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A Study On Venture Capital Investment & It's Evaluation In India

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ABSTRACT

The study aim is to analyses the venture capital investment and its evaluation in India. The study brings out that the Indian market attracted venture capital funds from even competitors' economics like china. Venture capital is a financial intermediary which provides funds to new entrepreneur having some innovative and new technology in business. Venture capital is an investment in form of equity and debt and sometime both-straighter conditional, made in new or untried concept, ideas promoted by a technically professionally qualified entrepreneur. Venture capital is emerging vital sources for newly start-up innovative business model with high risk factor associated with it. Venture capital has been considered as the engine of economic growth for promoting equitable development through knowledge-based enterprise. The venture capital industry in India has been operation in some from 1973. It is now has successfully emerged for all the business firms take up risky project and have high growth prospects. The venture capital investment assists in fostering innovative entrepreneurship in India. The small and medium enterprise development commission proposed that venture capital be supported as a form of financing for emerging entrepreneurs and technology.

Key words: venture capital, Evaluation, private equity, capital investment etc.

Introduction

India has become one of the fastest developing nations in the world. It is one of the hotpots for investment with reaping rich benefits beside the successful information technology. To start a business the main requirement is capital and raising capital is the toughest job for a speculator. Speculators come across great difficulties in procuring capital for the newly floated enterprises as at the initial stage of business risk is very high and the return is quite uncertain hence common investment hesitate to invest in such companies as compared to speculators engaged in the traditional line of business who can easily procure the necessary capital from conventional capital market.

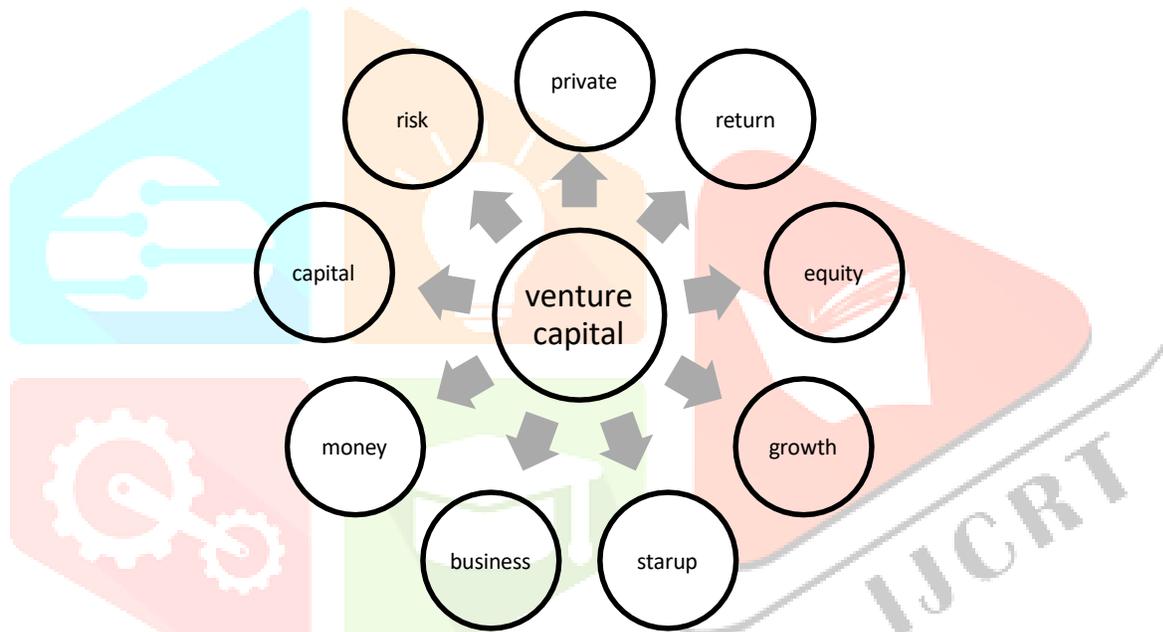
Venture capital came into existence in mid-fifties in USA. Similarly venture capital industry was developed in Uk Europe Israle and that across the word. Venture capital is a type of private equity of financing provided to the firm or funds invest in these start-up companies in exchange for equity and ownership stake in the enterprises venture capitalist take on the risk of financing to risky start-up in the hopes that some of the firm they support to become successful the start-up companies are basically on innovation technology as different model business such as IT and social media. Venture capital Industry plays a significant role in technological and economical escalation of economy through its direct involvement in development of wide variety of knowledge –intensive enterprises (Srinivas. K .T 2013)

Concept of venture capital

The term venture capital comprises of two words that is “venture” and “capital” venture is a course of processing by outcome of which is uncertain but to which is attended by risk or danger of “loss” . The term “capital” refers to the resources to start the enterprise. However the term venture capital can be understood in two ways. According to narrow sense, the capital which is available for financing the new business venture is called venture capital. Generally, it involved lending finance to the growing companies. In the broad sense, venture capital is the investment of long term equity finance where the venture capitalist earns his returns primarily in the form of capital gain.

