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A Study on Venture Capital - Role of RBI and Financial Institutions in Venture Capital

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Abstract: ***A venture capital is defined as a financing institution which joins an entrepreneur as a co-promoter in a project and shares the risks and rewards of the enterprise. Venture capital general partners (also known in this case as "venture capitalists") are the executives in the firm, in other words the investment professionals. Typical career backgrounds vary, but many are former chief executives at firms similar to those which the partnership finances and other senior executives in technology companies. Investors in venture capital funds are known as limited partners.***
This constituency comprises both high net worth individuals and institutions with large amounts of available capital, such as state and private pension funds, university financial endowments, foundations, insurance companies, and pooled investment vehicles, called fund of funds. The key terms found in most definition of capital are: engineering and high risk, equity investment and capital gains, price addition through participation in management. High Risk By definition the capital finance is very risky and possibilities of failure square measure high because it provides future startup capital to high risk-high reward ventures.

I. INTRODUCTION

Venture capital is a growing business of recent origin in the area of industrial financing in India. The various money establishments set-up in India to push industries have done commendable work. However, these establishments don't come back up to the advantage of risky ventures once new or comparatively unknown entrepreneurs undertake them. They contend to offer debt finance, largely within the variety of term loan to the promoters and their functioning has been a lot of love that of economic banks. The money establishments have devised themes like seed capital scheme. Venture capital Fund etc to assist new entrepreneurs. However, to gauge the outcomes and extend money help they follow the standards like safety, security, liquidity and gain and not the potential to grow. The capital market with its typical money instruments/ schemes doesn't come back abundant to the profit or project. New establishments like mutual funds, leasing and rent purchase Companies are established as another supply of finance to industries. These establishments conjointly don't mitigate the issues of latest entrepreneurs United Nations agency undertake risky and innovative ventures.

II. OBJECTIVES OF THE STUDY

A. To understand the role of RBI in promoting the venture capital in India.
B. To observe the contribution of financial institutions in encouraging the venture capitalists.
C. To study the proportion of contribution of the wealth by financial institutions on venture capital.
D. To analyze the performance of venture capitals under the guidance of RBI.

III. SCOPE OF THE STUDY

This study covers following aspects:

1) Impact of RBI policies on venture capital and their encouragement to venture capitalists by providing various programs exclusively for venture financing.
2) Present scenario of venture capital and its growth impact on the economy.
3) Study on selected venture capital companies and observing their performance.

IV. NEED FOR THE STUDY

A venture capital industry is flourishing in India will which is filling the gap between the capital requirements of technology and knowledge-based startup enterprises, and funding available from traditional institutional lenders such as banks. This study is to find in detail about the various RBI policies and other financial institutions attention towards venture capital companies and to evaluate the performance of top 5 venture capitalists and startup companies.

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V. RESEARCH METHODOLOGY

1) *Population:* RBI, other financial institutions, companies adopting the venture capital financing, credit generation and funding from various sources of banks.
2) *Sample Design*
a) RBI
b) Financial Institutions
i) State bank of India
ii) Canara Bank
iii) Axis Bank
iv) ICICI Bank
v) HDFC Bank
3) *Sample Collection:* secondary data used like official websites, magazines etc.
4) *Tools Used:* statistical tools or methods (intended to use).
a) Monitoring and methods of exercising control were analyzed with simple frequency tabulation method.
b) T-test and ANOVA will be used to test whether there is any significant difference between the variables over different periods.

VI. REVIEW OF LITERATURE

A. *Nagendra, Ramakrishna and Bharathi, Capital Funding*

It was mentioned that Entrepreneurs ought to be absolutely ready and will inspect the proposition of scaling the business from day one. If enterpriser ought to scale business from day one and need massive cash they must head for venture fund however if they have to structure plan into viable money and selling arrange, then they must rummage around for associate degree angle to assist.
Expectations of plunger from entrepreneurs- Passion, commitment, multifunctional team, vision, transparency, well researched business arrange, energy to show plan into business. All this can be true however focus is a lot of on enterpriser whereas market product and returns square measure equally necessary. plunger tries to maximize the top side potential of any project. He tries to structure his investment in such manner that he will get advantages of top side potential and he would love to exit at the time once he will get most returns on his investment within the project.

