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Venture capital finance in India – practice, problems and prospects

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Today's economy is increasingly driven by knowledge-based ideas, technology, innovation and global integration. Knowledge-based industries and services contribute major share in the GDP of nations. In the growth of these industries and services, venture capital (VC) industry has made a pivotal contribution; in particular this contribution stands out in high-technology industries and in the most rapid advances facilitated in computing, software, and communications capabilities. The venture capital business demands skill, attitude and system that are very different form those of traditional financial intermediaries. The VC industry, through its investment in high growth companies as well as companies adopting newer technologies backed by first generation entrepreneurs, has made a substantial contribution to economy. Indian venture capital industry is one of the predominant players among South Asian countries. New funds have opened their shop here and are continuing to bring in more funds. The industry has undergone a major shift in focus. India offers lower cost production with a high tech and global outsourcing center. In this paper an attempt has been made to reflect the basic character of VC funds in India and to identify the growth, understanding and legal environment, performance, problems and challenges, and prosperity of this industry in the context of new economy. The study highlights some boulevards for further studies.

Generally health economy can have a positive effect on commitments in VC activity that includes infusing more money. Moreover, if the economy is growing quickly, there are more attractive opportunities for entrepreneurs to start new firms so one can observe increases in the demand for VC funds. R&D expenditure constitutes a proxy of the dynamics of innovation. R&D expenditure enlarges the range of technological opportunities which one might think lead to increased investment for innovation technological projects, often difficult to put into operation within large organizations. The interest rate is also a variable that should be taken into account. VC is an alternative mode of financing to the banking system. Thus, since a low interest rate makes bank financing more attractive, it might penalize VC activity. As Gompers and Lerner indicate, it is also possible to interpret interest rate as an alternative investment from the point of view of those bringing capital to VC funds where the dependent variable being the funds raised. From this point of view, if interest rates rise, then the attractiveness of investing in VC funds may deteriorate (Gompers and Lerner, 1998).

Technological values seem to constitute a determining factor of the dynamics of VC. VC investment is favoured by the creation of technological opportunities, is not validated here. It is true that public expenditure directed towards fundamental research enlarges the range of technological opportunities, but this indicator could not be mobilized within the framework. The concept of venture capital in the sense of risk or start-up capital is quite old in India. This sort of capital has been made available for establishing new business, and financing later developments, by friends, relatives and family members for centuries. The history of modern venture capital in India is not very old, which started in mid '80s. Like many other Asian countries, in India as well, at the government policy level, venture capital is defined in terms of technology financing. For example, in India, tax and other incentives are given to venture capitalists only when finance is provided for high-tech ventures. In practice, most venture capitalists in India, however, follow a flexible and broad approach to venture capital.

Venture capitalists supply funds to new, high risk, not necessarily high-tech ventures, and also extend management, marketing and financial skills to the assisted firms. In the Indian context, the concept of venture capital may be defined as investment in the form of equity, quasi-equity and/or conditional loan, made in new, unlisted, high risk or high-tech firms, started by technically or professionally qualified entrepreneurs, where venture capitalists

The study of the ventures they create and lead has

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