History of venture capital

Venture capital is the subset of private equity. While the roots of PE can be traced back to the 19th century, VC only developed as an industry after the Second World War. Harvard business school professor George Doriot is generally considered the “father of venture capital.” He started the American research and Development Corporation in 1946 and raised a 3.58 million fund to invest in companies that commercialized technologies developed during Second World War. The corporation’s first investment was in a company that had ambitions to use x-ray technology for cancer treatment. The 200,000 that Doriot invested turned into 1.8 million when the company went public in 1995.



Hit from the 2007-2008 financial crisis

The VC industry was impacted by the 2007-2008 financial crisis. Venture capitalists and other institutional investors, who were an important source of capital for many start-up and small companies, tightened their purse strings. Things changed after the end of the great recession with the emergence of the unicorn. A unicorn is a private start-up whose value is over 1 billion. These companies began attracting a diverse pool of investors seeking big returns in a low interest rate environment, including sovereign wealth funds (SWFs) and major PE firms. Their entry resulted in changes to the venture capital ecosystem.’

Venture capital in India

The venture capital activity is done by development of financial institution such as industrial development banks of India (IDBI), industrial credit Investment Corporation of India (ICICI) and state financial corporation (SFC). The financial institution promoted to the private sector with debt as an instrument of funding. A long term fund raised from the public were used as a source of venture capital

.in India need for the venture capital is recognized in the 7th five years plan and long term fiscal policy of government of India. Venture capital financing really started in Indian 1988 with formation of technology development and Information Company of India limited. The private venture capital fund was sponsored by controlled foreign company (CFC) and promoted by bank of India.

Need of venture capital

Speculators are frequently thought of as national assets to be cultivated, motivated and remunerated to the greatest possible extent. Entrepreneurs can change the way we live and work. If successful, their innovations may improve our standard of living and in addition to creating wealth with their entrepreneurial ventures, they also create job opportunities and the conditions for a prosperous society.

1. Provide a start-up or young business with a valuable source of guidance and consultation.
2. Venture capital firms provide the capital of investment for entrepreneurs and help them facilitate the start of the business.
3. Venture capitalists have invested in similar firms and projects before and therefore, have more knowledge and experience which helps them decide what works and what does not, and how it works.
4. Speculators and other people who come up with bright ideas but lack of capital, what these venture capitalists do is to facilitate and enable the start-up.
5. When there is an ownership relation between the venture capital providers and receivers, their mutual interest for returns will increase the firm's motivation to increase profits.
6. Further venture capital along with financial assistance, they help in the efficiency of the business process, open up new business opportunities for entrepreneurs, access to further capital, enhanced visibility, helps scale the business rapidly.
7. Venture capitalists help bring the gap between capital and knowledge.
8. Venture capital helps speculators to maximize utilization of available resources.

Types of venture capital

1. **Pre-seed funding:** this is the earliest stage of venture capital funding, and it typically goes to companies that are just starting out. Pre-seed funding can come from personal savings, friends and family, or angel investors.
2. **Seed funding:** seed funding is typically the next stages of venture capital funding, and it goes to companies that have a prototype or product but are not yet generating revenue. Seed funding can come from venture capitalists, angel investors, or incubators.
3. **Early-stage funding:** early-stage funding goes to companies that have a product or services but are not yet generating significant revenue. Early-stage funding can come from venture capitalists or angel investors.
4. **Late-stage funding:** late-stage funding is typically the last stage of venture capital funding, and it goes to companies that are generating significant revenue but are not yet profitable. Late-stage funding can come from venture capitalists or private equity firms.
5. **Expansion capital:** your company is well established, and now you are looking to venture capital to help take your business to the next level of growth. It helps to enter new markets or increase your market efforts.
6. **Bridge financing:** if you are planning an IPO, a VC may also assist with mezzanine or bridge financing –short-term financing that allows you to pay for costs associated with going public.

Review of literature

Lerner J(1994) in his article, entitled “venture capital and the decision goes to the public” has made a detailed evaluation of the timing of initial public offering and private financing by venture capitalists. He has found that venture capital firms go public when equity valuations are high and employ private financings when the values are lower.

Cumming D.J. and MacIntosh J.G.(2001) has made a detailed study on venture capital investment duration in Canada and the United States. The factors influencing venture capital investment duration were empirically analyzed and it was found that the investment duration in Canada and the U.S. is shorter for early stage firms.

Vinay Kumar A (2002) in this article entitled “venture capital finance in India: practices, perspectives and issues”, has suggested that the venture capital industry should concentrate more on early stage enterprises rather than later stage companies. He has found that venture capital firms have opted to invest in low risk projects and also suggest that firms should have special care in monitoring deals to maximize returns.

Elisabete Prasad reddy (2007) has studied the determinants of venture capital in Europe. The research has tested where the unemployment rate, the trade sale divestment and the price ratio are explaining Europe venture capital or not. And they found that the unemployment rate and trade sale divestment important determinants of Europe venture capital market.

