CHAPTER 1
INTRODUCTION

The sources of capital which are accessible to new companies are constrained for any new company which wants to grow. The entrepreneurs typically fail to offer the capital needed to understand their plans and must look for outside financing. The capitalists, who want to invest in mutual funds, pension funds, trusts, etc. fail to offer the time and skill needed to make immediate ventures in new organizations. Traditional sources of money, for example, bank advances or raising capital from general public, are not open to new organizations. It was the gathering point between the need raise capital and the craving to accomplish exceptional yields from putting resources into privately owned businesses which prompted the making of Venture Capital Funds. They serve both as a financing administration vehicle for the entrepreneurs who put resources into them and as agents and included worth suppliers for the organizations in which they contribute. The Venture Capital Fund refers primarily to a body which brings capital for ventures in privately owned businesses on equity based groundwork and which is overseen professionally by management companies.

Venture Capital financing has filled, to some degree, the crevice by giving money as seed capital and start-up level business undertakings. Modern investment establishes in the US, when a few investors started funding new engineering tasks after the World War II. The accomplishment of this mode of financing, portrayed by the development of probably the most respectable innovation companies on the planet, prompted the expansion of funding in the UK, Continental Europe, Japan, South East Asia, and now to Eastern Europe, South Asia and Africa.

Alongside its prosperity, Venture Capital financing is likewise risk taking by the exact nature of its funding. The absolute most basic issues confronted by financial investors are unfriendly choice, data asymmetry, and good risk. Scholarly research in investment likewise started in the US and after that moved to UK, Continental Europe and South East Asia.

1 Bartlett J.W., Fundamental of Venture Capital, p. 20, 1999
2 Verma J.C., Venture Capital Financing in India, p. 40, 1997
Notwithstanding the center is moving onto the quick moving markets of Eastern Europe and South Asia\(^3\).

The regulatory framework of Venture Capital and Private Equity funds in India is at nascent stage. As the fiscal reforms in India have happened in the past 20 years, the regulatory structures for these reforms are changing gradually. The regulating body for such funds in India is SEBI, which has played a positive role for the development of these funds. With the booming Indian economy, more institutional investors and foreign investors are willing to invest in India through these funds. The role of fund advisors and fund managers is defined at the global level and not formulated by the SEBI for these funds. The regulatory regime which is formed by the SEBI are seen as rigid and not investor friendly both domestic and foreign investors. The comparative study of the SEBI regulations and global venture regulations can throw a light on the efficacy on the SEBI regulations\(^4\).

The genesis of the problem arises due to the lack of uniformity and efficiency of these regulations for the investment in India. A number of investors are willing to invest in our booming industry but the rigid and unfriendly regulatory regime is occurring as a deterrent for these investors. More flexibility is required to accommodate volatile market demands and give leverage to the investors. The basis of the regulatory framework is to provide profits or benefits to various investors and the governance of these funds for the general public. The emphasis should be more towards the foreign investors as major investment is made by these investors at global market\(^5\).

The Indian investment industry had dynamic players, which is having sufficient extension to lead experimental research and study on the Valuation, Structuring and Monitoring practices of Indian investors. These have been generally ignored ranges and the exploration Inspects these three discriminating zones, on which to a great extent depends the accomplishment of investment venture, against the discoveries of existing examination. Nonetheless, exact research in funding is not simple. There are few tables to be turned for this type of research. In view of that trouble, nearly little has been carried out, and the open door to create comes about that are novel and significant is extraordinary in its nature\(^6\).

Venture Capital and Private Equity have been real drivers of development, financial development, and learning base industry and new companies. The Venture Capital and

---

2 SEBI Act 1992
3 Stefano C., *Private Equity and Venture Capital in Europe: Markets, Techniques, and Deals*, p. 61, 2009
5 SEBI Act 1992
Private Equity industry takes after the idea of high-risk and exceptional yield. Venture Capital is by and large equity investments made by Venture Capital Funds, at an early stage in privately held organizations, having the capacity to give a high rate of profit for their investments. It is a wellspring of supporting enhancement, information based plans and engineering and human capital concentrated undertakings. It backs original business visionaries by giving the value capital required to innovation based undertakings by and large not accessible from banks and other money related organizations. Venture Capital Funds are a piece of the Private Equity funds segment. It is fascinating to note in this setting that with the advancement of the innovative business as of late, numerous Private Equity funds which were once related to other financing fields began putting extensive sums in fields which are connected with traditional Venture Capital funds.

