CHAPTER 2
PRIVATE EQUITY AND VENTURE CAPITAL

2.1 Introduction

The development of Small and Medium Enterprises (SMEs) is distinguished as the spine of any economic development of both developed and developing nations. For development chances equity capital is acknowledged as critical in extension of SMEs. The different financial choices which are accessible to a firm might be through equity capital (risk capital), debt capital or a blending of both alternatives. The significant distinction between these choices is just the risk included alongside risk included in needed returns by the capital providers. For any young venture traditional debt capital is not an elective as these assets are as of now utilized up or are excessively little for them. Equity financing is suitable for young firms as risk is high for them.13

The young entrepreneurs with high potential development experience the ill effects of value crevice between need of the capital and competency of the administration. Therefore the need of repaying both the need of equity capital and competency of the administration Venture Capital business has discovered its specialty. The risk taken by the investors in Venture Capital Fund is balanced by the investment later on accomplishment of the firm by turning into its part managers. Funding firms will be firms that can contribute value capital reserve an early stage (seed and start-up) or development investment store at later organize. Venture Capital Fund is universally distinguished for making business person in enhancement, wealth creation and job generation. It has a real effect in investment development with the assistance of different government deliberations.14

The idea of Venture Capital is there for quite a while as any individual can expand its fortune by putting resources into any new thought through any young firm and be an accomplice in that firm. Notwithstanding, in today's situation the investment is made by foundations, firms and affluent people at any phase of the firm. The European Venture Capital Association (EVCA)15 defines Venture Capital as “Professional equity co-invested with the entrepreneur to fund an early stage (seed and start-up) or expansion venture.

13 Verma J.C., Venture Capital Financing in India, p. 67, 1997
Offsetting the high risk the investor takes is the expectation of higher than average return on the investment."

The Venture Capital is formed by the two words “Venture” and “Capital”. The term Venture is process whose outcome involves uncertainty, risk or risk of loss. The term “Capital” means financial resources to start any new enterprise. The combination of the two gives a new meaning involving equity financing with high risk and uncertainty to a new technological based enterprise.

Venture Capital is utilized to fund new engineering based endeavor which has not been attempted early and is started by expert and specialized technical professionals having few elective fiscal assets. Venture Capital is one of the unsecured risk financing having high risk of capital which frequently is remunerated with significant returns.

Venture Capital gives financial funds as well as abilities required to set up new firm concerning with respect to marketing, organizational skills and management. Venture Capital get to be co-partners and adventure different business chances for the development of the firm. Venture Capital is an animated fiscal source which might be at any phase of business or preparation cycle having start up, development or enhance of the methodology having risk and reward. The objective of the investors in Venture Capital will be capital increase as opposed to ceaseless interest income or dividend yield.

### 2.1.1 Definition of Venture Capital

The Venture Capital can be the support by investors of entrepreneurial talent with finance and business skills to exploit market opportunities and thus obtain capital gains. Accordingly Venture Capital is equity or equity featured capital seeking investment in new ideas, new companies, new production, new process or new services that offer the potential of high returns on investments.

As defined by (Venture Capital Funds) Regulation, 1996, Venture Capital Fund means a fund established in the form of a company or trust which raises monies through

---

17 Ibid
19 Ibid
loans, donations issue of securities or units as the case may be, and makes or proposes to make investments in accordance with these regulations.\textsuperscript{20}

"We define venture capital as an activity by which investors support entrepreneurial talent with finance and business skills to exploit market opportunities and thus obtain long term capital gains\textsuperscript{21}. An influential UK venture capitalist and the founding editor of the Venture Capital Report further added: "venture capital is invested in high-risk venture (typically new companies and new technologies)\textsuperscript{22}.

Venture Economics, defines venture capital as 'providing seed, start-up and first stage financing' and also 'funding the expansion of companies that have already demonstrated their business potential but do not yet have access to the public securities market or to credit oriented institutional funding sources\textsuperscript{23}.

The European Venture Capital Association (EVCA) describes it as risk finance for entrepreneurial growth oriented companies. It is investment for the medium or long term return seeking to maximize medium or long term for both parties. It is a partnership with the entrepreneur in which the investor can add value to the company because of his knowledge, experience and contact base\textsuperscript{24}.

The definition shows that Venture Capital comprises of the following accompanying characteristics:

(I) Venture Capitalists have near focal point in selecting and following investment in the areas, where informational concern are imperative;

(II) Still, given the decision, contingent available proficiency and chances offered, venture capital funds might favor less unsafe projects;

(III) The capability of the venture capital to "exit" from the invested firm, focus the reputation in an uniformed business sector.