B. *Thomas Hellmann and Manju puri, Capital and Professionalization of Startup Companies*

Thomas Hellmann and Manju Puri determined in Asian country that Entrepreneurs square measure typically apprehensive in seeking capital funding. It is necessary to understand the role that plunger play. So as to look at this analysis was conducted by grad school of business college members Thomas Hellmann and Manju Puri on a relationship between plunger and internal organization of companies. With the ancient money relationship investors, square measure concerned on the money aspect of the business however not on the human resource aspect.

C. *Matsuura, The Global Operations of a Venture Business*

In this paper, it is discussed historical survey of the prolific growth of the Japanese firm Juken Koggo Co. Ltd. Since its humble origins during 1965, it manufactures a wide range of miniature plastic parts vital for sophisticated appliances in semiconductors, IT, etc. Not only the firm has taken a lead over several other companies in Japan, but has become globally competitive.

VII. ANALYSIS OF THE STUDY

A. *To Understand The Role Of RBI In Promoting The Venture Capital In India*

1) *Role of RBI (Reserve Bank of India):* In a move to assist the fledgling breed of Indian entrepreneurs, run has aforementioned it plans to smoothen flow of funds to start out ups by permitting them to induce foreign capital with none curbs and alter easier transfer of shares between residents or non-resident investors. It additionally believed the liberalization of norms won't produce any issues for the Indian banks as they need a little exposure to the startups that will inspect the issue of innovative FDI instruments like convertible notes by startups and streamlining their overseas investment operations. The aim is to alter movement of capital and do away with restrictive impediments hampering their growth, to make a lot of 'unicorns' or firms with billion-dollar valuations. What they tend to do is creating it easier for Indian unicorns and additionally the want to be unicorns to lift cash. It follows a formidable startup Bharat program unveiled by Prime Minister Narendra Modi. Within the sixth bi-

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monthly policy statement of this business, the run declared simplification of rules and laws to confirm that a bourgeois doesn't need to run from "pillar to post".

2) *Analysis:* From the above information gathered, it is very clear that central bank of India (RBI) has huge impact on venture capitals in and outside the country. And on the whole, it can be stated that: start-up will mean an entity (private limited company, registered partnership firm or a limited liability partnership) incorporated or registered in India not prior to five years, with an annual turnover not exceeding ₹25 crores in any preceding financial year.

And RBI is always ready to back up the entire new entrepreneurs of the country so these start-ups should be working towards innovation, development, deployment or commercialization of new products, processes or services driven by technology or intellectual property and satisfying certain conditions as given in the Foreign Exchange Management Regulations, 2018.

Top Venture Capitalists in India in Terms of Number of Investments

Name of the venture capital firm	2014	2015	2016	2017	2018
Sequoia capital	7	12	13	18	19
Venture east	10	11	14	13	18
Intel capital	13	7	14	8	11
Nexus capital	10	11	14	12	19
IDG ventures	10	10	15	16	16
Canaan partners	10	11	14	14	11
DFJ India	10	12	13	12	19

Source: prabhudesai.com

All of the above are foreign venture investors registered with SEBI. In India the venture capital is dominated by foreign venture capital institutions.

B. To Observe The Contribution Of Financial Institutions In Encouraging The Venture Capitalists

1) *Role of Financial Institutions:* During recent years, it's seen a rise in initiatives by governments round the world toward encouraging entrepreneurship to spur growth and job creation. a part of these efforts has been headed toward attempting to get a full of life capital market either through direct participation within the kind of government capital programs or through indirect efforts geared toward making the correct institutional atmosphere.

2) *Public Sector Banks:* These type of Venture Capitalist funds are promoted by Public Banks. SBI Capital Markets Ltd and Canbank Venture Capital Fund are some examples of these kinds of VC funds.

a) *SBI Bank:* It is the country's largest domestic Investment Bank, which offers the entire gamut of corporate advisory and investment banking services. These services include structured Debt placement, stressed assets resolution, Merger & Acquisitions, Private Equity, Project Advisory and loan Syndication and Capital Markets. Founded in 1986, SBICAP has an aim of providing professional, credible and customer-focused investment banking services.

i) *Private Equity/Venture Capital:* The Private Equity/Venture Capital (PE/VC) investments in India commenced in the early 90s and the same has grown substantially over the years.

b) *Canara Bank:* Founded on 21st Gregorian calendar month in 1989, CVCFL may be entirely owned subsidiary of geographical area Bank. The bank was the initial public sector Bank to line up a risk capital fund that's punctually registered with SEBI.

c) *Canbank Risk Capital Fund Ltd (CVCFL):* The risk capital firm created by geographical area Bank CVCFL had been designated by the Department of physical science and data Technology, to manage the EDF in September 2015.

