess and develop an initial concept before a business has reached the start-up phase
2. **Start-up stage** financing for product development and initial marketing.
3. **Expansion stage** financing for growth and expansion of a company which is breaking even or trading profitably.
4. **Replacement capital** Purchase of shares from another investor or to reduce gearing via the refinancing of debt.

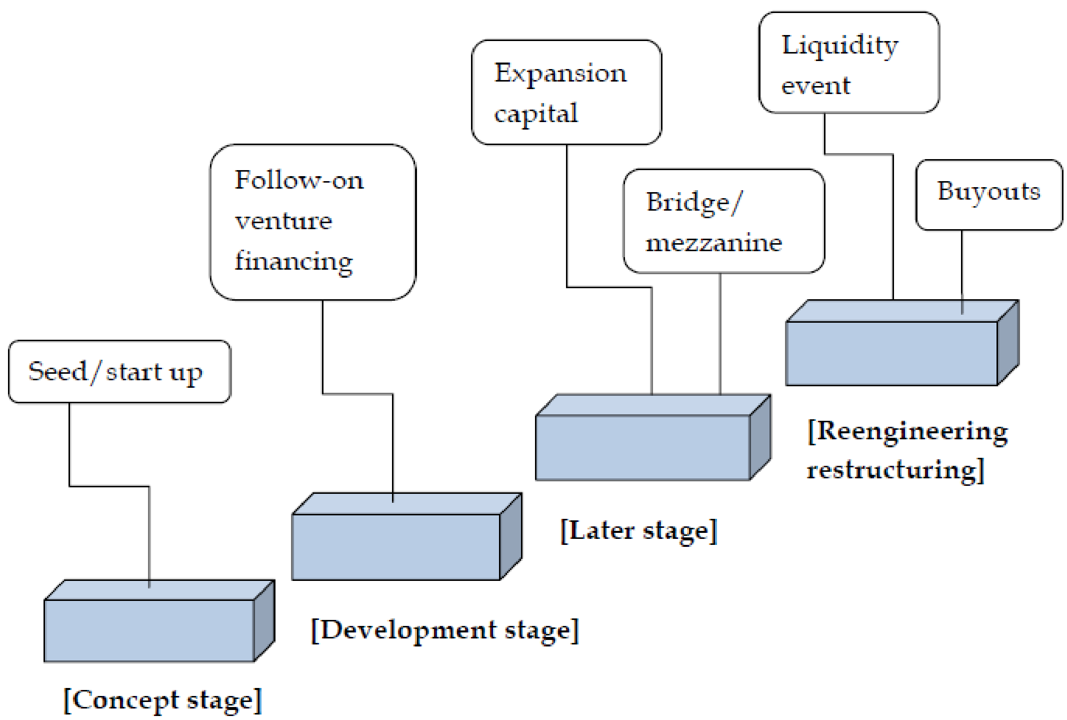

Figure 1. Stages of Venture Capital Finance.

Source: Retrieved from http://www.1000ventures.com/venture_financing/venture_funding_stages.html

Table 1
Fund Utilization in Different Stages of Venture Capital Financing

Stages of Financing	Time(Years)	Uses for the Finance
Seed money stage	7 – 10	Financing needed to prove an idea and bring a concept or develop it (could be a service or a product)
Start-up financing	5 – 10	Financing needed to develop the start up with better market penetration through promotions, marketing and other product development technique
Second round financing	3 – 7	Funds for taking care of working capital for a firm that is still losing money though have its products or services out in market.
Third round financing	1 – 3	Financing for a firm that is breaking even and has a strong venture thereby is contemplating an expansion project
Fourth round financing	1 – 3	Financing firms that are planning to go public (bridge financing)
Buy-out	1 – 3	Financing a firm for its acquisition activity of a product line or service business
Turnaround	3 – 5	Re-establishing a business

Source: Compiled from https://www.coxblue.com/vc-funding-stages-explained/

1.2 Process of Venture Capital Investment

The Venture Capital Investment Process is comprised of 6 Steps:

1. Deal Origination (Deal Sourcing)
2. Due Diligence
3. Deal Negotiation
4. Deal Closing (Acquisition)
5. Post-Acquisition Monitoring
6. Exit (IPO, Trade Sale or Buy back)

1. **Deal Origination** is how Deal Makers get their deals, a potential deal can either come through a company owner approaching them or from an intermediary who will try to bring both parties (Company and Deal Maker) to make the deal. In some cases, they may just approach companies who are expanding fast and wish to grow further. In a year, Deal Makers come across hundreds of potential deals but only a few are selected.

2. **Due Diligence** is what you could call ‘doing your homework’. Before starting detailed negotiations, investor try to make sure everything is fair and secure. Although Auditors and Consultants are appointed to conduct the Financial, Tax, Legal and Technical Due Diligence - they also work side by side to understand the target company and its industry better. All the information collected at this time, is then used during negotiation.

3. At the **Deal Negotiation** phase, investor set out the terms and conditions (covenants, representations and warranties) and other deal terms that defines (or makes the deal). Contracts such as Investment Agreement, Share Purchase Agreement, Management Agreement, Advisory Agreement etc. are drafted to include all items that put the deal together.

4. **Deal Closing** is probably the easiest part but also contains an element of risk. It’s the conclusion of the deal, the signing of all Agreements and transferring funds from the buyer to seller, conducting other administrative functions (usually done by a separate entity) like updating any articles of association etc.

5. **Post-Acquisition Monitoring** requires the Deal Team (those who have worked on putting the deal together) to closely monitor the company, both from an operational and financial point of view against the expansion plan and budgets that were setup earlier by the company. Improvements to business, from Corporate Governance, Financial Reporting, and Information Flow to Strategy are made at each level through either the company’s management or its board.

6. As the company matures (usually after 2 - 4 years) with the presence of the Deal Team, investor prepare it for an **Exit** - either an IPO or a Trade Sale (sale to a larger party, multi-national or conglomerate) or in rare cases a Buy Back by the owners. By this time, the company will have grown quite a bit with still plenty of room to grow further. And once investor have exited the company, they return their money with the profit they gained for company after taking their fees for all the effort put in the above process.

Although this may seem like a linear process - it isn't exactly so, primarily because investors deal with a number of companies and each one is at a different stage in the private equity process.

1.3 Methods of Venture Financing

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.

1.4 Advantages of Venture Capital

1. It injects long term equity finance which provides a solid capital base for future growth.

2. The venture capitalist is a business partner, sharing both the risks and rewards. Venture capitalists are rewarded by business success and the capital gain.
3. The venture capitalist is able to provide practical advice and assistance to the company based on past experience with other companies which were in similar situations.
4. The venture capitalist also has a network of contacts in many areas that can add value to the company, such as in recruiting key personnel, providing contacts in international markets, introductions to strategic partners, and if needed co-investments with other venture capital firms when additional rounds of financing are required.
5. The venture capitalist may be capable of providing additional rounds of funding should it be required to finance growth.

1.5 Disadvantages of Venture Capital

1. The agreement of funding is passed on a contract which could be partial ownership or other profit sharing which if not properly negotiated by the entrepreneur he might lose ownership of his whole business or idea and future to them.
2. Intrusion and control: the VC gets the right to drive the firm thereby can take strategic decision or can drive them to his advantage if the deal is not guided properly.

1.6 Regulatory and Legal Framework

The venture capital in India comes under the purview of different sets of regulations namely:

i. The SEBI (Venture Capital Funds) Regulation 1996, lays down the overall regulatory framework for registrations and operations of venture capital funds in India.

ii. The Indian Trust Act, 1882 or the Company Act 1956, depending on whether the fund is set up as a trust or company.

iii. The Foreign Investment Promotion Board (FIPB) and the RBI in case of an offshore fund. These funds have to secure the permission of the FIPB while setting up in India and need clearance from RBI for any repatriation of income.

iv. The Central Board of Direct Taxation (CBDT) governs the issues pertaining to income tax on proceed from VC funding activity. The long term capital gain tax in around 10% and relevant clauses to VC may be found in Section 10 (sub section 23).

v. Overseas venture capital investments are subject to Government of India Guidelines for Overseas Venture Capital Investment in India dated September 20, 1995.

vi. For tax exemptions purposes, venture capital fuds need to comply with Income Tax Rules made under Section 10 (23FA) of the Income Tax act.

However, as suggested further, there is a need for harmonization and nodal regulator to consolidate and substitute all these with one single regulation of SEBI to provide for uniformity, hassle free single window clearance. Thus, the focus in this report will be to study the guidelines laid by SEBI.