Objective of the study

To study the Growth of venture capital financing in India
 To study the venture capital investment in India
 To study the sector wise venture capital financing in India

Research methodology

The objective of the paper is to present venture capital investment and it's evaluation in India. In terms of growth, geographical dispersion, sector analysis, sector analysis. The study has taken help of various website journals social sites reference book government report and industry publication to gain and understanding of venture capital financing in India. Main aim behind the study is growth of venture capital financing in India.

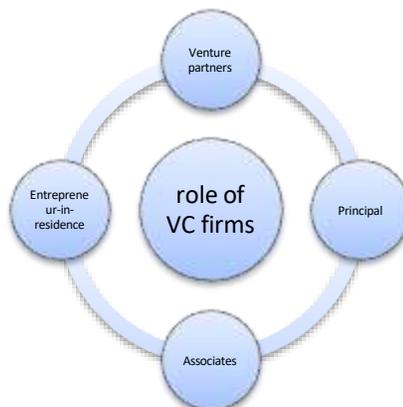
Venture capitalist

Venture capitalist is person who makes venture capital investment, and these venture capitalists are expected to bring managerial and technical expertise as well as capital to their investment. A venture capital funds refers to a pooled investment vehicle(in the united states, often an LP or LLC) that primarily invest the financial capital of third-party investment in enterprise that are too risky for capital markets or bank loan. These are typically managed by a venture capital firm, which often employs individual with technology background (scientists, researcher), business training and/or deep industry experience. A core skill within VC is the ability to identify novel technologies that have the potential to generate high commercial return at an early stage. VCs also take a role in managing entrepreneurial companies at an early stage, thus additional skills as well capital, thereby differentiating VC from buy- out private equity, which typically invest in companies with proven revenue and thereby potential realizing much higher rates of returns.

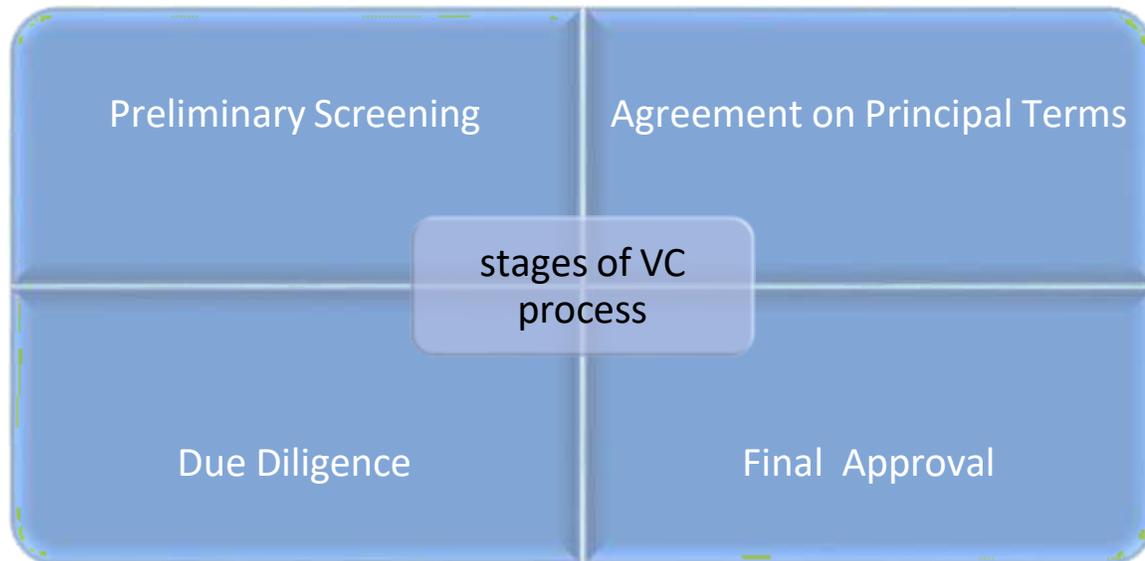
Method of venture capital funding

1. Share in equity of the company:
In exchange for a share in the equity of the company
2. Participating in debenture:
any types of debt instrument that is not backed by any collateral but gives the investor a right to participate in the profit of the company.
3. Conditional loan:
these are do not carry interest and are repayable to the investor in the Form of royalty after the company seeking investment starts generating revenue.
4. Income notes:
It is hybrid of both: traditional loans and conditional loans, wherein the Entrepreneur will have to pay both royalties and interest at a very minimal rate.

