CHAPTER – VI

SUMMARY OF FINDINGS, SUGGESTIONS AND CONCLUSIONS

6.1 Introduction

Venture Capital funds in the globalised scenario playing a pivotal role in development of knowledge based industries. Venture Capital fund is a boon for young, energetic, dynamic and strategic entrepreneurs. In this process the dreams are come true, what lies within the mind set of an entrepreneur has been materialized through Venture Capital fund. Venture Capital funds are tools which bridge the gap between where the innovative entrepreneur is and where they are ought to be.

Researcher has focused on various aspects of funding by Venture Capital firms, basically funding is concentrated on innovative ideas and knowledge based industries and evaluation criteria etc. The summary of research carried out has been illustrated in the following pages.

6.2 Major findings of the Study

1. It is observed from gist of the financial data that, adding together 12 Venture Capital firms which are registered under SEBI and functioning in Karnataka with an investment of US $ 3583.43 Million. These 12 VC firms are managing 20 funds in Karnataka, ranging from US $ 0.1 Million to US $ 595.18 Million. The origin or genesis of Venture Capital firms in Karnataka is trace back to year 1998.

2. The growth of Venture Capital fund witnessed a phenomenal trend since 1998; there were only two Venture Capital companies in the beginning, where as in 2008 there were 14 Venture Capital firms. Over a period of one decade more than dozen companies started its operation in Karnataka. At present there are 20 Venture Capital funds functioning in Karnataka. Interestingly all these firms as well as funds are concentrated only in Bangalore, as Bangalore is the “Silicon Valley” of India and the software hub of Asia. Though there are 20 funds, all these funds concentrated mostly
on BFSI, IT and ITES enterprises. Moreover leading financial institutions in India have made reasonable attempts to establish the funds.

3. Most of the investments were made by leading VCs such as UTI, ICICI, Ascent Capital advisors, India Value fund, 2i Capital, PI opportunities fund. The sum of these investments constituted 96.84% of the total investments in Karnataka.

4. Venture Capital firms concentrated their investments on different sectors. A Venture Capital investment in Karnataka ranges from IT and ITES to Hotel and Resorts. Investments in IT and ITES and BFSI is also almost 1/4th, that means total investment in IT and ITES and BFSI enjoy a major share of the entire investments in Karnataka and remaining investments is attributed to another 18 sectors, further the investments also categorize at various stages of investments, interestingly more than 36% of the funds are invested in the Later stage than in the Early stage as well as Growth stage. 18% concentrated on Pre-IPO stages, remaining 54% of investments ranges to different stages of investment.

5. Karnataka shifted their focus from Agriculture to IT and IT enabled services. Karnataka is exploring the Venture Capital market extensively because of human and social capital. Karnataka, particularly Bangalore city is in the 1st place in attracting Venture Capital fund in India in 2012 by receiving 62 deals.

6. Total 12 Venture Capital firms are registered under SEBI guidelines and functioning in Karnataka. They are offering 20 registered Venture Capital funds in Karnataka. Total investments made by VC firms are 3583.43 US $ Million as on 31st Dec 2012. Maximum amount of investment was made in 2006, and second largest investments in 2007 and 2008 witnessed the third highest investments by VC firms in Karnataka. ICICI heads the race, with a total investment of 1,519.63 million US $, whereas 2i Capital occupies the 2nd place with an investment of 595.18 million US $. UTI, India Value fund occupies 3rd and 4th place respectively in Karnataka. Banking, financial Services and Insurance sector (BFSI) is the largest beneficiary of Venture Capital with a share of 22.1%. After BFSI, IT and ITES sector, is the second largest recipient with a total share of 20.44%. Media and Entertainment stood at third place with an investment of 323.05 million US $, making it 9.02%. Health care and Life Sciences attracted 8.72% of the total share.
7. In all 13 companies are developed by KITVEN fund since inception with an investment of almost US $ 6 Million. Further most of the development of enterprises were made in year 2001 and 2006 only, the remaining companies was developed in staggered manner. KITEVEN fund concentrate mostly on IT and ITES in compare to other sectors, almost 71% o KITVEN funds are invested in IT and ITES and remaining less than 29% of its investment is invested in Telecom and Health Care and Life Science sector. Further KITVEN is very particular in investing at early stage, the early stage investments runs upto 85%.

8. Canbank Venture Capital fund is though popular and competitive in nature, so far it is invested only in 9 companies, the total amount of investments stood at US $13.12 Million. In the span of 15years for a period of seven years, the company had not invested at all. Canbank fund mostly concentrated on Manufacturing and Health Care and Life Science sector, more than 72% of its investments diversified to these sectors alone. The remaining in IT and ITES, further Canbank Venture Capital fund also aims at investing in Later stage.