1.6.1 SEBI Guidelines

1. SEBI was made the sole regulatory authority, and private equity funds must submit quarterly reports to it. In September 2000 SEBI announced the guidelines that now govern venture capital investment, based on the January 2000 recommendations of the Chandrasekhar committee on venture capital. After another set of amendments in April 2004, the following rules now apply:
2. Foreign venture capital investors can invest in India without the need for approval from the Foreign Investment Promotion Board if they register with SEBI.
3. Each investor in a venture fund must invest at least Rs 500,000, and each fund must have at least Rs50 mn in capital.
4. A fund may invest in one company up to 25% of the fund's capital. It cannot invest in associated companies of ventures that it finances.
5. A fund must invest 66.67% (lowered from 75% in April 2004) of its investible funds in unlisted equity or equity-linked instruments. The remaining 33.3% can be invested in subscriptions to initial public offerings (IPOs) of companies or in debt instruments of a company in which the venture fund has already made an equity investment.
6. The April 2004 amendments removed the previous 1-year lockup period for IPO subscriptions. They also allowed investments within the 33.3% category in preferential

allotments of equity shares of a listed company, subject to a 1-year lock-in, and in equity shares or equity-linked instruments of a listed company that is financially weak.

7. The removal of the profitability criterion as a listing requirement had an important effect on the private equity industry as it provided an exit mechanism for investors. To replace the profitability requirement, a firm would be delisted if it did not earn a profit within 3 years of listing.
8. The acquisition of shares in a venture fund by the investee company or its promoters is exempt from the provisions of the takeover code and will therefore not mandate an open offer.
9. Mutual funds may invest 5% of the capital of an open-ended scheme and 10% of the capital of a closed-ended scheme in a venture fund.
10. In April 2004 the SEBI also removed some previous restrictions and allowed venture funds to invest in real estate companies, gold financing companies, and equipment leasing and hire-purchase companies registered with the RBI.

Chapter 2: Background

Today due to the economic crisis and the change in job market, Entrepreneurship has gained importance. A number of technocrats in India today plan to setup their own shops and capitalize the opportunities. In today’s highly dynamic economic climate with regular technological inventions, few traditional business models may survive but margin lies more towards more innovative business ideas. Today it is not the conglomerates that fuel economic growth but are the new SMEs and other innovative businesses. There is a paradigm shift from the earlier physical production and economies of scale model to new ventures with technological advancements providing services and under process industry.

However, staring an enterprise has its own risk and is never easy. There are number of parameters that contribute to its success or downfall. That is why entrepreneurs find it difficult to find the right venture capitalist and miss the right way to approach them. However, there are methods and a right protocol for any entrepreneur to reach out his investor in a right way and thereby get the funding and that is our topic of study here.

Chapter 3: Literature Review

I M Panday *"The process of developing venture capital in India" Technovation, Volume 18, Issue 4, April 1998*

This study investigates the process of developing venture capital in a developing country — India. The discussion documents the experiences of the largest venture capital firm in India (TDICI) in initiating and developing the concept of venture capital as well as learning the entire capital business. The history of modern venture capital in India is of recent origin; it only goes back to the mid-eighties. In the initial years, venture capital firms (VCFs) in India encountered a number of problems in developing their businesses. From the in-depth case study of TDICI, it is found that the firm went through the initial constraint of not knowing the venture capital business well, and learnt through experience. It faced problems in raising funds and evaluating prospective ventures. It initially focused its investment in the high-technology business, but gradually shifted the focus towards other potentially high-growth, high-profitable businesses, not just high-tech businesses. It is also noticed that TDICI undertook a number of business development initiatives to popularize the venture capital business in India. It introduced a simple organizational structure for facilitating quick decision-making, and developed innovative funding and financing mechanisms.

Reviewed By:

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Dossani, R. and Kenney *"Creating an Environment for Venture Capital in India"- M. World Development, 30 (2) 227-253 (2002)*

The institution of venture capitalism is a difficult one to initiate through policy intervention, particularly in developing countries with unstable macroeconomic environments and histories of state involvement in the use of national capital and in the composition of production. India has all these constraints. The emergence of a thriving software services industry after 1985 created the raw material that venture capital could finance, thus achieving a critical precondition for venture capital's growth. It was followed by efforts to create a venture capital industry. After several setbacks, some success has been achieved largely due to a slow process of moulding the environment of rules and permissible institutions. The process was assisted by the role of overseas Indians in Silicon Valley's success in the 1990s. Yet, in terms of what is needed, most of the work remains to be done. Inevitably, this will be the result of joint work by policymakers and practitioners.

Reviewed By:
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Asim Mishra *"Indian Venture Capitalists (VCs): Investment Evaluation Criteria" - ICFAI Journal of Applied Finance, Vol. 10, No. 7, pp. 71-93, July 2004*

This paper analyzes the validity of venture evaluation model in India by directly comparing the relative importance of evaluation criteria on the funding decision with the relative importance to factors influencing venture's empirical performance. In the light of the differences in investment opportunities around India, and the nature of industrial development in South East Asia in general, the author anticipated that the investment criteria employed by Venture Capital Firms (VCFs) in India would differ. A questionnaire was administered to venture capitalists (regular members of Indian Venture Capital Association) to determine the criteria they use to decide on funding new ventures. The response rate was 100%. A list of forty two criteria was developed on previously developed lists. The criteria fell into six groups: the entrepreneur's personality, the entrepreneur's experience, characteristics of the product or service, characteristics of the market, financial consideration and characteristics of venture management team. Answers were given on a four point rating scales. The results reveal that criteria adopted by Indian VCs are different from those adopted by VCs in other countries including India.

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A. Thillai Rajan *"Venture capital and efficiency of portfolio companies" - IIMB Management Review, Volume 22, Issue 4, December 2010*

Venture Capital (VC) has emerged as the dominant source of finance for entrepreneurial and early stage businesses, and the Indian VC industry in particular has clocked the fastest growth rate globally. Academic literature reveals that VC funded companies show superior performance to non VC funded companies, However, given that venture capitalists (VCs) select and fund only the best companies, how much credit can they take for the performance of the companies they fund? Do the inherent characteristics of the firm result in superior performance or do VCs contribute to the performance of the portfolio company after they have entered the firm? A panel that comprised VCs, an entrepreneur and an academic debated these and other research questions on the inter-relationships between VC funding and portfolio firm performance. Most empirical literature indicates that the value addition effect dominates the selection effect in accounting for the superior performance of VC funded companies. The panel discussion indicates that the context as well as the experience of the General Partners in the VC firms can influence the way VCs contribute to the efficiency of their portfolio companies.

Reviewed By:

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Thillai Rajan Annamalai and Ashish Deshmukh *"Venture capital and private equity in India: an analysis of investments and exits", Journal of Indian Business Research, Volume. 3 Issue: 1, pp. 6 – 21, 2011*

They inferred from their study that most Venture Capital and Private Equity (VCPE) investments were in late stage financing and took place many years after the incorporation of the investee firm. The industry was also characterized by the short duration of the investments. The type of exit was well predicted by the type of industry, financing stage, region of investment, and type of VCPE fund. The VCPE industry in India has grown significantly in recent years. During five year period 2004-2008, the industry growth rate in India was the fastest globally and it rose to occupy the No. 3 slot worldwide in terms of quantum of investments. However, academic research on the Indian VCPE industry has been limited. The paper was an attempt to meet the gap in research on the recent trends in the Indian VCPE industry. Most VCPE investments were in late stage financing and took place many years after the incorporation of the investee firm. The industry was also characterized by the short duration of the investments. The type of exit was well predicted by the type of industry, financing stage, region of investment, and type of VCPE fund. The paper highlighted some of the key areas to ensure sustainable growth of the industry. Early stage funding opportunities should be increased to ensure that there is a strong pipeline of investment opportunities for late stage investors. VCPE investments should be seen as long term investments and not as “quick flips” (i.e. exits within two years of investment by private equity fund). To achieve this, it is important to have a strong domestic VCPE industry who can stay invested in the portfolio company for a longer term. The objective of the paper was to provide a holistic understanding of the Indian VCPE industry to enable the creation of a policy environment to sustain the growth of the industry.

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Chapter 4: Need

In today's highly dynamic economic climate with regular technological innovations, young people plan to setup their own ventures and capitalize their opportunities. There are number of capital financing parameters that affect growth or downfall of their business model:

i. Should one choose venture capital or any other mode of finance?
ii. Which array of business are point of attraction to venture capitalists?
iii. How should one proceed to raise venture capital?