(IV) Venture Capital Trusts might have restricted life compass, in order to empower the investors to keep a check their execution;

\textsuperscript{20} Section 2(m) SEBI (Venture Capital Funds) Regulations Act 1996
\textsuperscript{21} Chary, T S., Venture Capital – Concepts & Application, p. 78, 2005
\textsuperscript{22} Klonowski D., The Evolution of the Venture Capital Industry in Transition Economies: The Case of Poland, Post-Communist Economies, 2005
\textsuperscript{24} Haislip, A., The Essentials of Venture Capital, p. 37, 2010
(V) Venture Capitalists might fund the project in stage (as a gadget of strict checking) to maintain a strategic distance from the issue of concealed movement (good peril, from promoters); and

(VI) To alleviate the issue of concealed activity, venture capitalist might likewise fill in as accomplice in the business and for the most part serve a leading body of the supported company to impact significant choices.

The worth of Venture Capital is taken from the brand value, proficient picture, valuable feedback, space information, industry contacts, and so forth. This cuts down the management company’s expense of the firm. The Venture Capital Firms get private associations or nearly held partnership funds, establishments, enterprises, affluent people, outside investors, and the investors themselves. The Venture Capitalist works in a joint effort with company's management in setting down different procedures and portfolios through single or numerous funds.

2.2 Concept of Venture Capital

The Venture Capital Funds include Venture Capitalist and business visionaries with both players related upon one another. The collaboration of both the players is included at present Venture Capital Funds. The fundamental test confronted in the Venture Capital financing is about the data to be imparted around the investors and the business visionaries as these ambitious people are adolescent and have new thought which prompts shifted data included the whole time. It further prompts part of concealed data which further offer ascent to risk association and good risks. This prompts awful financing and makes drawback to both the gatherings. The valuation of youthful entrepreneurial firms is an alternate issue as it is determined from absence of data and lack of determination at last comes about.

As the vast majority of the venture financing is in new zones their likelihood of triumph is low. The financed undertakings don’t give exceptional yield and give moderate returns or fizzle in giving in any returns. It includes long haul risk capital which takes typically 3 to 7 years to create considerable returns. Financial investors give cash as well as increase the value of the firm by energetically taking an interest in the administration. There

25 Ibid
26 Batterson, L., Raising Venture Capital and the Entrepreneur, p. 80, 1986
is nonstop assessment and following of the venture to yield better comes about on investment.\(^{28}\)

Notwithstanding, Venture Capitalist gets come back from the arrangement which succeeds gives exceptional yield on venture and remunerate the misfortunes managed in any undertaking. The returns come as offer of stock when recorded in stock trade or by an opportune offer of his stake in the company to a buyer. The Venture Capitalist changes the acknowledged worth of the share value at the time of disinvestment in the investee company. On the off chance that there is disappointment in the Venture Capital Firm the whole sum gets written off. This is the reason that before putting resources into any undertaking, Venture Capitalist evaluates a few undertakings and just puts resources into handful after precisely investigating the management and marketability. Venture Capital investment originates from institutional investors and high net worth individuals, which are pooled together by committed financing firms. Venture Capital firms by and large include small teams of people having innovation foundations (researchers, scientists) or those with business preparing or profound industry experience.\(^{29}\)

Venture Capitalists by and large:

- finance new and quickly developing companies
- typically learning based, practical, up scalable companies
- Purchase equity / quasi-equity securities
- assist in the improvement of new projects or services
- add quality to the company through dynamic investment
- take higher risks with the desire of higher rewards
- have a long haul introduction

The essential understanding of Venture Capital Funds might be had through fundamental effect between Venture Capital Financing and conventional corporate money. Funding contrasts from the accepted corporate finance in number of routes concerning financing, investors, management and risk included at different stages.\(^{30}\)

Venture Capital financing is unique from accepted sources it is an elective financing source which is utilized when engineering based industry, unpracticed business person and


high risk of loss is included. Banks and establishments don't contribute cash to such ambitious people and just alternative lies with Venture Capital which gives risk capital\textsuperscript{31}.

Hence Venture Capital financing is not quite the same as giving and getting, developmental financing or securities exchange investment. Venture Capital financing gives value subsidizing to the young ambitious people to help inspiration and bridle the existing strategy for success having development chances which can't be given by accepted financing foundations. The desire of additions from new innovation gives likelihood of triumph and disappointments. The Venture Capitalist having persistent observing of business offers victory to the firm without straightforwardly meddling with the management. The crash Venture Capital financing is given when risk is high and traditional investors or banks decline to contribute because of high risk, young business entrepreneurs, new innovation, absence of divulgence of data and transparency\textsuperscript{32}.