9. Zephyr Peacock II trust Venture Capital fund is another investment fund which has invested around US $ 63.78 Million and further it concentrate on mostly on Manufacturing, Engineering, and Construction, IT and ITES , more than 39% of its investments to these sectors and the remaining in Education 12.41%, Telecom 7.83%, Health Care and Life Science 7.83% , Energy 10.97% and Zephyr Peacock Venture Capital fund aims at investing is investments at Pre-IPO stage, out of its investments made 58.60% of investments is made at Pre-IPO stage.

10. Kaizen Trust Venture Capital fund started its operation in 2009 and invested just US $ 10.75 Million and promoted two enterprises. And its entire investment is made to education sector alone. Further out of its total investments 66.51% was invested in other stage and 33.49% was invested in Growth Stage of the enterprises.

11. Forum Synergies India Fund invested US $ 3 Million in 2012 and promoted one enterprise. This enterprise belongs to IT and ITES sector and investment made in Growth stage of the enterprise.

12. FootPrint Venture Capital Fund invested around US $ 18 Million over a period of 6 years. The total numbers of seven enterprises are promoted. Further fund is focusing more on IT and ITES sector, out of its total investment of US $ 17.23 Million, 65.82%
invested in IT and ITES only remaining 23.45% to Food and Beverages, and 10.73% to Education sector and mostly it focus on Early and Growth-PE stage of the enterprises to invest than any other stage.

13.2i Capital Venture Capital firms in the name of India enterprise Fund invested US $ 595.18 Million in 2006. And more than 90% of its investments on IT and ITES and remaining amount are diversified to different sectors of the economy. Further aims more on Pre-IPO stage of the enterprises to invest. More than 90% of investment made at this stage than any other stage.

14. Premji Investments in the name of PI opportunities fund invested US $ 270.78 Million and more than 71% of total investment was made in education, BFSI and Retail sector and remaining is diversified to the different sectors of the economy. Further it focuses more Late stage of the enterprises for its investment, nearly 90.12% investment made in Late stage out of its total investment.

15. India Value Fund invested around US $ 440 Million over a period of 12 years. And 28 enterprises are promoted. Out of its total investment 33.73% of investment was made in Media and Entertainment. And aggregate of 29% of its total investment made in Health Care and Life Science and other services. Further it focuses more on Buyout stage of the enterprises for its investment.

16. Ascent Capital Fund invested US $ 187 Million for a period of three years and promoted six enterprises. Out of its total investment more than 50% invested in Energy sector and it aims at to invest more on Growth stage of the enterprises, nearly more than 50% of its total investment, made on Growth stage.

17. UTI Ventures invested around US $ 460 Million for a period of 12 years and promoted more than 37 enterprises in Karnataka. UTI Ventures mostly concentrated on Energy, Media and entertainment, BFSI and IT and ITES, more than 73% of its total investment is made in these sectors alone. Further it aims at Late Stage of the Business for its investment, nearly more than 50% of its investment made in Late stage of the enterprises.

19. ICICI Venture is one of the leading Venture Capital fund in Karnataka in terms of investment, around US $ 1520 Million investment was made so far for period of 15 years by promoting nearly 96 knowledge based enterprises and focus on all sectors of the economy. BFSI is sector beneficiary of 37.21% of ICICI total investments and
2nd place Health Care and Life Science received 13.24% of ICICI total investments and remaining staggered to the different sectors of the economy. Further firm aims at investing more of its investment in Late stage of the enterprises, nearly more than 40% of its total investment made in Late stage.

20. The study was started with hypothetical statements stating that the Venture Capital firms’ play and significant role in promoting new Enterprise in Karnataka and VCs consider the criteria before lending the fund, and present regulatory mechanism impedes the growth of Venture Capital firms. With the available inferences and statistical data all the aforesaid hypothetical statement are found to be affirmative.

21. It was found that by evaluating mean rating Venture Capital firms of Karnataka most of the firm consider the Entrepreneur honesty and integrity, Long term vision, Urge to grow, High-tech product, Uniqueness of the product, High market growth rate, Balanced team, Capable of sustained intense efforts, high internal rate of return, Easy market acceptability are the top ten most important criteria considered by Venture Capital firms before financing the new enterprises.