If one wants himself to be a venture capitalist, then abiding by the legal framework imposed by the government and SEBI is mandatory.

The literature reviewed brings into picture that venture capitalists fail in their establishment and earning high return as they are not aware of the venture capital business and the evaluation parameters of business plan to decide on venturing a business and end up in investing in non-profitable businesses. Moreover, before marking first foot in India, all venture capitalists must be made aware of the legal framework imposed by the regulatory authority i.e. SEBI.

Asim Mishra (Mishra, 2004) emphasized on the crucial parameters taken into consideration by VCs for venturing a business. However there was no light thrown on technique of preparing business plan to attract the investor. This study utilizes the results along with the analysis of two case studies and proposes an appropriate protocol for the entrepreneurs for clearing the preliminary step of preparing business plan to attract investors.

Given that VCs select and fund only the best businesses (Rajan A. T., 2010), there is a requirement to answer less profitable businesses or women entrepreneurs some alternative sources to raise funds.

In essence, the study has been conducted for gaining the practical knowledge about Venture capital finance and various operations to reach them in a right manner. The study helps to bridge the gap in the earlier literature by mentioning sources of raising funds to less profitable businesses as well as takes the crucial parameters emphasized by Asim Mishra (Mishra, 2004) to next level by covering the domain of conditions checked by the VC firms before heading towards funding the venture and proposing an appropriate way of reaching a VC. This is the link where the entrepreneur miss their chance due to not having the know-how of how to approach a potential VC for his funding needs. The Venture capitalist on the other hand has a specific format in their requirement sheet which the entrepreneur has to add maximum value, to gain his attention and thereby to get evaluated for his venture funding. Along with this, the study explains the legal framework imposed by SEBI and also raises light on sectorial breakdown and preference of VCs.

Chapter 5: Objectives

The objectives of the study are:-

1. To analyze growth of venture capital investment in different sectors of economy.
2. To find the factors that are most crucial and are taken into consideration by a venture capitalist for providing capital to a new company.
3. To propose an appropriate method to reach to a potential Venture Capitalist with required business plan and financial presentation.
4. To predict the future rate of growth of venture capital finance.

Chapter 6: Research Methodology

A research methodology is fundamental to the results of the study. An appropriate research methodology uses quantization of facts taken from various sources so that the findings are concrete and reliable. This study uses different research methodologies for different studies.

Venture capital investments of SEBI registered venture capital funds (VCF) and foreign venture capital investments (FVCI) as of 31st March of each year for different sectors were studied to analyze the sectorial break-down of Venture Capital investments and draw an inference on the sectorial behaviour of venture capital investment. This breakdown was translated into growth curves and trends were analyzed.

A 7 year data compiled under SEBI on the total venture capital investments each year from 2008-2014 was analyzed for forecasting the future growth of venture capital investments in India. A multiple regression was applied on the data and an approximate quadratic regression was found to satisfy the growth rate. A training data of 3 years was used to obtain a regression model. The model so obtained was tested on 2 years and required adjustments were made using standard deviation. The resulting model was verified using the remaining dataset and the same was used to predict the future growth in venture capital investments in the years 2015, 2016 and 2017.

The documents preferred by venture capitalists for evaluating a business plan were found using a rigorous search on the web using the search keywords- “requirements for raising venture capital”, “reaching a venture capitalist” and “documents required by a venture capitalist”. The study of parent VC InfoEdge which ventured three firms Zomato, Meritnation and Canvera in different sectors namely food, education and photography was done for the same. The results of articles analyzed were combined with results of Asim Mishra (2002) highlighting the preferred documents in different countries. A frequency distribution of various documents was obtained and top four ranked documents were proposed.

The financial reports of two companies- Zomato and Meritation.com were studied and the balance sheets were compiled into a summary of profit and loss statements for two financial years-

2014 and 2015. These statements were then analyzed qualitatively in terms of reasons of increase or decrease of growth and expenditure.

The investment teaser for a company was constructed on the basis of research about the company about its business, position in the market and competition. A prospective financial plan was then made for the company assuming that it requires early stage capital investment which highlights a way of reaching a VC and attracting funds.

6.1. Data Collection

Data studied on venture capitalists in this research is secondary was collected from different publications and online resources including

i. SEBI's handbook of statistics on Indian Securities Markets
ii. Indian Venture Capital Association Reports
iii. And many other books, publications, reports and articles

6.2. Data Analysis

The collected data from secondary sources was analyzed using different functions of MS Excel using statistical tools such as regression and graphs.

Chapter 7: Analysis and Interpretation

7.1. Breakdown of venture capital investments in different sectors of economy

The details of venture capital investments of SEBI registered venture capital funds (VCF) and foreign venture capital investments (FVCI) as of 31st of each year are given below:

Table 2:

Cumulative Total Investment Details of SEBI Registered Venture Capital Funds (VCF) and Foreign Venture Capital Investments (FVCI) as of 31st of Each Year

Year -> Sector of economy	2007	2008	2009	2010	2011	2012	2013
Information technology	2169	2520	2864	3319	4322	4481	5325
Telecommunications	990	1076	4268	7469	7516	7086	7798
Pharmaceuticals	1076	1229	1478	4268	7469	7516	1006
Biotechnology	385	634	461	289	283	278	326
Media/entertainment	470	906	1434	1006	1124	739	1406
Services sector	2475	2976	3529	2677	2973	2809	3697
Industrial sector	2047	1951	2344	1355	2014	2107	2377
Real estates	6348	6311	8185	9783	10831	9987	12048
Others	16749	24413	27158	20637	26673	26903	35535

Source: Reprinted from India Private Equity Report, Bain and Company, 2015, Retrieved from http://www.bain.com/Images/BAIN_REPORT_Global_Private_Equity_Report_2015.pdf

The table shows annual venture capital investments data for different sectors of economy. Different sectors of economy for which data has been obtained are information technology, telecommunications, pharmaceuticals, biotechnology, Media/Entertainment, services sector, industrial products and real estate.

The sectorial breakdown in 2013 for each sector has been analyzed from the following chart

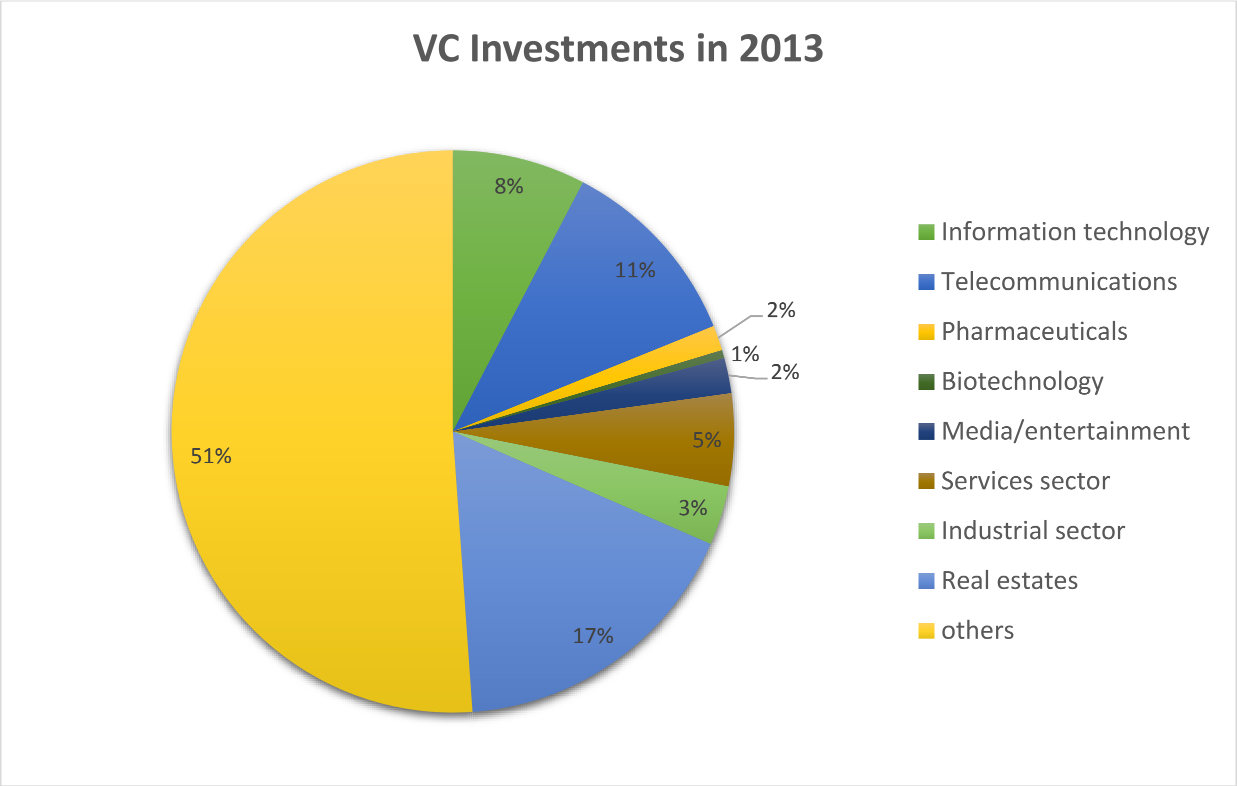

Figure 2. VC investment share in different sectors of economy in 2013.