Role in venture capital firm



Stages of venture capital process



Top venture capital firms and his investments

No.	Company	Sector	Valuation(\$B)	Year	Location
1	Flipkart	E-commerce	21	2012	Bangalore
2	Paytm	Payments	16	2015	Noida
3	Oyo rooms	Budget hotels	10	2018	Gurgaon
4	Byju classes	Edtech	8.2	2018	Bangalore
5	snapdeal	e-commerce	6.5	2014	Delhi
6	Ola	Ride hailings	6.4	2015	Bangalore
7	Swiggy	Foodtech	3.6	2018	Bangalore
8	Freshworks	SAAS-CRM	3.5	2018	Chennai/san mateo
9	Zomato	Foodtech	3.1	2015	Gurgaon
10	Paytm mall	E-commerce	3	2018	Noida
11	Udaan	E-commerce(B2B)	2.8	2018	Bangalore
12	Delhivery	Logistics services	1.6	2019	Gurgaon
13	Quikr	Classifields	1.6	2015	Bangalore
14	Lenskart	Eyewears	1.5	2019	Bangalore
15	Billdesk	Payments (B2B)	1.5	2018	Mumbai
16	Mu sigma	Analytics	1.5	2013	Bangalore
17	Hike	Messaging	1.4	2016	Delhi
18	Ola electric	Mobility	1.1	2019	Bangalore
19	Dream 11	Gaming	1.1	2019	Mumbai
20	Shopclues	E-commerce	1.1	2016	Gurgaon
21	Citius tech	IT- healthcare	1	2019	Mumbai/princeton
22	Icertis	Contract management	1	2019	Pune/bellevue
23	Druva software	Data management	1	2019	Pune/sunnyvalue
24	Rivigo	Trucking service	1	2019	Gurgaon
25	Bigbasket	Groceries	1	2019	Bangalore
26	Policybazaar	Insurance tech	1	2018	Gurugaon
27	Inmobi	Mobil ads	1	2011	Bangalore

Growth of venture capital in India

The growth of venture capital in India has followed a gradual sequence of events. The idea of venture capital financing was adopted at the instance of central government and government sponsored institutions. The need for venture capital finance was first highlighted in 1972 by the committee on development of small medium entrepreneurs under the chairmanship of R.S.Bhatt, (popularly known as the bhatt committee) which drew attention to the problem of new entrepreneur and technologies in setting up industries.

In 1975 venture capital financing was introduced in India by the all India financial institutions with the inauguration of risk capital foundation (RCF) sponsored by IFCI to supplement 'promotes' equity with a view to encouraging technologists and professionals to promote new industries.

In 1976 the seed capital scheme was introduced by IDBI. Till 1984 venture capital took the form of risk capital and seed capital. In retrospect, though, it may be difficult to establish that the spate of Sickness in industrial units in the decades prior to 1980, could possibly to have avoided, had venture capital been readily available.

A positive role for venture capital was envisaged in the national technology policy statement in 1983, which set guidelines for technological self-reliance in order to encourage the commercialization and exploitation of technologies development in the country. The policy statement stressed the development of indigenous technology and the efficient absorption and adaption of imported technology appropriate to national priorities and resources. Given these objective venture capital because a necessary method of financing for enterprises using such technology.

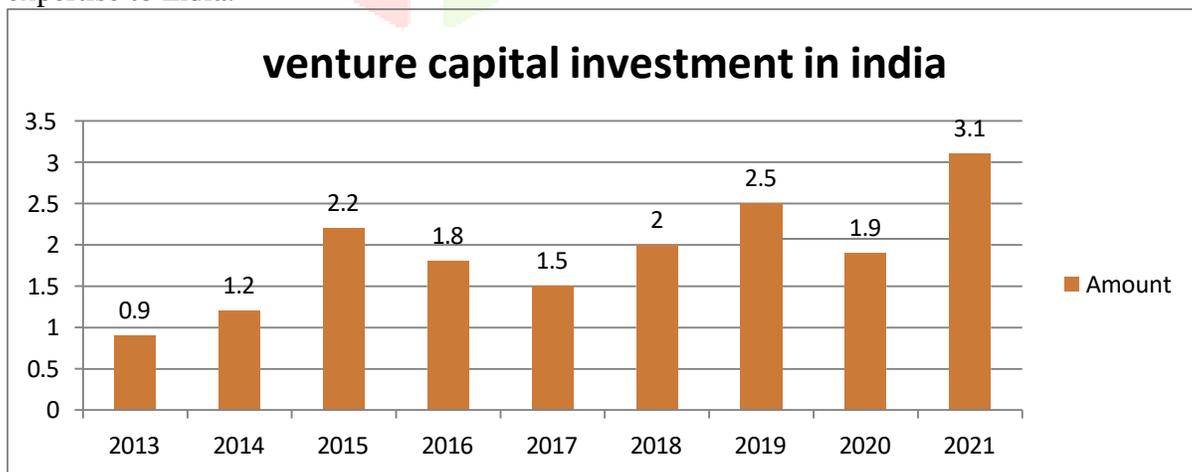
In 1984 ICICI decided to allocate funds for providing assistance in the form of venture capital to economic activities involved both risk and high profit potential. In 1986 ICICI launched a venture capital scheme to encourage new technology in the private sector in the emerging fields of high-risk technology.

Under the above scheme, commercial research and development project involved development of new technology or product, commercial implementation of indigenously development technology, or implementation of an innovation indigenously development technology, or implementation of an innovation technology imported and transferred from abroad are eligible for venture capital assistance.

Further in august 1986, ICICI undertook the administration of the program for application of commercial technology (PACT) aided by USAID with initial grant of US 10 million. This was akin to venture capital financing for specific needs of the corporate sector industrial units.