Private Equity by and large refers to vast investments as contrasted with Venture Capital, in more composed and developed organizations at their development stage or later stages. As the Indian economy is on a quick track, Private Equity investors from everywhere throughout the world are primed to give value funding to Indian Business bunches for making acquisitions and developments around the world. Venture Capital and Private Equity both esteem immaterial stakes while making equity investments, which by and large accepted wellsprings of financing, may not think about. Private Equity supports generally have a predefined model of their field of investment. As numerous funds represent considerable authority in putting resources into companies which are encountering monetary challenges by purchasing the securities of such companies; different funds put resources into their securities or products which have frequent influences on the finances.

Venture Capital has risen as a source of alternate money related strategy for financing throughout the twentieth century. Venture Capital is the capital gave by firms of experts who put nearby management in young, quickly developing or changing organizations that have the potential for high development. Venture Capital is a type of equity financing particularly intended for funding high risk and high remunerate ventures. There is a normal discernment that Venture Capital is a method for financing high innovation ventures. Notwithstanding, Venture Capital is venture of long haul account made in the ventures advertised by actually or professionally qualified however problematic business people, or ventures looking to

---

7 Demaria C, Introduction to Private Equity, p. 30, 2012
8 Ferris B., Inside Private Equity, p. 80, 2013
saddle economically dubious innovation, or high risk projects.  

The Venture Capital speaks to budgetary financing in an exceptionally risky venture with the goal of winning a high rate of return. While the idea of Venture Capital is extremely old the late liberalization arrangement of the administration seems to have given a fillip to the Venture Capital development in India. In the genuine sense, Venture Capital financing is a standout amongst the latest participants in the Indian capital business sector. There is a noteworthy extension for Venture Capital companies in our nation due to expanding rise of technocrat ambitious people who need money to be gambled. These Venture Capital organizations give the fundamental risk capital to the entrepreneurs to meet the promoters' commitment as needed by the financial establishments. Notwithstanding giving capital, these Venture Capital Firms take a dynamic enthusiasm toward directing the helped firms.  

A key characteristic for Private Equity investment is that investors hold their investments just for a restricted time period. The regular structure of Private Equity firms as funds with decided before hand life spans of typically ten years obliges an auspicious loosening up of the positions taken. There are a few commitments to the dissection of alternatives accessible to Private Equity firms at the point when planning to sell to an investment. The underline that fruitful exists are discriminating for Private Equity Funds to guarantee returns for investors and likewise to raise extra capital. To implement that exit techniques are a standout amongst the most urgent determinants of Private Equity investors. The imperativeness to the business, there are not many distributions concentrating on the regulations of the Private Equity firms to transform and related choices going past an regulatory structure of these funds. Besides, the larger part of studies on Private Equity regulations to date concentrate geologically on the United States and on the regulatory issues by funding firms undertaking investments in firms that are right off the bat in their advancement process and providing capital for firms improvement or extension. The research in regulatory aspects of Private Equity and Venture Capital has not been given impetus by the European companies by and large and also ventures in experienced and regularly bigger firms organized as leveraged buyouts specifically has not gained extraordinary scholarly consideration.

---

10 Ibid
11 Taneja, S, *Venture Capital in India*, p. 32, 2002
Given the considerable development and the fast advancement of the Venture Capital and Private Equity funds, a research of regulatory procedures need to consider a few recommendations with the changing nature of the market and its volatility at the global level. The lack of uniformity of regulations for Venture Capital and Private Equity funds at global level has impeded the growth and success of such funds. The more emphasize is to be given on the uniform regulatory structure for the investment in these funds along with the regulatory guidelines for the Institutional Investors and Fund Managers.12

1.1 Objectives of the Research

When we are going to research something there is particular reason for our research. It may be for our course, as diversion, for sitting back, to figure out certified solutions for any issue or to draw out specific deductions out of the accessible information. The objectives of the study on this topic of Venture Capital are to know the regulatory framework for Venture Capital and Private Equity in India and how the new ventures in India are financed. In India, Venture Capital and Private Equity has been around for quite a while. The execution has been blended of these funds. As Venture Capital and Private Equity business is prospering internationally the subject for an exploration which might help in knowing different regulatory laws, their viability and in-depth functioning of this subject.

An alternate vital research area, one that will be the center in this thesis, is research that studies the methodology of investment process. The investment process generally incorporates everything from raising cash for Venture Capital and Private Equity funds, dealing with the investment procedure to the exit of the fund. Consequently, in this research the objective is more from an inside point of view on investment rather from the macro (outside) viewpoint. Then again, the information about the investor capital procedure has created since then and moved far from immaculate illustrative studies of investment investors to centering more on the social viewpoints of the Venture Capital and Private Equity process.

The research on the investment procedure focuses on the activities and associations between the performers included all the while. The primary performing artists are the investors, the Venture Capitalists and the business visionaries. Venture Capitalists here serve as go-betweens between investors (reserve suppliers) and entrepreneurial ventures in

12 Ibid
need of development capital, i.e. they act both as a supplier of capital and competence to business visionaries and a seeker of capital from investors.