Source: Compiled from India Private Equity Report, Bain and Company, 2015, Retrieved from http://www.bain.com/Images/BAIN_REPORT_Global_Private_Equity_Report_2015.pdf

7.1.1 Interpretation

In 2013, real estate was the biggest sector of venture capital investments followed by telecommunications and information technology. Services sector stand 4th position followed by industrial product sector and media/entertainment sector. Pharmaceutical and biotechnology sector had least share of venture capital funds among 8 sectors.

Following line graphs have been compiled from the above data understand the growth scenario in each sector. In each graph, a black coloured trend line is obtained which shows forecasted linear trend of respective sector.

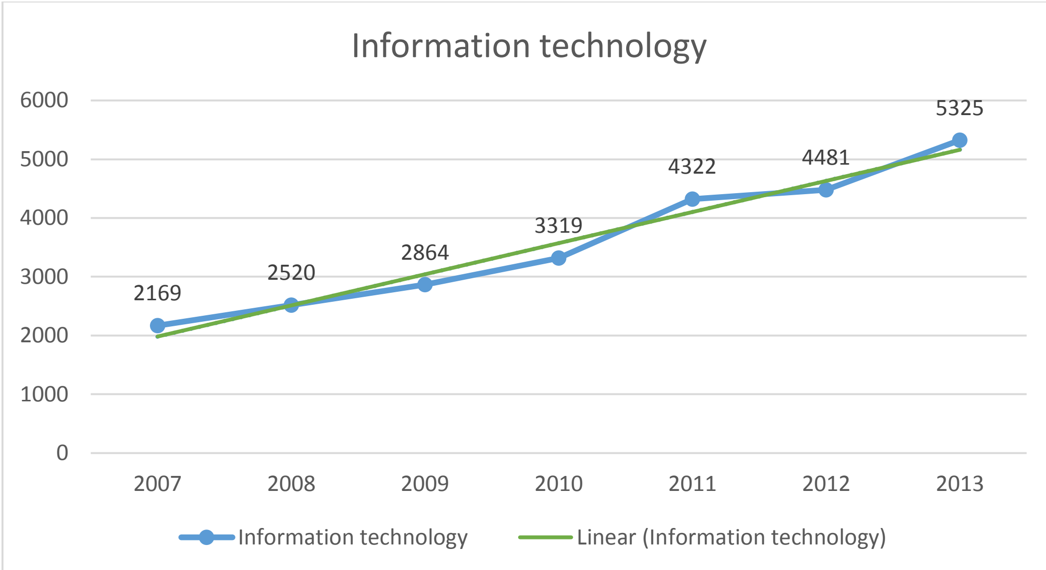

Figure 3. VC investments curve from year 2007 to 2013 in Information Technology sector. Source: Compiled from India Private Equity Report, Bain and Company, 2015, Retrieved from http://www.bain.com/Images/BAIN_REPORT_Global_Private_Equity_Report_2015.pdf

Information technology has been high growth factors all these years.

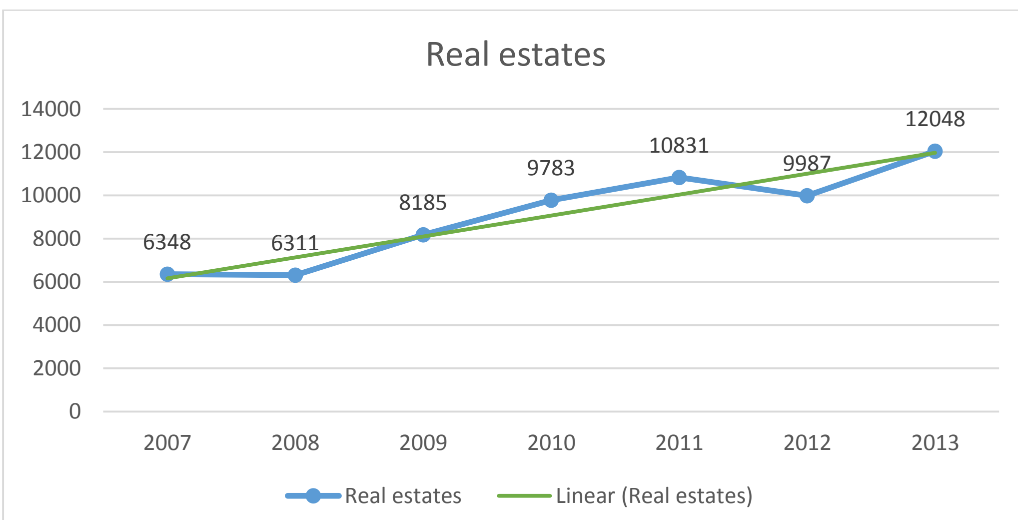

Figure 4. VC investments curve from year 2007 to 2013 in Real Estate sector. Source: Compiled from India Private Equity Report, Bain and Company, 2015, Retrieved from http://www.bain.com/Images/BAIN_REPORT_Global_Private_Equity_Report_2015.pdf

As India is a developing country and real estate is an utmost important need of any developing nation. Real estate sector has always seen reasonable growth and is still attracting investment. It can be inferred that this sector will be growing in year 2014 and 2015 in terms of venture capital investment.

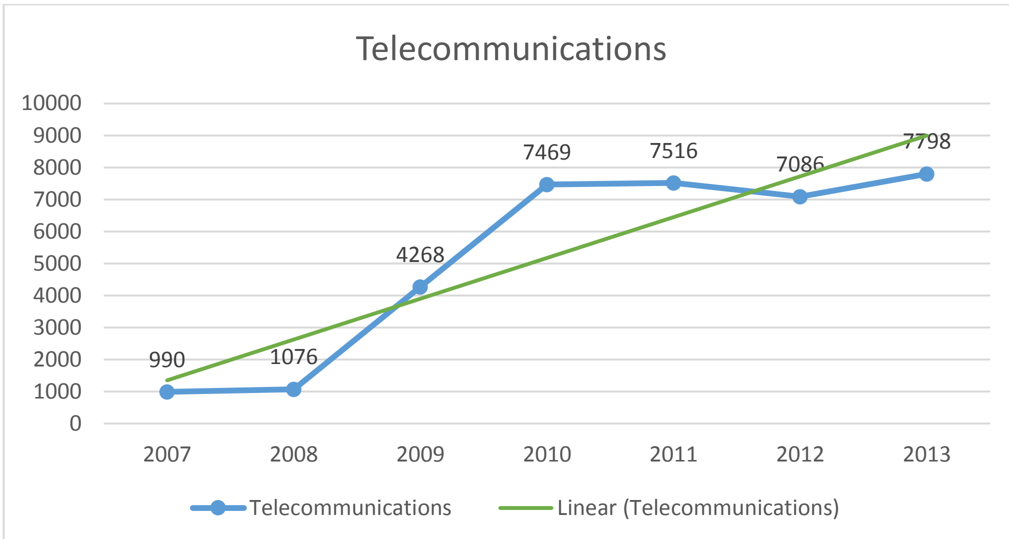

Figure 5. VC investments curve from year 2007 to 2013 in Telecommunications sector. Source: Compiled from India Private Equity Report, Bain and Company, 2015, Retrieved from http://www.bain.com/Images/BAIN_REPORT_Global_Private_Equity_Report_2015.pdf

Telecommunications sector has some of the biggest investments in year 2009 and 2010 making it hot favourite sector of venture capital investment in those years. Following bad news of scams and cancellation of 2G licences the sector has not attracted much investments from year 2010. Although forecasted linear 7 year trend projects it as high growth sectors but when we look at data from 4 years. Telecommunications has been laggard leading to very slow growth in upcoming years.