The Fund of Funds can support early stage, angel funds, venture funds and personal equity funds (also called girl Funds), UN agency successively can give capital to startups within the areas of physical science, Nano physical science and IT. The core focus of the fund is to develop endemic style capabilities.

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3) *Private Sector Banks:* Top private sector banks with deep reserves are now playing venture capitalists to startups at a time when startup valuations are sliding and angel investors have become more cautious than before.

a) *ICICI:* At ICICI Bank, they created a gaggle that appearance at providing comprehensive set of services to all or any startups. They cowl fully new startups to matured high-growth companies," a spokesperson of the bank said. These services are offered through a combination of in house team members and partners.

b) *AXIS:* While Axis features a startup team referred to as new business economy, HDFC Bank features a team engaged on its product sensible purchase to fund first-time entrepreneurs. they need done loaning to startups in Bengaluru, Gurgaon and metropolis once they need graduated their business and their business models area unit correct.

c) *Axis Capital Fund:* Axis Capital restricted (Erstwhile ENAM Securities Personal Limited) is one in all India's leading monetary knowledgeable with the only real aim of providing centered and customized solutions within the areas of Investment Banking and Institutional Equities.

d) *HDFC:* Private-sector lender HDFC Bank's Centre of Digital Excellence (CODE) will mentor and handhold fin-tech startups incubated at the country's top engineering and business schools. Under the initiative, Industry Academia, the bank has initially partnered with over 50 institutes including IIT Bombay, IIT Roorkee, and IIM Ahmadabad 's Centre for Innovation Incubation and Entrepreneurship (CIIE).

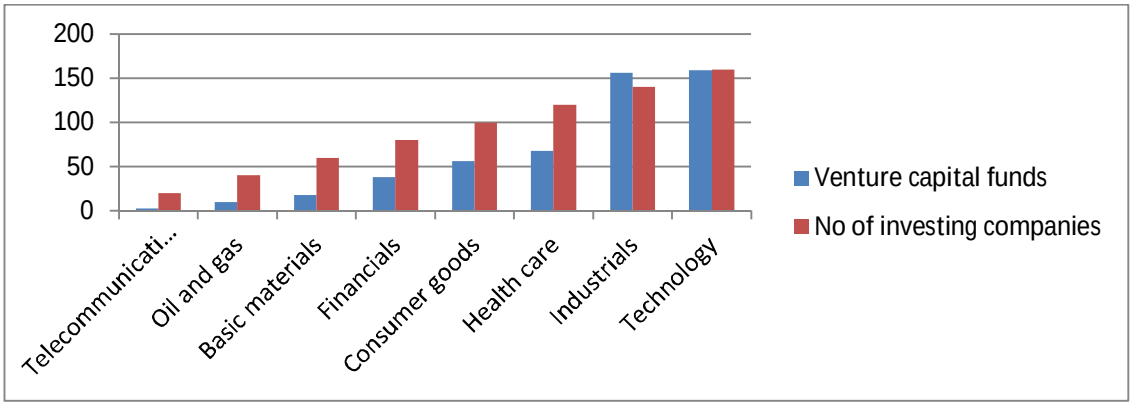
e) *BSE and HDFC bank tie up to Strengthen Venture Capitalists:* The BSE (Bombay Stock Exchange) has signed a Memorandum of Understanding (MOU) with HDFC Bank with an objective to strengthen the BSE Startups Platform. The MOU has been signed to spread more awareness on the benefits of startups on this BSE Startup Platforms.

4) *Analysis:* In the exciting world of venture creation, the role of public sector monetary establishments (PSFIs) has usually been tasteful. However just like the glue that binds despite being barely visible, PSFIs have contended a stimulating role within the development of ventures in Bharat. Usually the Central Government implements numerous fund program through PSFIs. For instance, SIDBI is the fund manager for the start-ups declared by the government. Similarly, the physics Development Fund originated by the Ministry of physics and data Technology is managed by Canbank working capital Funds. However, the predominant role of PSFIs has been as a general partner in venture funds. There are minimum of thirty PSFIs, that have contributed to the corpus of VC funds. Insurance majors LIC and GIC are the largest investors in VC funds – finance in additional than 250 of them.

