Venture Capital

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Concept, Meaning & Definition

Venture capital is growing business of recent origin. It refers to investment in new & tried enterprises that are lacking a stable record of growth.

Venture capital is long-term risk capital to finance high technology projects which involve risk but at the same time has strong potential for growth.

Venture capital company can be define as,
"a financial institution which joins an entrepreneur as a co-promoter in a project & shares the risk & rewards of the enterprise".

Definition

Venture capital may take various forms at different stages of projects. Generally there are four successive stages of development of project. Those are:

- Development of an idea: It is called as seed finance. It is provided for translating idea into business proposition.

- Implementation Stage: When a firm is set up to manufacture a product or service, this finance is provided.

Definition

- Fledging Stage: In the third stage if required, additional finance is provided to satisfy teething problems.

- Establishment Stage: This is last stage where firm is ready to expand at a rapid pace. It need further finance for expansion. At the end of this stage venture capitalist started to disinvestments their share holdings.

Features

Some of the features of venture capital are:

- It is in the form of equity capital.
- Investment made only in high risk but high growth potential projects.
- There is continuous involvement in business after making an investment.
- Venture capital is not just injection of money but also an input needed to setup firm.
- Investment is usually made in small & medium scale enterprises.

Importance

The importance of venture capital is to all. But it is advantageous to three viz.

1. Investing Public:
   - By venture capitalist investors will be able to reduce risk significantly against unscrupulous management.
   - The venture fund having representative on the Board of Director of the company help to conduct affairs of business prudently.

Importance

2. Promoters:
   - Promoter only required to sell their idea to justify the official of the venture fund which is much more easy than to convince tens of underwriters, brokers for public issue.

3. General:
   - A well developed V.C. institution reduces the time lag between technological & its commercial expansion.
   - Acts as a cushion to support business borrowings.
   - The V.C. firms serves as an intermediary between investor looking for high return & entrepreneurs in search of needed capital for their start ups.

Origin

Venture Capital is phenomenon originated in USA & developed widely over the rest of the world since the second half of seventies. In USA alone, There are 800 venture capital firms managing around $40 billion of capital. It is reported that the current days giants like Apple, Microsoft, Xerox are the Beneficiaries of venture capital. UK occupies second place after USA. The concept became popular in late sixties. During 1988 over 1000 venture companies which provided Rs.3,700 crore to over 500 firms.

Initiative in India

In India tradition of venture capital industry goes back more than 150 years when many of the managing agency houses acted as venture capitalists providing both finance & management skill to risky project. TISCO & Empress Mills were able to raise equity capital through help of these houses.

In modern era venture capital goes various stages 1973. R. S. Bhatt committee recommended formation of Rs.100 crore venture capital fund. 7th five year plan emphasis need for it. The venture capital took roots when venture capital guidelines were issued by comptroller of capital issues in Nov. 1988.

Guidelines

As stated earlier the venture capital took roots when comptroller of capital issues raised guidelines for the same. The some of them are:

- The public sector financial institution eligible for setting venture capital funds with minimum size of Rs.10 crore & debt equity ratio is 1:15.
- The venture capital company & venture capital funds can be set up as joint venture.
- The V.C.C. & V.C.F. should be managed by professionals.
- The V.C.C. & V.C.F. not allowed activities like trading,broking etc.

Methods of Venture Financing

Methods of Venture Financing

Equity	Conventional Loan	Conditional Loan	Income Note
Contribution does not exceed 49% of total Equity capital.	Lower fixed rate of interest for initial period.	No interest is charged but royalty is to be paid.	Combination of Conventional & Conditional loan

Venture Capital Providers in India

After seeing methods of venture capital financing let's look at the main providers of venture capital in India. Normally they are classified into four major categories.

1) Companies Promoted by All India Financial institutions:

- RCTC (Risk Capital & Technology Finance Corporation)
- TDICI (Technology Development & Information Company of India Ltd.)

2) Companies Promoted by State Financial institutions:

- GVFL (Gujarat Venture Finance Ltd.)
- APIDC (Andhra Pradesh Industrial Development Corporation Venture Capital Ltd.)

Venture Capital Providers in India

2) Companies Promoted by Banks:
   - Can Bank Venture Capital Fund
   - SBI Venture Capital Fund
   - Indian Investment Fund
   - Infrastructure Leasing

3) Companies in Private Sector:
   - Indus Venture Capital Fund
   - Credit Capital Venture Fund
   - 20th Century Venture Capital Fund
   - Venture Capital Fund

Venture Capital Providers in India

Although we have seen just name of the providers.

Let us know some of them in brief.

1. IDBI Venture Capital Fund:

   Set up in 1986 for encouraging commercial application of endogenously technology.The range of financial Assist is Rs.5 lakhs to 2.5 crore. The funds extended to chemicals, electronics, bio-technology, non conventional energy.

Venture Capital Providers in India

2. The Risk Capital & Technology Finance Corporation: Subsidiary of IFCI. Finance provided in form of short term conventional loan. It has assisted 23projecys aggregating Rs.13 crores as on 31st march 1993.

3. Technology Development & Information Company of I: Jointly created by ICICI & UTI. Finance projects of small & medium size industries who take initiative in designing & developing indigenous technology in the country. By 31st march 1993 TDICI disbursed Rs.25.81 crores to 42 companies.

Venture Capital Providers in India

4. State Bank of India Capital Market Ltd.:

   Subsidiary of State Bank of India. Their preferred projects are high priority,thrust areas such as import substitute,high tech options etc. the equity holdings assisted generally disinvested within 3 years either by way of sale to public or sale in OTC exchange of India. As on 30 September 1992 they assisted 17 companies with investment of Rs.812 lakhs.

Venture Capital Providers in India

5. Credit Capital Venture Fund Ltd. :

   First private sector venture capital fund set up by Credit Capital Corporation Ltd. in April 1989 with Authorised share capital of Rs.10 crores. Rs.6.5 crores was subscribed by International Financial Agencies. Its main thrust area would be export-oriented industries & technology oriented projects.