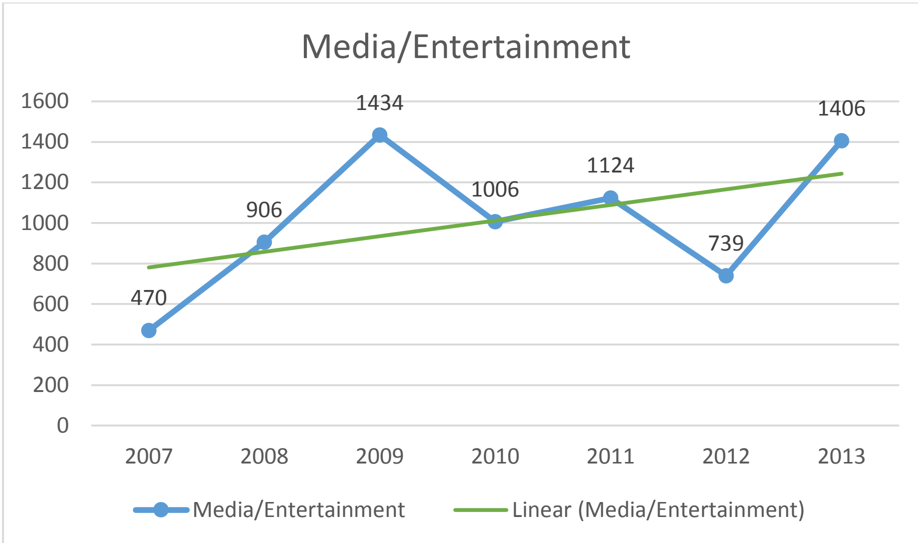

Figure 6. VC investments curve from year 2007 to 2013 in Media/Entertainment sector. Source: Compiled from India Private Equity Report, Bain and Company, 2015, Retrieved from http://www.bain.com/Images/BAIN_REPORT_Global_Private_Equity_Report_2015.pdf

Media/entertainment sector has seen moderate growth in past years. In 2013, venture capitalists have shown significant interest. There were good number of deals in the sector. The sector is further going to show moderate growth depending upon current factors affecting the sector.

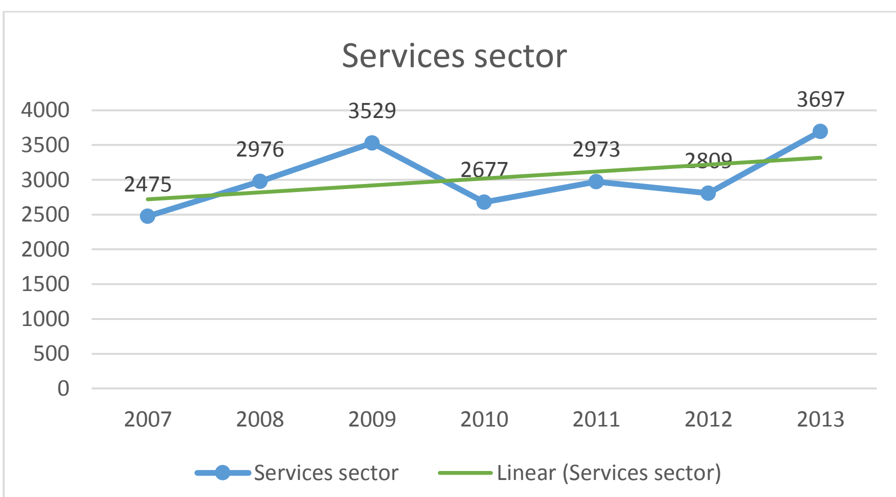

Figure 7. VC investments curve from year 2007 to 2013 in Services sector. Source: Compiled from India Private Equity Report, Bain and Company, 2015, Retrieved from http://www.bain.com/Images/BAIN_REPORT_Global_Private_Equity_Report_2015.pdf

2009 and 2013 are the only years of higher growth in services sector. Because of the less inclined forecasted linear trend of investments in the sector, there will be moderate growth in venture capital investments in India in upcoming years.

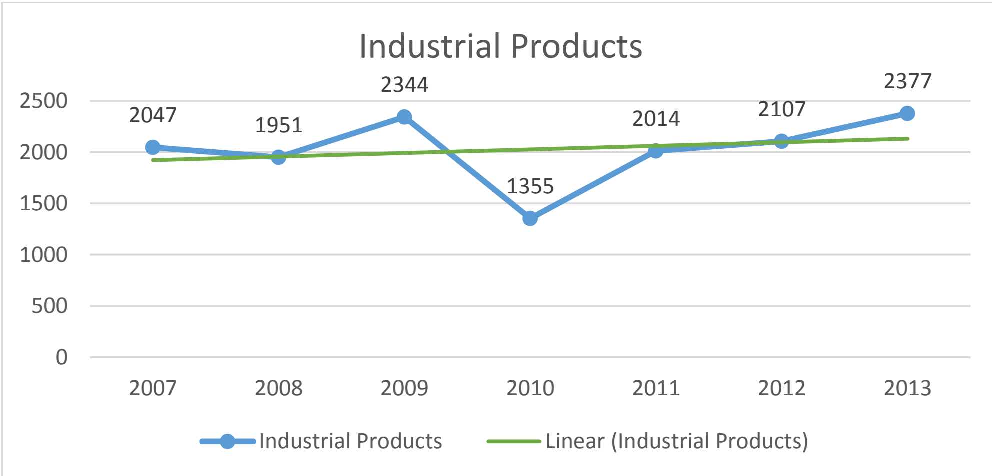

Figure 8. VC investments curve from year 2007 to 2013 in Industrial Products sector. Source: Compiled from India Private Equity Report, Bain and Company, 2015, Retrieved from http://www.bain.com/Images/BAIN_REPORT_Global_Private_Equity_Report_2015.pdf

Industrial products sector is a source of high employment opportunities for less skilled labour. The sector has not much seen growth in terms of venture capital investments. Because of the less inclined linear trend of the investments in the sector, there will be slow growth in venture capital in India in upcoming years.

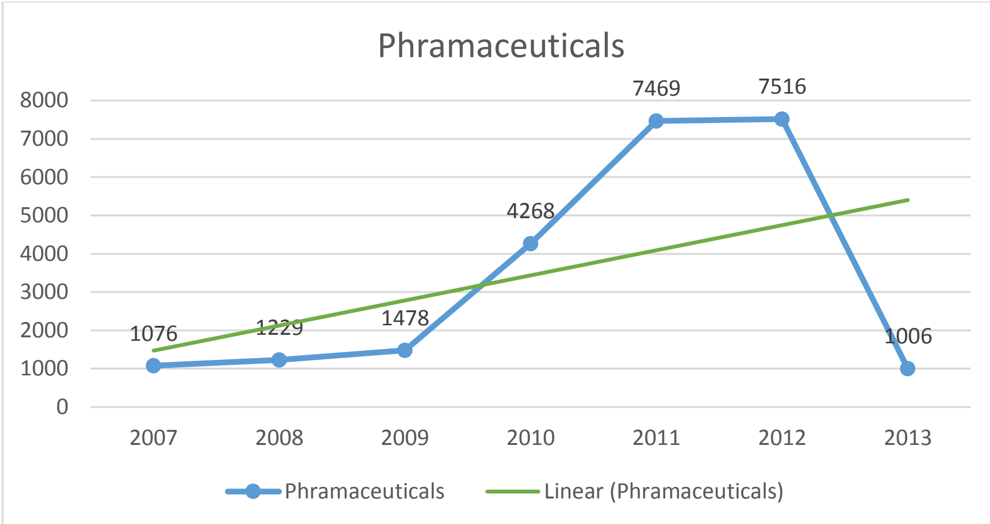

Figure 9. VC investments curve from year 2007 to 2013 in Pharmaceuticals sector.