Over a period of time there has been a change in the type of players who are operating the venture funds. In the early years of the venture capital industry in India, the majority of the investment was from the all Indian financial institution and domestic funds. In the past couple of years, majority of the investment is from foreign institutional investors in off-shore funds.

Investment by the off shore funds are both in India and outside India. So the venture capital is increasingly being financed by global players who are being global players who are brings global players who are being global expertise to India.

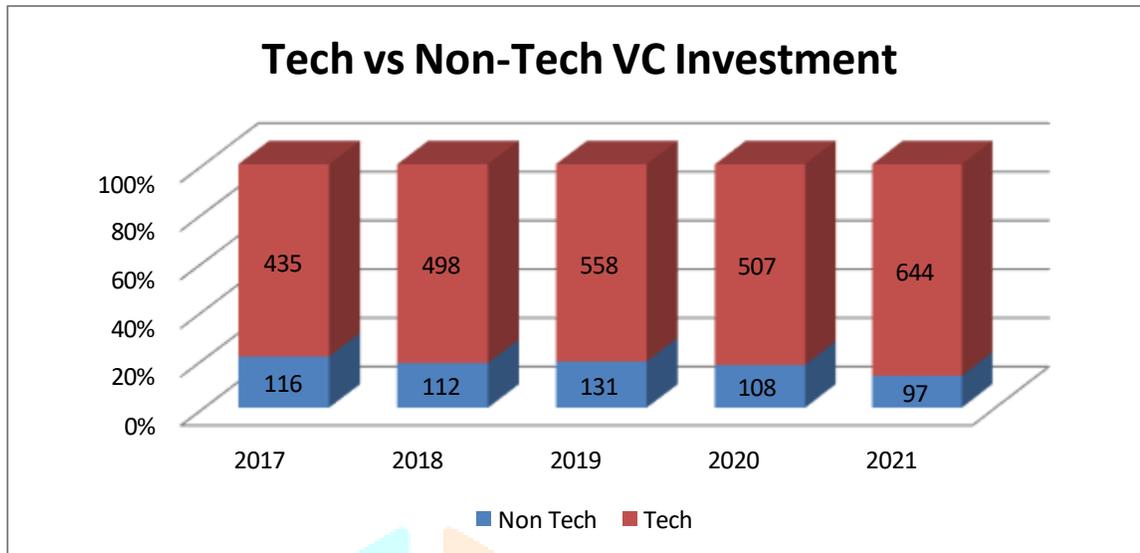


(Source: indian venture capital report 2021)

Analysis:the year 2021 has witnessed a record breaking venture capital (vc) investment in india. Such investment usually come from well-off financial institution, angle investors, and investment worth \$3.1 billion, there has been an increment of 64.9% in these investment compared to 2020 bagged a total of \$1.9 billion investment from 615 deals.

Investment by sector

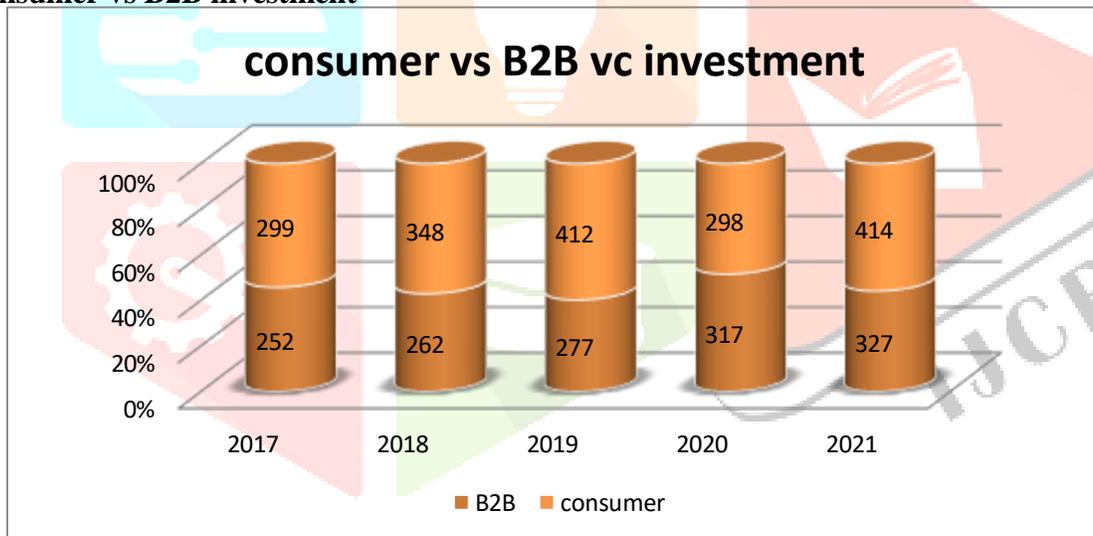
Tech and non-tech investment in 2021



(Source: indian venture capital report 2021)

Tech and non tech-enables companies were favourites for investment during 2021 as a total of 644 investment were recorded with a cumulative worth of \$2.8 billion. On the other hand, the non-tech investment accounted for only 97 deals worth \$383 million.