To comprehend large portions of the research in concentrating on the investment process it will be significant to underscore some of the fundamental contrasts between Venture Capital financing and conventional corporate financing. It will be in these contrasts that numerous of the exact and hypothetical challenges have their roots. Venture Capital fund contrasts from corporate back from various perspectives. The absolute most significant contrasts incorporate the degree of information asymmetry between outside investors and administration (the business visionary), the part of contracting to resolve fund managers issues, the level of contribution by outside investors, the part of expansion as an approach to decrease risk and increment venture esteem, and the illiquidity of the business for Venture Capital investments are various objectives of the study.

The objectives of the study are:

- To study the Regulatory Laws regulating Private Equity and Venture Capital in India and their efficacy.
- To study and analyze the Regulatory Laws regulating in US and UK for Private Equity and Venture Capital.
- To study Private Equity and Venture Capital process and its future prospects in India.
- To find out opportunities that encourage & threats those hinder Private Equity and Venture Capital industry in India.

### 1.2 Research Methodology

Research Methodology refers to the search of information that one can likewise characterize research approach as a logical and orderly search for the required data on a particular topic. The expression research methodology hails from the word advance learner having lexicon’s meaning as the watchful examination or inquiry particularly through exploration for new certainties in extension of information for instance some defined data having characterized research procedure as a systematized exertion to increase new knowledge.

Research Design: This research is a Descriptive Research, which portrays different aspects about the phenomenon about various studies. The significant reason for this research is
depiction of state of undertakings as it exists at present. It addresses the inquiries who, what, where, when and how. In India not, one or the other Venture Capital theory has been created nor are there numerous far reaching books on the subject. Indeed the amount of research papers accessible is extremely restricted. The research design utilized is descriptive in nature. The endeavor has been made to gather regulatory data accessible on the Private Equity and Venture Capital in India, nature of assistance in all actuality, future anticipated interest for this financing, analyzing the regulatory issues confronted by the entrepreneurs in getting Venture Capital and Private Equity Funds, examination of the Venture Capitalists and social and environmental effect on the existing regulatory framework.

Data Collection: Secondary data is the data which is as of now gathered by somebody and agreed for diverse purposes which are utilized in research for this study. The research is dependent upon secondary data gathered from the published material. The data is to be gathered from the books, journal publications and press releases of Venture Capital associations in India. Checking the business papers filled the crevices in data. The Economic times, Financial Express and Business Standards were checked for any article or news thing identified with Venture Capital. Sufficient measure of information about the Private Equity and Venture Capital is to be determined from these reports which incorporate Internet, Magazines, Journals, Newspapers etc.

1.3 Hypothesis

Indian Venture Capital and Private Equity Laws are so stringent that they are not Investor friendly. The regulatory framework of Venture Capital and Private Equity is not having uniformity at the global level especially with countries like U.S. and U.K. from where this concept has emerged and made its success worldwide. The Institutional Investors and Fund Managers regulatory guidelines have not been defined in India. The foreign investors are not clear under which guidelines they are going to fall. The Alternative Investment Funds (AIF) guidelines given by the SEBI only gives the regulations about the different funds and how the investments can be made by the investors both foreign and domestic. The regulations have compartmentalized various funds which fall in the different categories of Venture Capital and Private Equity. The regulations are silent about the role of Institutional Investors and the Fund Managers. The success of any Venture Capital Fund and Private Equity investment depends upon the role of the Fund Managers who play a pivotal role in the
management of the company. The regulations are silent on the role of foreign investments in Venture Capital and Private Equity in India.

1.4 Significance of Research

Venture Capitalists not just help high innovation ventures they additionally life partner any innovative idea, they give funds to one who needs extra finance to stretch his existing business or one has another promising project to exploit. The entrepreneurs if can't get a regular conventional loans then the regulatory laws might make a trouble throughout the period at which the firm is growing at its initial stage. They are administered by the Venture Capital and Private Equity Laws which manage the investment process.

The idea of Venture Capital and Private Equity investment was presented in India with the target of commercialization of the indigenously created innovations. It is a significant target in itself and there is nothing wrong to seek after it enthusiastically. In the developed nations especially in the U.S., there has been a nearby linkage between investment financing and business misuse of new constantly high innovation related commercial ventures. The guidelines declared by SEBI in 1996 to manage the Venture Capital Funds in India have loose the qualification criteria for investors by investment reserves. Also the state of financing for untried engineering by Venture Capital funds has been carried out away with. Still in outlook in concerned quarters remain limited to the same old idea.