Source: Compiled from India Private Equity Report, Bain and Company, 2015, Retrieved from http://www.bain.com/Images/BAIN_REPORT_Global_Private_Equity_Report_2015.pdf

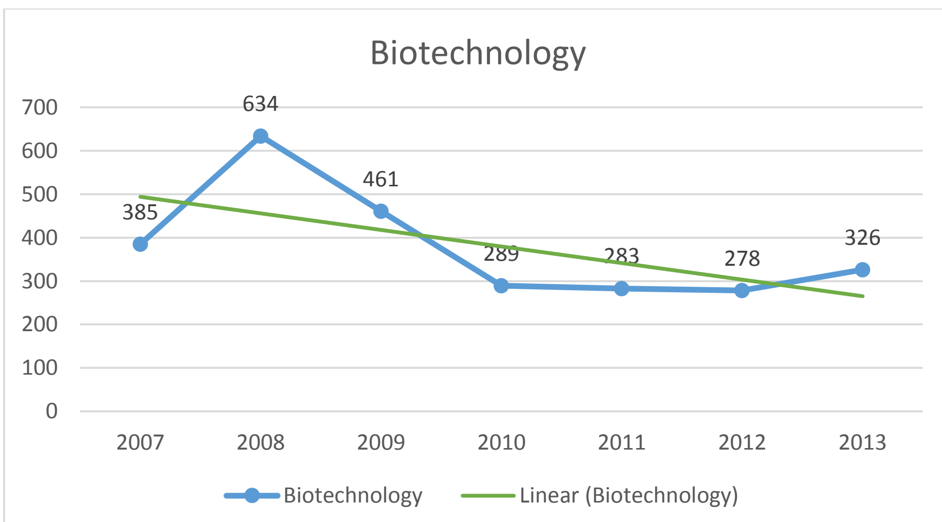

Figure 10. VC investments curve from year 2007 to 2013 in Biotechnology.

Source: Compiled from India Private Equity Report, Bain and Company, 2015, Retrieved from http://www.bain.com/Images/BAIN_REPORT_Global_Private_Equity_Report_2015.pdf

Above two figures show total venture capital investments curve from year 2007 to 2013 and forecasted linear trend in pharmaceutical and biotechnology sector these sectors have been sectors of declining growth since 2009. There is not much growth expected in 2014 and 2015 from these sectors.

7.1.2. Inferences

- There are different sectors of economy in India. Out of all above mentioned economic sectors, few sectors are attracting more venture capital funds than others.
- With analysis of each sector, they can be categorize by rate of growth of investments over 7 years.
- Information technology and real estate have continuously seen high growth and are predicted to do so in in coming years. For entrepreneurs these sectors can be fruitful to start their venture in.
- Telecommunication and media/entertainment have been areas of moderate growth and may do better in coming years. For entrepreneurs these sectors can be fruitful but they must keep caution while starting their venture in.
- Services sector and industrial products sectors are areas of slow growth in terms of VC investments in these years. One must have strong know how of these sectors while starting any business.
- Pharmaceuticals and biotechnology are the sectors of declining growth in VC investments. One may get hurdles in getting investments for ventures in these sectors.

7.2 Crucial factors to attract VC investment

The analysis is performed on two broad areas, viz. evaluation criteria and performance criteria. The evaluation criteria included characteristics of entrepreneur leader, characteristics of product or service, characteristics of the market, and financial considerations. The performance criteria included items like sales, return on investment, etc.

7.2.1 Analysis

The top most rated criteria in India for a venture to be successful have been analyzed from the research by A.K. Mishra (2013). The results of analysis have been compiled in the following table which show the five top most criteria in different countries opted by VCs to screen new proposals.

Table 3

Five Most Top Rated Screening Criteria used by VC to Fund Venture in Different Countries

Criteria	US	Singapore	Japan	India
Sustained Intense Effort	1	1	2	*
Familiar with target market	2	2	1	3
Evaluates and reacts to risk	5	5	3	1
Demonstrated Leadership	3	2	*	4
At least 10-15 times return in 5-10 years	4	5	*	5
High market growth rate	*	3	4	5
Creation of new market	*	*	5	*
Liquid investment	*	*	5	*
Integrity	*	*	*	*
Managerial skills of venture team	*	*	*	*
Functioning prototype	*	*	*	*
Urge to grow	*	5	*	*
Long-time vision	*	*	*	*
Commercial Orientation	*	*	*	*
Attention to detail	*	*	*	2

(*) indicates the factors not in top 5 most rated criteria

Source: Compiled from "Investment Evaluation Criteria" by Asim.Mishra, 2004- ICFAI Journal of Applied Finance, Vol. 10, No. 7, pp. 71-93

The analysis find that different criteria have different ratings in different countries. It is because of the different regulatory and legal framework, economic environment, expected rate of return and predicted rate of growth in different countries.

The following variables are considered to be most important for a successful venture in India:

1. Ability to evaluate and react to risk
2. Attention to details
3. Familiar with target market
4. Demonstrated Leadership

5. Market share

The results of associations of different variables have been depicted in the following table.

Table 4

Association among Different Variables to Screen New Proposals

Variable	Associated Variable	Association
Capable of sustained efforts	• Ability to evaluate and react to risk • Attention to details • Familiarity with market targeted by the venture • Degree of leadership demonstrated in the past • Track record relevant to venture • Familiarity with venture team	Positive
Ability to evaluate and react to risk	• Familiarity with market targeted by the venture • Degree of leadership demonstrated in the past	Positive
Ability to articulate while discussing the venture	• Venture was refused to us by a trustworthy source • Ability to evaluate and react to risk • Degree of leadership demonstrated in the past • Track record relevant to venture	Positive
Attention to details **Familiarity with market targeted**	• Familiarity with the market targeted by the venture • Degree of leadership demonstrated in the past • Familiarity with venture team	Positive Positive Negative

Track record relevant to venture	• Track record relevant to venture	Positive

Source: Compiled from "Investment Evaluation Criteria" by Asim.Mishra, 2004- ICFAI Journal of Applied Finance, Vol. 10, No. 7, pp. 71-93

7.2.2 Interpretation

From above Table, row 1, it can be noticed that the variable "capable of sustained efforts" has highly significant and strong association with the following variables: "ability to evaluate and react to risk," "attention to details," "familiarity with market targeted by the venture," "degree of leadership demonstrated in the past," "track record relevant to venture," and "familiarity with venture team." Thus, there exists highly significant and strong agreement among the venture capitalists that successful venture teams are capable of putting in sustained efforts. They focus their efforts on identified target market. They have demonstrated their abilities in the past and have high credentials of their past achievements. They seem to be highly meticulous in attending to the details before putting in requisite efforts.

Row 2 gives the highly significant and strong association of the variable "ability to evaluate and react to risk" with variables such as "familiarity with market targeted by the venture," and "degree of leadership demonstrated in the past." Successful teams are capable of dealing with risk because of their familiarity with the target market. Since they have delivered results in the past dealing with such markets, they are in a better position to evaluate risk and deal with it appropriately.

Row 3 presents the significantly strong association of the variable "ability to articulate when discussing the venture" with "the venture was referred to us by a trustworthy source," and moderate association with variables such as ability to evaluate and react to risk," "degree of leadership demonstrated in the past," and "track record relevant to venture." Successful venture teams seem to convince the people who can refer them to venture capitalists. They also may have used the skill of articulation in leading teams in the past.

Some other significantly strong association between the variables, as shown in Row 4 are: association between "attention to details" and "familiarity with market targeted by the venture," and association between "familiarity with market targeted by the venture" and "degree of leadership demonstrated in the past." A moderate negative association is found between "familiarity with market targeted by the venture" and "familiarity with venture team," and a moderate positive association between "track record relevant to venture" and "degree of leadership demonstrated in the past." The negative relationship between the market familiarity and familiarity with venture team indicates that in order to be a successful venture team, it is not necessary to know the target market. Even if venture teams deal with newer opportunities, they may still be successful.

7.3 Documents preferred by VCs to make a decision to invest

There are several terms to be included in a business plan. There can be several documents that can be assessed in order to make a decision to invest in a venture. These can cover following areas of the venture:

- Management
- Team setup
- Human resources
- Financial position
- Growth trends
- Expected rates of return
- Earlier investments
- Quality of deliverables

A thorough study of documents preferred by the venture capitalist was done by considering a venture which funded multiple companies in different sectors. The venture chosen for the purpose was Info Edge and its ventured companies were Zomato, Meritnation and Canvera in food, education and photography sectors respectively.

The analysis of the study inferred the following results:

Table 5

Priority of Documents Required by VC for Funding a Venture

Documents	Rank
Financials	1
Management	2
IRR Period	3

List of Project Completion	4

Source: Compiled from "Investment Evaluation Criteria" by Asim.Mishra, 2004- ICFAI Journal of Applied Finance, Vol. 10, No. 7, pp. 71-93

7.3.1 Interpretation

The results show that financials are the most important in a business plan. Financial plan is preferred by more respondents because it helps to evaluate how well do the firm utilizes the fund.