Consumer vs B2B investment



(Source: indian venture capital report 2021)

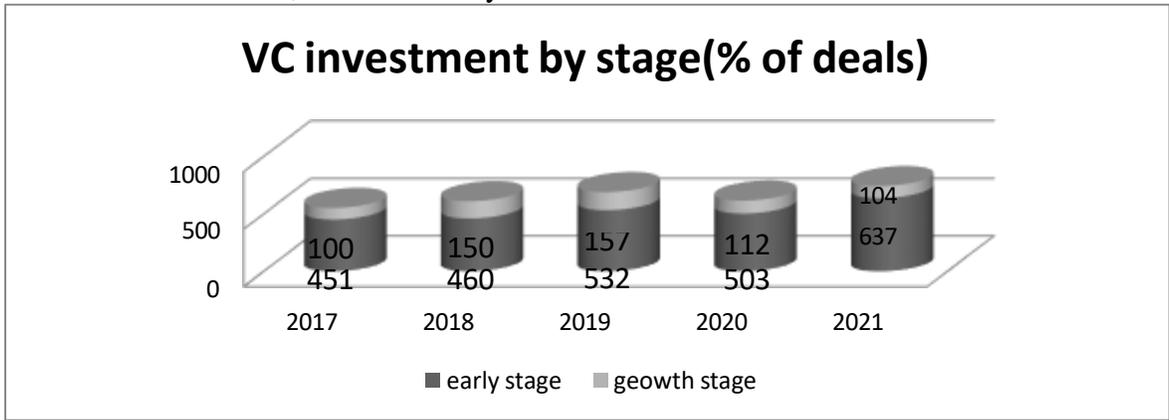
Analysis: The most significant non-tech vc investment were in skincare startup minimalist and FMCG company wingreens farms. In addition to this, among B2B companies, the latter raised \$1.7 billion from 414 deals while B2B firms got 327 investment worth \$1.5 billion. Enterprise software was the preferred sector for vc funding in 2021 as the deal volume was 168, with a net worth of \$696 million. The highest investment deals were closed by the B2B buyers intelligence startup slintel, B2B marketplace startup fashinza, and B2B logistics startup gobolt.

Investment by stage

There are mainly five stages of venture capital investment, namely the seed stage, start-up, early-stage, expansion (growth) stage, and bridge stage. The first stage is about approaching angel investors to fund the idea or prototype. In the start-up stage, the idea is converted into sample and business plan is formulated based on the testing result, market research, and forecast. The early stage is where the product is available in the market, and the business is competing against competition. The early stage where the product is available in the market, and the business is competing against competitors. the funding require in the stage goes for manufacturing, marketing, and sales, in the expansion and the growth stage, the motive is to seek fund to expand and scale up the business or its

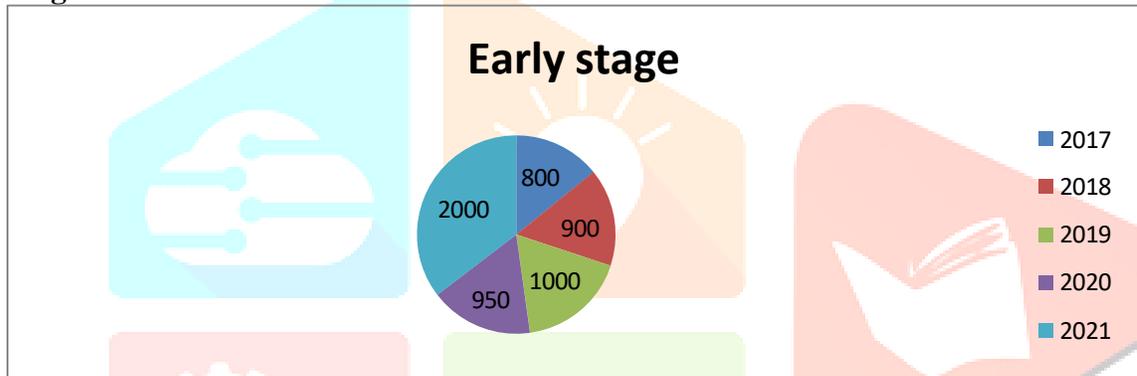
production. The last stage, and here, the company’s goal is to go public so that investors can exit and earn profit. The aim is to arrange funds for transaction activities.

The start up and business in their early stage were also focused on by VC firms as they made 637 investment worth \$2.3 billion in 2021, which is nearly 27% more than the deal volume of 2020.