C. To Study The Proportion Of Wealth Contributed By Financial Institutions On Venture Capitals

In the exciting world of venture creation, the role of public sector money establishments (PSFIs) has typically been tasteful. However just like the glue that binds despite being barely visible, PSFIs have contend an interesting role within the development of ventures in India. Typically, the Central Government implements numerous fund program through PSFIs. For instance, SIDBI is that the fund manager for the Fund of Fund for start-ups proclaimed by the government. Similarly, the physical science Development Fund discovered by the Ministry of physical science and data Technology is managed by Canbank risk capital Funds. However, the predominant role of PSFIs has been as a general partner in venture funds. There are at least 30 PSFIs, which have contributed to the corpus of VC funds. Insurance majors LIC and GIC have been the biggest investors in VC funds – investing in more than 250 of them. The aggregate corpus of VC funds in which the PSFIs have invested exceeds $20 billion.

1) *Analysis:* Industry classification of ventures that have received funding from VC funds in which PSFIs have invested.



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Types of PSFI that have invested in venture funds	
Category	Number
Commercial banks	14
Insurance companies	5
Central government funds	4
Development financial institutions	4
State financial corporations	3
TOTAL	30

Source: (Research support provided by Ramesh Kuruva, Ph.D. Scholar, IIT Madras).
www.thehindubusinessline.com

This is analyzed knowledge on 587 ventures that have received VC funding from funds during which the PSFIs have invested with. Average spherical size was $12 million and therefore the average stake non-heritable was 22 per cent, implying a post-money valuation of concerning $50 million. Fascinating variations may be determined within the composition of portfolio ventures between PSFI invested with VC funds and therefore the overall VCPE trade. Nearly 27 per cent of the ventures are within the technology sector, which has IT, code and core technology hardware merchandise. this can be lower in comparison with overall trade trends. Technology section accounted for 45–50 per cent of the businesses that received VCPE investments.

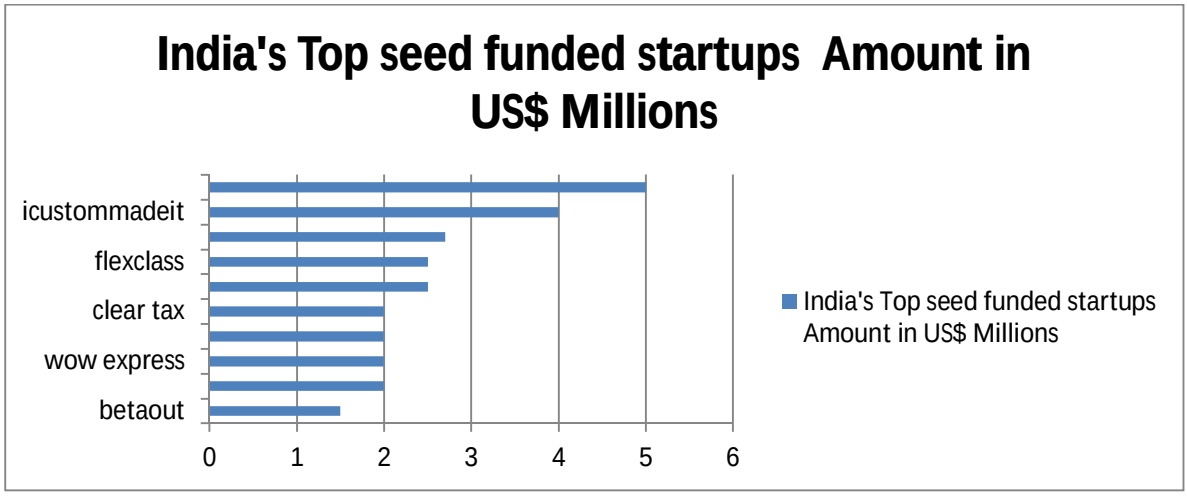
D. To analyze the Performance of Venture Capitals Under the Guidance of RBI

In 2018, tally declared that Foreign risk capital entities will currently invest in unlisted Republic of Indian corporations while not depository financial institution of India approval. The risk capital firm can, however, have to be compelled to be registered with market regulator SEBI. The investment may be created in Associate in Nursing Indian company in ten specific sectors or in any start-up. The financial institution on amended the rules governing foreign risk capital investors (FVCI) so as to additional liberalize and rationalize the investment regime and to convey a positive stimulus to foreign investment in start-ups.

