ABSTRACT

Over the years industrial financing has become an area of exotic financial instruments, high technology and innovations. Indian economy has already witnessed emergence of several financial institutions and growing capital markets, which have undergone a drastic change. The most notable change is the arrival of venture capital institutions to cater to the needs of industrial ventures involving high-risks on account of technology development and upgradation.

Venture capital as the new phenomenon appeared in the world of business after the Second World War. Similar to the banking industry, the venture capital industry serves as a link between investors and investee firms. However, the participation of venture capitalists is far more extensive and individual. VCs play the role of a resource manager. Venture capital is the equity finance in relatively new companies and is termed as a risky capital.

In India the venture capital existed in informal form in the 19th century but the formal process of introducing venture capital to the Indian financial sector started with recommendation of R.S. Bhatt committee in 1973 to form a venture corpus of Rs. 100 crore. Then the seventh five-year plan in 1985 emphasized the need for developing a venture funding system in India. The actual process started in 1988 with government coming up with certain guidelines and setting up of a venture fund. Since then the amendments have been made, still the industry is not growing fast.

Venture capital industry in India is a twelve-year-old industry, yet it is a neglected one even though India has had a network of development financial institutions for more than four decades, in addition to a reasonably well-developed banking industry. The institutions like ICICI, IDBI etc. have been providing financial support to a variety of projects, including new industrial projects, during this period. Entrepreneurs with no proven track record but with a professional or managerial background have often obtained assistance from these institutions. The stock market conditions do support the new companies and businesses by subscribing to their public issue but the volatile market conditions pose some problems.
Since this avenue has not been as popular as the other financing alternatives, much academic research has not been done on the topic in India. The present work aims at providing an insight to the venture capital industry in India, its pros and cons, the regulation mechanisms, problems faced by venture capitalists, problems faced by new entrepreneurs and suggestions. It has been tried to analyze the Indian scene with a different perspective.

The present study is divided into seven chapters as follows:

CHAPTER I  INTRODUCTION
CHAPTER II  RESEARCH METHODOLOGY
CHAPTER III  FINANCIAL SYSTEM- A FRAMEWORK
CHAPTER IV  VENTURE CAPITAL- A CONCEPT
CHAPTER VI  DATA ANALYSIS AND OBSERVATIONS
CHAPTER VII  CONCLUSION AND SUGGESTIONS

CHAPTER I- INTRODUCTION: This chapter discusses the economic condition of the nation and the evolution of venture capital financing with special emphasis on the Indian scene. It gives a brief review of the venture capital industry and how it is one of the important alternatives of the financial system.

CHAPTER II- RESEARCH METHODOLOGY: This chapter gives a view to the methodology used in carrying out the research work and the limitations concerned while working on the project. It describes the action plan of the study.

CHAPTER III- FINANCIAL SYSTEM- A FRAMEWORK: This chapter gives a brief view to the mechanism of the financial system with special emphasis on the venture capital institutions. It also analyzes the impact of investments made by these institutions in the Indian context.

CHAPTER IV- VENTURE CAPITAL- A CONCEPT: In this chapter, the emphasis is laid on understanding the meaning of venture capital, the structure of venture capital financing, comparison
of venture capital with other modes of financing and its financial analysis. The investment process to be adopted by the venture capitalists is also discussed in turn describing different stages of investment.

CHAPTER V- EMERGING TRENDS: This chapter gives a brief description of some popular and specialized financial institutions. It also discusses the proposed projects to arrive on the global as well as Indian scene and the position of the Indian venture capital industry.

CHAPTER VI- DATA ANALYSIS AND OBSERVATIONS: This chapter gives an insight into the primary survey done and the results derived form the survey. The observation part contains the analysis of the secondary data, which is instrumental in determining the status of Indian venture capital industry.

CHAPTER VII- CONCLUSION AND SUGGESTIONS: This chapter analyzes the results and summarizes the work done. It tries to provide some suggestions to improve the present status of the venture capital industry in India.

Finally it can be stated that the venture capital though being a risky mode of financing is a better alternative as it gives higher returns. If the venture capital industry has to survive in these changing times, the venture capitalists must:

- Have a clear focus in their business with clear, prioritized objectives;
- Focus on specific industry niches;
- Manage portfolios ruthlessly.

Venture capital is quite well developed in the developed countries but it still has to get its due importance in India. Everybody concerned with venture capital industry feels that there is a need for separate laws for developing venture capital in India.