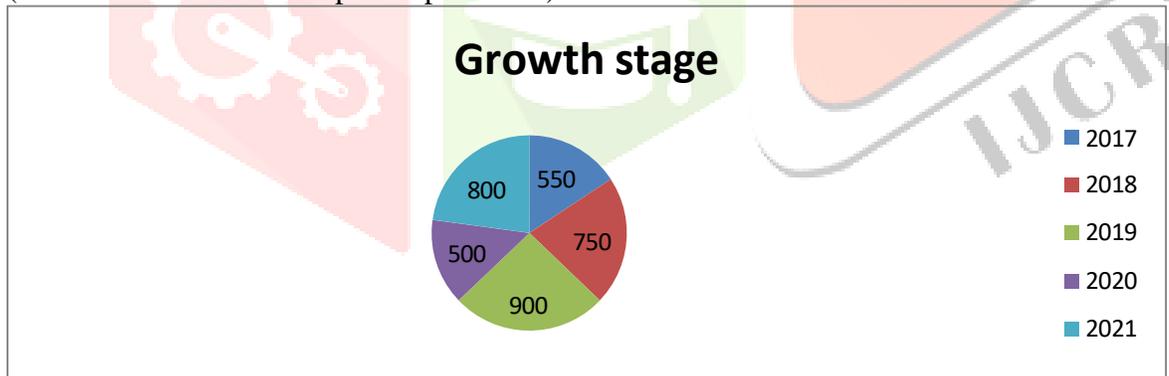


(Source: indian venture capital report 2021)

Stage wise investment in 2021



(source: indian venture capital report 2021)

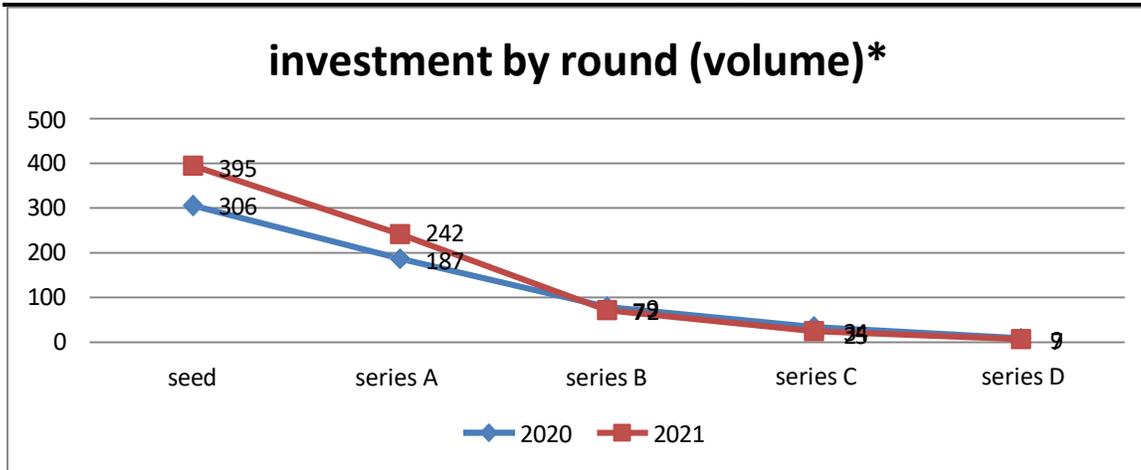


(source: indian venture capital report 2021)

Analysis: however a dip of 7% was noticed compared to 2021 in the investment done in growth stage companies. The overall share of early-stage deals stood at 86% in 2021.

Investment by Round:

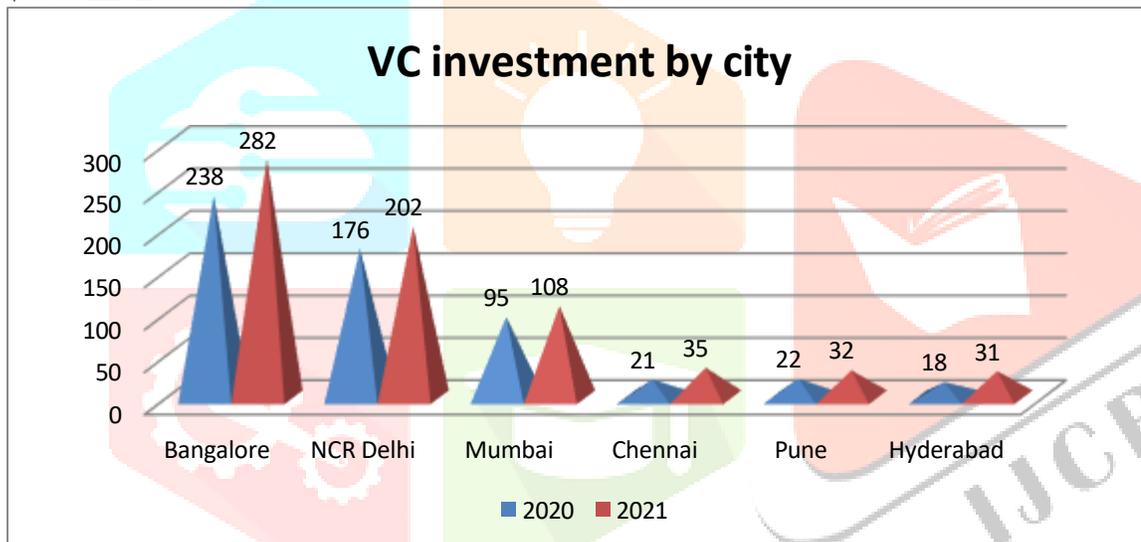
395 deals were signed between business and vc investor in high seed round in 2021 which is higher than volume recorded in 2020. In the series A round, 242 investment were recived and the number was still higher then the previous yea. However, in the remaining series B, C, and D rounds, the overall investment decreased marginally.