According to the tally, the ten sectors within which SEBI-registered FVCIs will invest while not its nod are: biotechnology, IT, applied science, seed analysis and development, discovery of recent chemical entities in pharmaceutical sector, farm business, poultry business, production of bio-fuels, hotel-cum-convention centers with over three,000 spaciousness, and infrastructure sector. FVCIs can even invest in equity, equity-linked instruments or debt instruments issued by Associate in Nursing Indian 'start-up' no matter the arena within which it's engaged. The RBI said a start-up will mean an entity (private limited company, registered partnership firm or a limited liability partnership) incorporated or registered in India not prior to five years, with an annual turnover not exceeding 25 crores in any preceding financial year.

1) Analysis

Growth of venture capitals up to 2018



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2) *Interpretation:* The development of the organized venture capital industry in India, as is in existence today, was slow and laboured circumscribed by resource constraints resulting from the overall framework of the socialistic economic paradigms. Although funding for new businesses was available from banks and government-owned, development of financial institutions was provided as a collateral-based money on project-financing basis. which made it difficult for most of the new entrepreneurs, especially those who were technology and services based to raise money for their ideas and businesses. Most entrepreneurs had to rely on their own financial resources, their families and well-wishers or private financiers to realize their entrepreneurial dreams.

VIII. FINDINGS, SUGGESTIONS AND CONCLUSION

A. *Findings*

An analysis of amount raised and invested for Venture Capital financing in India reveals that from 1994-95 to 1998-99 the growth has been marginal due to several reasons.

1) The growth of Venture Capital operating in India experienced a steady and constant output with no pros and cons and has an exponential increase started from the last 4 years i.e.., from 2016 ending to 2019.
2) The fund utilization ratio by venture capitals is only 62% per annum. The main reason is the shortage of experienced Venture Capitalists in India both in quality and numbers.
3) An analysis of the average investment per venture has recorded an increasing trend.
4) The industry wise distribution of Venture Capital investment shows, the investments were largely made in manufacturing companies particularly in industrial products during the early period.
5) The instrument wise distribution of Venture Capital shows that the Venture Capitalists prefer equity firm. It is because the Indian investors prefer to be owners than lenders to an institution.
6) An analysis of the contributors to Venture Capital funds shows that the major contributors were the All India Financial Institutions up to 1996-97 and again from 2017 to 2019.
7) It accounts for about 35% of the venture financing deals conducted in India to date. It is mainly because of the number of funds managed by it and the industry specific funds started by it.
8) The IVCL is also improving its performance after an initial setback. However, its returns are not up to the expectations of the Venture Capitalists. The most preferred exit route is management buyout accounting for 30% of the total exit that has taken place so far, last two years of study, indicating that the increase in exit options and relaxations of the government norms have helped in increasing the number of exits which will pave the way for the growth of Venture Capital Financing in India.

B. *Suggestions*

1) To push and develop the capital business the govt. ought to give financial relief by exempting the dividend paid to capital fund investors from taxation.
2) The capital gains ought to be taxed at rock bottom proportion and to draw in public savings for capital activities, people ought to incline tax rebate beneath Sec.88 of the taxation Act.
3) Institution of personal capital funds ought to be created easier, they must be allowed to make capital funds severally instead of as venture with banks / money establishments.
4) Industrial banks ought to be allowed to reason the investment in capital funding as “priority sector lending” because it is mostly used solely to finance tiny scale industries.
5) Foreign capital investment ought to be any inspired to draw in foreign investment. It's necessary to permit higher foreign stake in capital finance (i.e.) up to fifty per cent or higher than so the foreign company will have internal control.
6) Amendment the favored perception that capital is barely for prime technical school businesses. The speculator ought to seize the opportunities in areas like biotechnology, prescription drugs, food process, decision centers, BPO’s etc., and make sure that capital isn't restricted solely to high risk high come project rather it's swollen to different areas moreover.