The significant issues to investigate in this setting are – what changes are needed in the regulatory framework; furthermore what are alternate regulations that are holding the advancement of the business in India. The response to these inquiries obliges a thorough examination of the regulations in the research which can play a critical role in the economy of country like India and particular issues identified with the Institutional Investors and Fund Managers in India, therein lies the significance of the research.

The regulatory framework in India is not supporting the Private Equity and Venture Capital ventures as in different nations, it is just by contrasting the regulatory laws and others we can have regulations which are powerful and productive that could be efficient in our nation. It is the aspiration of numerous capable individuals in India to set up their own particular venture on the off chance that they could get satisfactory & dependable backing. The money related financing gives credits & equity but that don't give administration help, which is frequently required by young entrepreneurs. It is the Venture Capital industry which
furnishes such help alongside capital likewise making Venture Capitalists a partner not a financier.

1.5 Limitations of the Research

A research of this sort can't be without limitations. The legal and financial analysis has been limited by and large by different domestic and foreign Venture Capital and Private Equity. Further no comparative analysis has been undertaken of the Venture Capital and Private Equity regulatory Laws in India with those of the created countries like USA, UK because of absence of sufficient data and information. It has been observed that Venture Capitalists are exceptionally shrouded about their execution and also about their ventures. This mentality has been a real hurdle in information accumulation. However Venture Capital and Private Equity regulatory laws are to be incorporated in the research.

1.6 Chapter overview of the Thesis

In order to carry out the research and present the results on efficacy of regulatory laws of Venture Capital Funds and Private Equity Investment in India the entire thesis is divided into 7 chapters. This chapter presents the introduction to the entire research by briefly explaining the contents of each of the following six chapters. The objective of the study along with its various limitations and the hypothesis has been discussed in this chapter.

Following the introduction part the Chapter 2 sets out the background of the thesis the definitions and descriptions of Venture Capital and Private Equity investments in India. The features of different financial sources and history of Venture Capital and Private Equity in India is defined. A comparative analysis is done of Venture Capital financing and other traditional financing in India. At the last the growth and development of Venture Capital and Private Equity in U.S. and U.K. is explored.

Subsequently, Chapter 3 establishes a theoretical foundation for the thesis and lays out the detailed process of Venture Capital and Private Equity in India. This chapter discusses various stages/spectrums of Venture Capital and Private Equity finance in India. It explores each step that are needed for Venture Capital and Private Equity funds. The need and significance of Venture Capital financing in India is presented in this part.
Building upon the various introductory parts, Chapter 4 explores the regulatory laws relating to Venture Capital and Private Equity investments in India. This chapter presents the SEBI laws in India relating to Venture Capital and Private Equity investments in India. It further explores various regulatory approaches in India. It is important to note that this is the first-ever doctoral research on the regulatory laws in India. Therefore, no previous references were available to this research and most of the information came from a few scattered papers, postgraduate dissertations and books written on the subject in the mid 1990s.

Chapter 5 presents the regulatory laws of U.S. governing Venture Capital and Private Equity. A detailed description of growth of regulatory laws in U.S. is explored in this section. This chapter identifies the regulatory history of regulatory laws governing the Venture Capital and Private Equity industry in U.S. Further, the various regulatory reforms that have taken place in U.S. before and after the financial meltdown is briefed in this chapter. The last part discusses various regulatory laws which govern the Venture Capital and Private Equity in U.S.

Chapter 6 identifies the regulatory laws of U.K. governing Venture Capital and Private Equity. This chapter gives comprehensive study of the growth of regulatory laws in U.K. The chapter describes various regulations which are guided by Venture Capital and Private Equity investments in U.K.

Lastly, the Chapter 7 talks about the conclusion and the recommendations about the research. The conclusion is given about the efficacy of the regulatory laws of Venture Capital and Private Equity investments in India. The various points on which the efficiency of various regulatory laws are lacking and the role of SEBI is briefed in this chapter. The conclusion is based upon the comparative analysis done among the regulatory framework in India with other global players in Venture Capital and Private Equity industry. The various recommendations which are given with respect to regulatory issues have been discussed in this chapter.

At long last, the outcomes of this study are relied upon to trigger further enthusiasm toward scholastic research on Indian investment industry. They ought to likewise help the business to develop stronger and far reaching regulatory laws that could prompt higher rates of victory. The research will have suggestions for policymakers in creating a proper
legislative and regulatory framework. Furthermore, it will additionally serve as an imperative manual for existing players and new entrants in this field. Likewise, entrepreneurs who are prospective clients of Venture Capital and Private Equity will know precisely various regulatory laws that capital suppliers search for in these funds. This will minimize the dismissal rate of new recommendations and will decrease the time, instantly taken, between the requisition for financing and dispensing of funds. At last a the relevance of the obtained findings and highlights several potential areas for related future research in Venture Capital and Private Equity regulatory laws.