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Evaluation criteria and investment activities of Indian venture capital

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ABSTRACT

Venture Capital (VC) has important contribution to the advanced technological innovation and encouragement of entrepreneurs those who are starting high risk but at the same time get high rewards. Commercialization of new technologies developed worldwide, is one of the routes supported by Venture capitalist (VCs). Venture capital is available in the form of equity and debt instrument based on agreement between venture capitalist and entrepreneurs. They are providing managerial and marketing assistance to entrepreneurs, and networking opportunities till the venture reaches the take off stage of becoming successful. Venture capital has recently been identified as an alternative source of financing for small and medium-sized enterprises (SMEs) in India. The review of the small business literature, however, reveals not much research emphasis which has been given to investigate the nature and role of venture capital companies financing SMEs, particularly in the Indian context. This study attempts to address this issue by examining the evaluation criteria and investment activities of 28 Indian venture capital companies.

Key words : Venture capital, Evaluation critaria, Investment activities

In developed countries such as the US and the UK, venture capital funding, have achieved miracles in invigorating entrepreneurial growth in unproven and risky ventures which offered high prospective for growth entirely through private initiative, with any participation of the government institutions. In developing countries like India, Israel, Korea, Singapore, and Taiwan, the proposal has major contributed to economic growth. Indian approach is modeled on the US and the UK patterns, with the Government playing a positive role and regulatory environment to secure benefit to the Small and Medium Enterprises (SMEs) in particular.

SMEs in India faced various constraints in their business operations. India has found that the problems encountered by SMEs ranged from the lack of capital to the use of out-dated technology in their business activities. In the aggregate, inadequate financing has been identified as the most common concern among Indian SMEs. So, Indian has created two funds of Rs. 2000 crores each in Small Industries Development Bank of India (SIDBI) one for risk capital financing and the other for enhancing refinance capability to the MSME sector; and a fund of Rs. 1200 crores in NHB to enhance to refinance operations in the rural housing sector. This announcement made by Finance Minister in Union Budget 2008-09

Some of the investigations have explained that acquiring external sources of funding are often more difficult for small businesses, particularly for those firms that lack adequate collateral and performance track record. Confronted with the problems of under capitalization as well as the difficulty of obtaining external sources of financing, small and medium-sized enterprises need to seek an alternative source of financing such as venture capital (Zider, 1998; Van Auken and Carter, 1989; and Carter and Van Auken, 1994). In the western business society to a certain extent appears to suggest good number of studies have found that venture capitalists played an equally important role in assisting to fill the funding gap faced by small businesses (Wan, 1989; Camp and Sexton, 1992; Mason and Harrison, 1996).

Even though the evidence from the literature seems to suggest that particularly in countries such as the United States of America, United Kingdom, Germany, Japan and Australia venture capital continues to be recognized as an important source of financing for SMEs in developed countries venture capital as a field of study has not being able to attract much research attention. For instance, Manson and Harrison (1996) in their study concluded that despite the important role of venture capital in assisting small businesses, it still remains under-researched.

Venture capital financing as a source of providing funds to new high risk finance to enterprises which either because of their size, the stage of development, the degree of control, nature of business cannot raise funds from the conventional financing schemes. Conventional financing were security oriented and are meant for projects based on established technology, the need for venture capital was intensely felt by SMEs. Venture capital is nothing more than a variation on the kind of risk capital that goes back to the earliest days of industrial revolution. To known

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