22. Venture Capital has been considered as the engine of economic growth and for promoting equitable development through knowledge based enterprise. Venture Capital industry plays a significant role in technological and economic escalation of economy through its direct involvement in the development of wide variety of knowledge-intensive enterprises. The investment of SEBI Registered Venture Capital Funds and Foreign Venture Capital funds in India, as per research study finds that investment values of VCF and FVCF in India have reached to Rs. 55,542 Crore as on December 31, 2012.
6.3 Suggestions

Suggestions to Government

1. Karnataka Government needs to promote capital market segment exclusively to knowledge sector. Since Karnataka has large number of knowledge based workers with high per capital income, it is possible to develop such capital market activities in Karnataka.

2. The world is becoming increasingly competitive. The Government of Karnataka should make an attempt to bring the state at par and above the developed states by promoting Venture Capital financing to new, innovative concepts and ideas, and by liberalizing taxation norms, providing tax incentives to venture firms, giving a Philip to the creation of local pools of capital and holding training sessions for the emerging VC investors.

3. Multiplicity of regulations (SEBI, Department of Economic Affairs in the MOF and CBDT Guidelines) – need for harmonization and nodal Regulator. The need is to consolidate and substitute all these with one single regulation of SEBI to provide for uniformity, hassle free single window clearance.

4. Taxes pass through for Venture Capital Funds, once registered with SEBI; it should be entitled to automatic tax pass through at the pool level while maintaining taxation at the investor level without any other requirement under Income Tax Act.

5. Entry for Foreign Venture Capital Investors; FVCIs therefore should, be provided tax exemption. This will help the development of a vibrant India-based Venture Capital industry with the advantage of best international practices, thus enabling a jump-starting of the process of innovation. The hassle free entry of such FVCIs on the pattern of FIIs is even more necessary because of the following factors: (i) Venture Capital is a high risk area. In out of 10 projects, 8 either fail or yield negligible returns. It is therefore in the interest of the country that FVCIs bear such a risk. (ii) For Venture Capital activity, high capitalization of Venture Capital companies is essential to withstand the losses in 80% of the projects. In India, we do not have such strong companies. (iii)The FVCIs are also more experienced in providing the needed managerial expertise and other supports.
6. Relaxation in IPO norms: The IPO norms of 3 year track record or the project being funded by the banks or financial institutions should be relaxed to include the companies funded by the registered VCFs also. The issuer company may float IPO without having three years track record if the project cost to the extent of 10% is funded by the registered VCF. Venture Capital holding however shall be subject to lock in period of one year. Further, when shares are acquired by VCF in a preferential allotment after listing or as part of firm allotment in an IPO, the same shall be subject to lock in for a period of one year. Those companies which are funded by Venture Capitalists and their securities are listed on the stock exchanges outside the country; these companies should be permitted to list their shares on the Indian stock exchanges.

7. Global investment opportunity for Domestic Venture Capital Funds (DVCF): DVCFs should be permitted to invest higher of 25% of the fund’s corpus or US $10 million or to the extent of foreign contribution in the fund’s corpus in unlisted equity or equity-linked investments of a foreign company. This will allow DVCFs to invest in synergistic startups offshore and also provide them with global management exposure.

8. Infrastructure and R&D: Infrastructure development needs to be prioritized using government support and private management of capital. This would stimulate technological innovation and faster conversion of research into commercial products.

9. Self Regulatory Organization (SRO): A strong SRO should be encouraged for evolution of standard practices, code of conduct, creating awareness about the Venture Capital industry.

10. Government of Karnataka should also promote Venture Capital funds in the State of Karnataka in line with other leading States of the country. When such State funds are created, State government initiate investments of such funds in semi-urban locale, so that economic concentration of wealth as well as people can be diversified. Over all balanced growth of economy could be witnessed to have balance growth of the state. This mechanism certainly encourages rural and semi urban young brain to come to the main stream.
11. A cut in tax slabs/rate, providing technology, proving assistance for importing raw material, exchanging the human caliber etc, may be extended by the government after a thorough examination of these funded units.

12. If there are promising sectors and assurance from Venture Capitalists in terms of rural employment, rural education and rural awareness, steps can be initiated by the governments to provide subsidiary and other monetary incentives to these funded organizations.

Suggestions to Venture Capitalists

13. Most of the Venture Capital firms are concentrating on selected sectors, which are aggressive in nature. This concentrated investment pattern should be monitored; ceiling should be imposed to diversify their fund to overall development of neglected sectors.

14. Indian economy is also based on IT and IT related sectors, many private and public sectors are involved themselves in these sectors, if joint venture firms are also concentrating in these sector; there arises a sector centric approach in the economy. In the process joint venture investment activity loses its cutting edge approach.