Cash flow projection helps respondents to know how the funded cash will be will give best profitable returns. This helps to analyze the company's ability to utilize the given funds for the optimum results. Balance Sheet helps to evaluate company's price earnings ratio and debt coverage ratio in order to assess whether the company is meeting external debts or not.

A strong leadership and an experience of past success venture projects gives venture capitalist an assurance that they are investing money in the right firm and will be utilised for the right purpose.

Internal rate of return and its share towards the investor further help VC to make a faster decision on a venture project. VC seeks his share of advantage and capital gain through his investment and would only agree to go forward if that is clear and also achievable for the timeline planned.

An investor will fasters IRR and for that he requires a project with a shorter timeline with greater revenues and profits. His decision making factors would thereby lie on the timeline feature of the desired venture. If the timeline is defined well with achievable targets and acceptable risk conditions an Investor will find it more comfortable in investing in such Venture ideas.

7.4 Forecasting VC investments in near future in India

The research looks at the Total investment details of SEBI registered venture capital funds (VCF) and foreign venture capital investors (FVCI) as of Dec 31 of each year starting 2007.

Table 6

Cumulative Total Investment Details of SEBI Registered Venture Capital Funds and Foreign Venture Capital Funds as of Dec 31 of Each Year

Year	Total VC Investments (in Rs. Crores)
2007	28260
2008	33939
2009	42059
2010	47859
2011	56868
2012	55542
2013	69520
2014	80988

Source: Reprinted from India Private Equity Report, Bain and Company, 2015, Retrieved from http://www.bain.com/Images/BAIN_REPORT_Global_Private_Equity_Report_2015.pdf

With the help of MS word excel, Growth rate can be determined for given values from year 2007-2014 and prediction for next three years is made using following growth function:

GROWTH (known_Ys,known_Xs,New_Xs,constant)

Here,

Ys = known value of total investments

Xs = year corresponding to known Ys (2007-2014)

New_Xs = year for which value to be forecasted (2015, 2016, 2017)

Constant = none.

The regression model for the same is as under:

$$y = 0.4x^2 + 0.067x + 798595678$$

Following are the forecasted values of total investment in 2015, 2016 and 2017 using growth function

Table 7

Forecasted Total Venture Capital investments as of 31st December of 2015, 2016 and 2017

Year	Expected Total VC Investments (in Rs. Crores)
2015	93383
2016	108172
2017	125930

Source: Compiled from India Private Equity Report, Bain and Company, 2015, Retrieved from http://www.bain.com/Images/BAIN_REPORT_Global_Private_Equity_Report_2015.pdf

Following curve is obtained when values of venture capital investments in India from 2007 to 2014 and their forecasted values for 2015, 2016 and 2017 are plotted on a line graph.

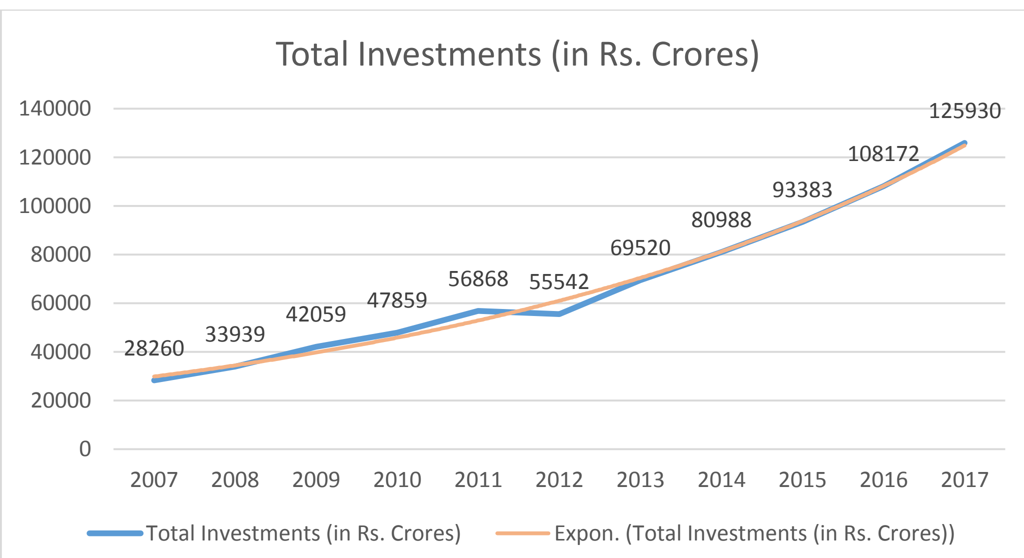

Figure 11. Line graph of total venture capital investments from year 2007 o 2014 along with the forecasted values from year 2015 to 2017.

Source: Compiled from India Private Equity Report, Bain and Company, 2015, Retrieved from http://www.bain.com/Images/BAIN_REPORT_Global_Private_Equity_Report_2015.pdf

7.4.1. Interpretation:

The above figure shows Line graph of total venture capital investments from year 2007 to 2014 along with the forecasted values of year 2014 and 2015. The black curve shows the exponential growth for the same. It is inferred that venture capital investments in India have grown exponentially.

Moreover India is an attractive market with a challenging business environment. Its appeal lies in its competitive labour costs, lucrative domestic market and skilled workforce. Foreign investors also applaud its strong management and business education system. These factors also contribute to India being a preferred destination for VC investments in the coming years.

7.5 Formulation of Investment teaser of a company: Zomato Media Pvt. Ltd.

- **Name:** Zomato
- **Location:** New Delhi
- **About the Company:** Zomato is a restaurant search and discovery service. It features restaurant information such as scanned menus and photos sourced by local street teams, as well as user reviews and ratings. The company also provides cashless payment, online ordering, white-label apps, table reservation, and point-of-sale systems.
- **Need:** The service began as "Foodiebay", conceptualised in the cafeteria of “Bain & Company”. Customers would line up to look at the menus to order food during the lunch hour. Realising this took up a large amount of everyone's time on a daily basis, Deepinder and Pankaj decided to scan restaurant menus and upload it on an intranet website for Bain employees. The website saw a lot of traffic and was launched publicly in 2008.
- **The opportunity:** Following are the opportunities for Zomato:

1. Opportunity to expand to further more countries
2. Increasing internet penetration & number of smartphone users
3. Rapid technology development

- **The current state:** Backed heavily by InfoEdge and other investors, the company has raised about $113 million till date with a valuation of about $660 million. Zomato is now present in 22 countries with a listing of over a million restaurants globally.

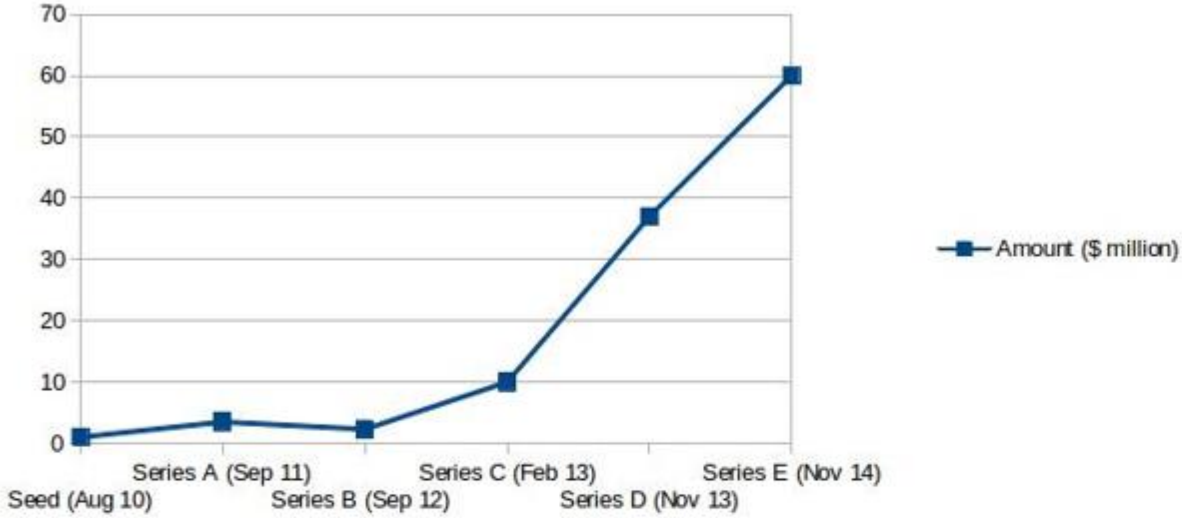

Figure 12. Investments made in Zomato by Info Edge Pvt Ltd.