C. *Conclusion*

Venture Capital can play a very important role in a sector where knowledge and ideas can play a catalytic role. India has the largest scientific and technical manpower in the world. With the growing economy good business opportunities are also likely to emerge from transfer of technologies and marketing of ideas tested in developing countries. Venture Capital may thus prove to be an ideal form of finance for new dynamic enterprises.

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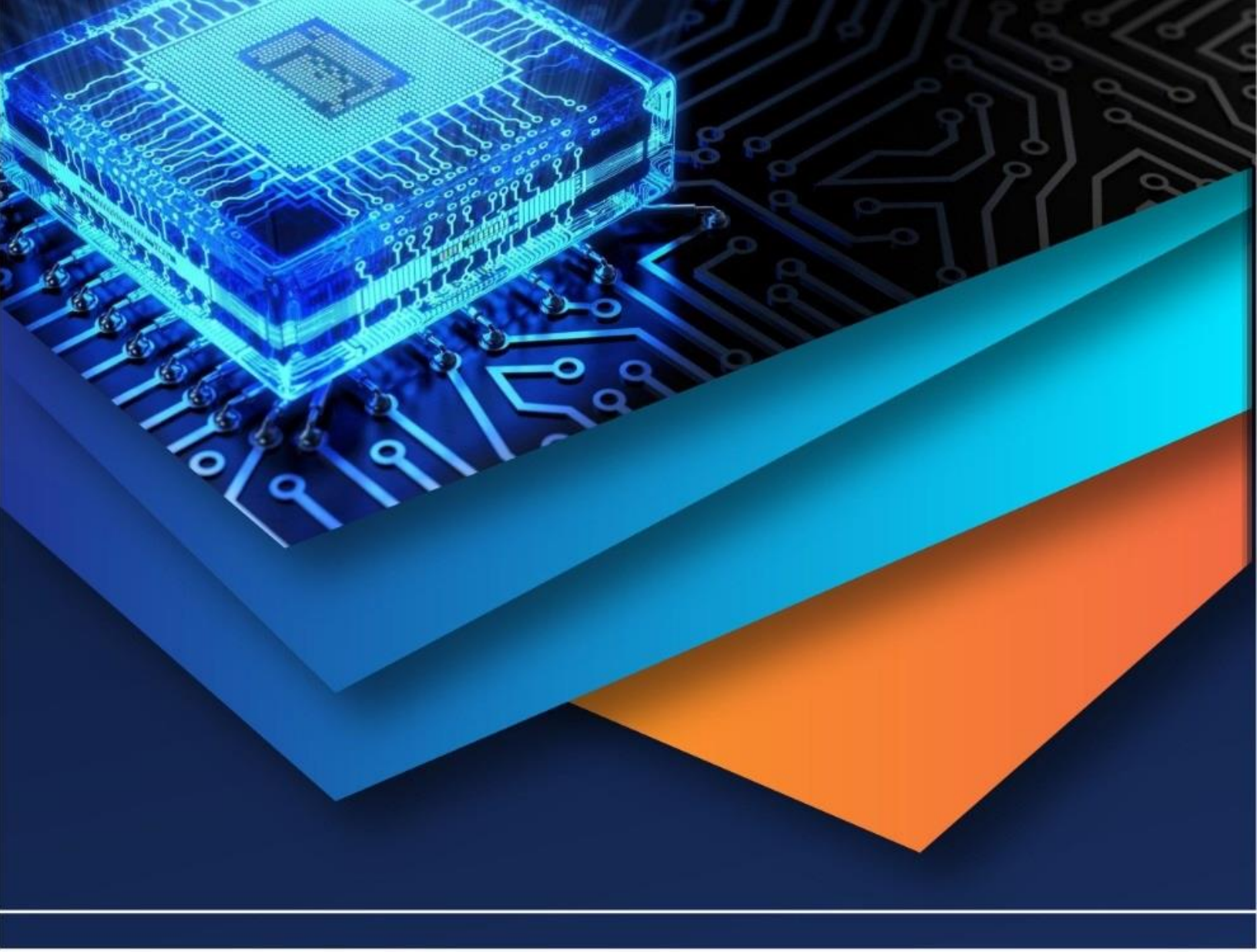

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