15. Indian economy is agro - based with rural segmentation. Ever, since independence, even after a six decade of independence India struggling to transform the agro-centric economy into manufacturing or service centric economy. As joint venture firms are exploring untapped and underutilized opportunities; importance/significance may be given to rural based ventures.

16. India is a largely depending on imports of oils and other non-renewable energy resources, these Venture Capital funds should focus more on projects such as energy generation (Power generation), may be renewable or non-renewable, cleaner production process, sophisticated logistics system and rural education.

17. No doubt, that Venture Capital investment process is beneficial to the society but these are mainly focusing on well established industrial arena. Under employed rural educated youth should be focused for these types of investment proposals. If this is the case migration of rural youth to urban area is mitigated and urban concentration can be minimized. This leads generation of employment to rural and local people in their neighborhood alone. This act curtails imbalance and disproportionate growth.
18. Venture Capitalists focus only on established business propositions. These activities should also concentrate on other spheres of the economy and the society.

19. Venture Capital investment activities are not attempting on transformation of social and economic status of the people living in the society, by providing encouragement to rural educated youth.

20. As long as these investment funds do not focus on neglected sectors and rural areas, it is very difficult to encourage these types’ investment activities.

21. Venture Capital firms should promote businesses which are at the reach of rural and semi-urban population. Further these businesses should transform the lifestyle and economic status of people living in rural areas.

Implementation of above suggestions would lead to creation of an enabling regulatory and institutional environment to facilitate faster growth of Venture Capital industry in the country. Additionally, judging from the global experience, this will result into substantial and sustainable employment generation of around 3 million jobs in skilled sector alone in India. This can put India on a path of rapid economic growth and a position of strength in global economy.

**Scope for Further Study**

Venture Capital Fund and their investment practices and procedures were studied in detail at length in the present study. Yet there are possibilities to analyze, evaluate the performance of individual funds with reference to the risk and return trade off as well as success rate of Venture Capital funded enterprises.

Attempts can be made to study the contribution of Venture Capital funded enterprises for employment creation and Gross Domestic Product (GDP).
6.4 Conclusion

Karnataka has witnessed a series of boom in IT and ITES in the last two decades. Many leading business corporations have set up software industries of international repute. This phenomenon has appropriately enchased by VCs as Bangalore is “Silicon Valley” of India. Along with the growth of software and IT related companies, Karnataka witnessed need and necessity for other allied IT industrial growth. Larger companies such as Infosys, Wipro, Satyam and many Multi National companies have emerged as winners in the race. This led to the necessity for a establishment of similar competitive smaller, knowledge based business entities. Employees with rich experience with leading IT companies wanted to try and explore their uniqueness and expertise with some technology which have been developed by them. This frame of mind of entrepreneurs led to the growth of many innovative ways of funding i.e. Venture Capital. Venture Capital funds cater the needs of innovative entrepreneurs because of this phenomenon Karnataka has witnessed more than 200 such enterprises and generated employment to the tune of more than 90,000 people.

Venture Capital funding has manifested as an instrument to fund innovative projects. Most of the Venture Capital funds are being managed by young, energetic, dynamic and high calibered and risk bearing minds. Irrespective of the operational legal barriers Venture Capital fund have gained momentum and further these funds are having many more opportunities to invest in the days to come.

India is one and only country in the world to have human capital in the age group of 25-45 for the next 25 years. During these periods certainly India can emerge as one of the leading and advanced nation in the world. In this stage India may need innovative funding practices and strategies to develop the economy and also to cater the ignited minds.

On the whole, the study reveals the exact picture of the performance of venture capital firms and funds’ in promotion of knowledge intensive industries in the state of Karnataka. Though there are a few invisible, in accessible and uncontrollable parameters, the role of these factors are negligible and their degree is very minimal as these cannot dictate or mandate the true success of working of these firms. Criteria adopted by these firms while funding the new, younger and dynamic venturists’ in Karnataka and the involvement of these firms in monitoring these funds are highly
rated with an outstanding merits of rating the venture of the entrepreneurs with an independent and in-house agency. This mechanism is controlling the spirit of venturists’ to act within the purview of the proposed projects. Hence, the mechanism of monitoring the venture’s proposed investment plan is not deviated from the original objective.

The study extensively un-wrapped the level of funding by Venture Capital fund, the degree of success, the potentiality of India younger generation and scope for expansion in the immediate future with innovative ideas.

Hence, it can be concluded that Venture Capital is a boon for Indian economy.