(source: indian venture capital report)

Investment by region

In 2021, bangalore retained the top and most preferred region for vc investment with an over all 282 deals with a valuation of \$ 1.3 billion. The key startup that sealed the highest investment deal from bangalore were velocity, klub, and teachmint. The second spot was taken by delhi NCR with 202 VC deals worth \$0.8 billion and mumbai grabbed the third position with 108 investment and total funding of \$0.6 billion.



(source: indian venture capital report 2021)

Most active-investors

In 2021, indian startups and small business have successfully mopped up \$3.1 billion from vc funding. These investment geared up the indian start up ecosystem and changed the whole landscape of economy of country. Some investors are have poured money various innovative business and startup in india in the past few years. Along with 53 investors, sequoia capital india is the most prominent and active vc investor on date. Out of all funding is provided in 2021, 20 of them are follow-on investment, and 33 are completely new investment portfolio of sequoia include business, such as klub, sintel, faze technologies, beminimalist, coinshift, aqgromalin, toplyne, and many others.

Most active investors

Investors	Companies	Select portfolio
Sequoia capital india	53	Klub, slintel, faze technologies
Blume ventures	34	Slice, ultrahuman, zolve
Accel india	32	Fashinza, slintel, haber water technologiesc
Elevation capital	25	Fashinza, haber water technologies

30NE4 capital

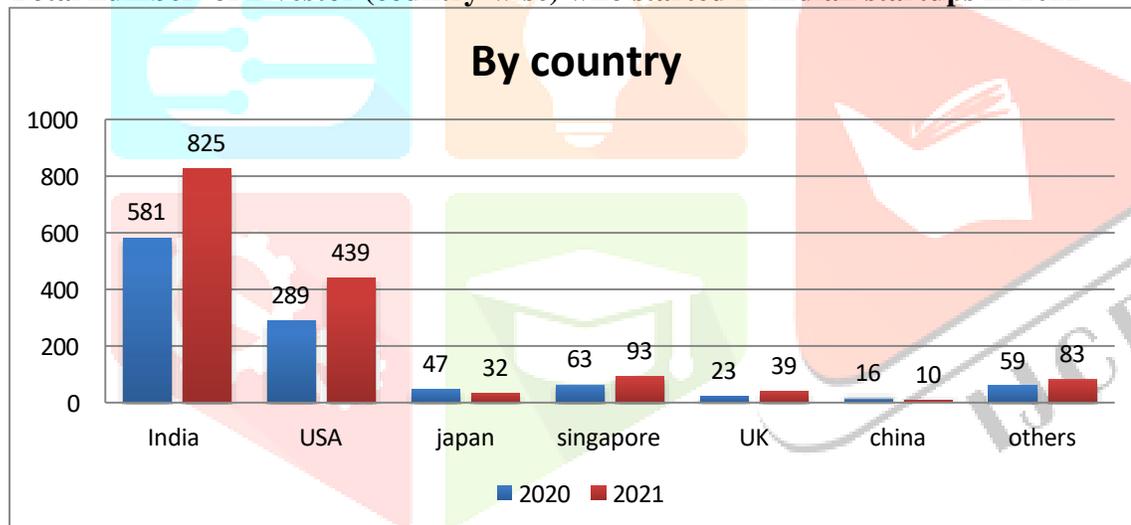
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Darwin box, ripplr, lokal

(source: indian venture capital report 2021)

The second most active investor is blume ventures which made 19 follo-on investment and 15 new deals, including neo banking startup zolve, fintech startup the money club, and logistic tech startup freightify. The other key start ups funded by blume ventures include slice and ultrahuman. Others major players in the VC funding are accel india (32 investment), and 30NE4 capital (25 investment).

Total number of investor (country-wise) who started in indian startups in 2021



(source: indian venture capital report 2021)

India is a huge market not only for domestic investors but also for global players as well. in 2021, 825 domestic funds were invested in india-based startups, 442 investors have roots in north america, and 163 investors were different asian countries.

Conclusion

Venture capital is a vital source of funding for high growth start-ups in India and plays an importance role in spurring job creation and economic productivity. It was introduced in India back in 1988, after economic liberalization. IFC, ICICI, and IDBI were the organization that established venture capital funds and targeted large corporations. The formalization of the Indian venture capital market started only 1993. The venture capital investment are possessed the risk and high returns. Venture capital prefers apprentice ventures. Venture capital investor's focus is to earn good returns with rational choice of investments. The study confers that information technology (IT) sectors and pharmaceuticals sectors are the major sectors venture capital investments. Venture capital investments are supportive for the growth of entrepreneurial. It is found to be highly concentrated in few sectors. The government should provide incentives and tax wavering for venture capital investment in the essential

sectors such as agriculture, construction, transports to support the national growth. Government has to consider as a part of entrepreneurial development and create awareness among the young potential entrepreneurs. The government policies to monitor the activities of venture capital investors would support of safety of entrepreneurial.

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