- **The Competition:** Foodpanda, Justeat & Burrp
- **The USP:** Content is what sets Zomato apart - The only restaurant & nightlife guide with menus, pictures and map locations
- **The Revenue Model:** As per Deepinder Goyal who is the founder of Zomato, there are 4 revenue streams:

1. Restaurant advertising: this is when we place banner ads for restaurants on the website. This accounts for ~75% of Zomato's revenue.
2. Event advertising: this is when specific events promote an event on Zomato - this revenue primarily comes from restaurant based advertisers. Typically, tickets for these events are also sold on Zomato. This accounts for ~5% of our revenue.
3. Event ticket sales: commissions on ticket sales through Zomato; primarily for restaurant venues; accounts for ~15% of our revenue.
4. Consulting services: Restaurant chains ask us for advice on where to open their next outlet/branch. We dig through terabytes of data to tell them where the demand lies and what's the competition like.

7.6 Analysis of Financial statements of two companies under a same VC

Annual reports of a venture capitalist- Info Edge India Pvt. Ltd. have been studied. Info Edge is a parent company for:

- Zomato India
- Meritnation.com

The financial reports of FY 2014 and FY 2015 were compiled and compared for studying the change in capital requirements and revenue. The summarized profit and loss statements are as follows:

7.6.1. Zomato:

Table 8

Financial Report of Zomato for FY2014 and FY2015

Particulars	For the Financial Year ended on 31st March 2015 (Amount in Lacs)	For the Financial Year ended on 31st March 2014 (Amount in Lacs)
Total Revenues Earned (including Other Income)	9,498	3,612
Less total expenses	16,629	7,329
Loss before tax	**(7,131)**	**(3,717)**
Tax Expense	-	-
Loss after taxation but before prior period items	**(7,131)**	**(3,717)**
Prior period items	55	13
Loss carried over to balance sheet	**(7,186)**	**(3,730)**

Source. Compiled from Info Edge Pvt Ltd Annual Report 2015, Retrieved from http://www.infoedge.in/pdfs/annual-report-2014-15.pdf

7.6.2. Meritnation

Table 9

Financial Report of Meritnation for FY2014 and FY2015

Particulars	**For the Financial Year ended on 31st March 2015**	**For the Financial Year ended on 31st March 2014**
Total Revenues Earned (including Other Income)	22,88,86,000	22.46.35,000
Profit and Loss before depreciation	21,42,17,000	26,64,49,000
Depreciation	2,56,48,000	1,41,98,000
Profit and Loss after Depreciation	23,98,65,000	27,76,47,000
Provision for Tax	-	-
Profit and loss carried over to balance sheet	**23,98,65,000**	**27,76,47,000**

Source. Compiled from Info Edge Pvt Ltd Annual Report 2015, Retrieved from http://www.infoedge.in/pdfs/annual-report-2014-15.pdf

Chapter 8: Findings

The study finds that:

- Information technology and Real Estate are sectors with high growth in VC investments whereas Pharmaceuticals and Biotechnology are sectors with declining VC investments. Other sectors like media/entertainment and industrial products have shown fluctuations in VC investments.
- Successful venture teams put in sustained efforts on identified target markets and are highly meticulous while attending to the details.
- These teams are adept at dealing with risk because of their impeccable past experience.
- Indian venture capitalists do not seem to be much enamoured of technology venturing; at least some of the successful ventures funded by them do not seem to show signs of being hi-tech.
- The top five most rated criteria to screen new proposals differ in different countries due to changes in economic policies, regulatory and legal framework, expected rate of return and predicted growth in different countries. In India, these are found to be

  i. Ability to evaluate and react to risk
  ii. Attention to details
  iii. Familiar with target market
  iv. Demonstrated Leadership
  v. Market share
- The most preferred documents as a part of demonstration of the venture should depict the clear picture of fund utilization, profits to be earned and management of the team. Consequently, these are found to be in following priority

  i. Financials
  ii. Documents
  iii. IRR
  iv. Timeline
- Indian venture capital industry not only offers lower cost production alternatives but is a high-tech and global outsourcing centre. It has attracted major VC investments in past years

and with India becoming a preferred investment destination, this heightened level of venture capital investment is likely to continue at an exponential rate for more time to come.

- An optimistic approach is followed by venture capitalists as they stick to businesses even in case of severe losses. These losses become even more severe in following years. But the prospective business growth forecasts, appreciation in the market and confidence of the promoters are key factors that make an investor stick to a business plan and keep funding in rounds.
- As the business grows, cash inflow kicks in but the profit is able to suffice for the increase in corresponding expenditure. Thus, investments need to be pouring in to keep the business grow until a steady profit that is able to sustain the business kicks in.

Chapter 9: Suggestions

1. **Multiplicity of regulations – need for harmonization and nodal regulator-**
   Presently there are three set of regulations dealing with venture capital activity i.e. SEBI (Venture Capital Regulations) 1996, Guidelines for overseas Venture capital Investments issued by Department of Economic Affairs in 1995 and CBDT Guidelines for Venture capital Companies in 1995 which was modified in 1999. The need is to consolidate and substitute all these with one single regulation of SEBI to provide for uniformity, hassle free single window clearance.
2. **Augmenting the domestic pool of resources-**
   The present pool of funds available for venture capital is very limited and is predominantly contributed by foreign funds to the extent of 80 percent. The pool of domestic venture capital needs to be augmented by increasing the list of sophisticated institutional investors permitted to invest in venture capital funds.
3. VCs fund a venture more in seed stage than in later stages. It is because in infancy, a venture can attract more market. It is suggested that the investment should be increased in turnaround stage. VCs with specialized knowledge in management can help sick industries.
4. A trusted, legal and verified investment teaser format must be issued by SEBI so that strong business plans that do not find an investment due to poorly developed investment teasers may find an appropriate capitalist.
5. At a single point of time, there is a boom in a particular sector with a number of ideas pouring in that can turn into a business. At this point of time, service sector is such a dominating sector. However taking into account India's context, a revolution is needed in the primary sector- agriculture, biotechnology and animal husbandry. Keen investors and investees must look out for such opportunities. The market for these opportunities is enormous and in need of renaissance.
6. Based on our study we suggest following process for reaching a venture capitalist:
   a) Making a crisp documentation of scope, market, need and USP of the business.
   b) Formulating a strong business revenue model based on reliable research.
   c) Preparing documents listed above.
   d) Making a short presentation projecting the highlights of documents.

e) E-mailing the documents before giving the presentation.

f) Presenting the idea.

Chapter 10: Limitations

The analysis conducted has limitations. Some of the limitations include:

- All the data presented for the venture capital financing are limited to few firms and for the last 7 years. The information may be over simplifications of facts over generalization from insufficient data.
- Financial analysis of fund seeking ventures does not measure the qualitative aspects of the business. It does not show the skills, technical know-how and the efficiency of its employees and manager.

Chapter 11: Conclusion

The study provides that the maturity of the still nascent Indian Venture Capital market is imminent. Venture Capitalists in India have notice of newer avenues and regions to expand. VCs have moved beyond IT service but are cautious in exploring the right business model for finding opportunities that generate better returns for their investors. In terms of impediments to expansion, few concerning factors to VCs include: unfavourable political and regulatory environment compared to other countries, difficulty in achieving successful exits and administrative delays in documentation and approval. In spite of few non attracting factors, Indian opportunities are no doubt promising which is evident by the large number of new entrants in past years. Nonetheless the market is challenging for successful investment. Venture capitalists are upbeat about the attractiveness of India as a place to do business. Venture Capital can play a more innovative and development role in India. It could help the rehabilitation of sick unit through people with ideas and turnaround management skill. Yet another area where they can play a development role is service sector including tourism, publishing and health care. It is not only the initial funding which is needed from venture capitalists, but they should also provide management and marketing expertise. They can improve their effectiveness by setting up venture capital cell in R&D and other scientific generations, providing syndicated or consortium financing and acting as business incubators.

Chapter 12: Future Scope

A scope of improvement exists everywhere and following are the further proposed enhancements which were not included in the scope of the project

1. The future research may explore the process of screening and evaluation by investigating the same through qualitative techniques and techniques from cognitive psychology.
2. The aspect of accuracy of venture capitalists' introspection would be an interesting area to study

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