The more extensive meaning of Venture Capital portrays it as a long haul development capital put resources into new businesses, extensions, management buyouts of mechanical units utilizing high or low innovation. In the Indian connection, notwithstanding, Venture Capital has a more slender meaning, as it visualizes investment as value in unlisted manufacturing companies secured for a time of three years, with the greatest size of venture being dependent upon 5 percent of the capital of the trust and up to 40 percent of the investee company's value\textsuperscript{33}.

The mechanics of venture examination with the common debt ratios and economic rates of return don't have any significant bearing to Venture Capital financing. Likewise, there is typically no profit motive on the part of the institutions in funding industrial projects. They are accomplices in the advancement of a venture and as being what is indicated strive to guarantee effective finishing and beginning of beneficial action. Venture Capital financing is a troublesome business. Indeed in exceptional nations the victory proportion is simply over 30 percent. As Venture Capital foundations need to ingest high rates of causalities and acquire the high cost of giving the obliged management backing to keep effective wanders going, venture capital financing calls for heaps of activities\textsuperscript{34}.

\textsuperscript{31} Sharon Solutions raises $5.18 million in venture funding; Deal In Brief, Data monitor Financial Deals Tracker, Issue IV, p. 295., 2009
\textsuperscript{33} Ibid
\textsuperscript{34} Khan, M.Y., Financial Services, p. 238, 2007
2.3 Venture Capital and Conventional Development Capital

The Venture Capital funds contrast from conventional development funding as last does not accommodate new engineering or new entrepreneurial ventures. They give credit to the tasks in dominant part of the cases. They are intrigued by premiums which they procure from the credits provided for the activities. They don't specifically meddle with the working of the management aside from the management information framework, normal executive gatherings and the statutory prerequisites for the successful working of the management35.

Traditional Development account contributes dependent upon the activities demonstrated track record and dependability of the promoters, effective management, and accessibility of the sufficient money and likelihood of the profits for the project. Traditional Development Capital gets settled enthusiasm toward the type of altered portions given as essential sum. Nonetheless, a Venture Capital Company has distinctive components for putting resources into an undertaking. It advertises new engineering, new items and take control of the general management of the company in a few cases. A high risk component is included in the financing which retreats at the entry or exit of the project and the accessibility of fitting exit course to route to liquidating the investments36.

The differences between Venture Capitalist and Conventional Financier in India are shown in the table below37:

---

36 Pandey, I.M., Venture Capital - The Indian Experience, p. 46, 2006
37 Ibid
## Table 2.1 Differences between Venture Capitalist and Conventional Financier

<table>
<thead>
<tr>
<th>Sl. No.</th>
<th>Venture capitalist</th>
<th>Conventional financier</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>He is risk taker like the entrepreneur.</td>
<td>He is the risk avoider as protection of funds is the prime responsibility of the financier.</td>
</tr>
<tr>
<td>2.</td>
<td>He acquires equity, a share of ownership and with it a share of risk. He does not eliminate risk but manages it through in-depth monitoring, assisting and directing his investee companies and through portfolio diversification. He considers himself a partner of the entrepreneur.</td>
<td>His objective is to eliminate risk by loaning money against collateral and ensuring debt repayment capacity.</td>
</tr>
<tr>
<td>3.</td>
<td>He specializes in management services of which finance is a part. He understands the whole scope of business, from team-building through to operations.</td>
<td>He specializes in financial services and has nothing to do with management or marketing to clients.</td>
</tr>
<tr>
<td>4.</td>
<td>He has extensive operating experience and provides entrepreneurs full hands-on support.</td>
<td>Such experience is not required at all.</td>
</tr>
<tr>
<td>5.</td>
<td>He channels funds into the lowest tier of the market, i.e. the emerging enterprise.</td>
<td>He avoids such situations of risk.</td>
</tr>
<tr>
<td>6.</td>
<td>Venture capitalist injects an element of vitality and innovation into the business community.</td>
<td>The conventional financier is not equipped to provide support which new enterprises demand alongside investments.</td>
</tr>
<tr>
<td>7.</td>
<td>He assists the flow of new investment opportunities by encouraging entrepreneurs, developing entrepreneurial infrastructure by establishing different types of venture funds.</td>
<td>He only assists in investments.</td>
</tr>
<tr>
<td>9.</td>
<td>Provides second-stage financing for full achievement of investee company’s potential/realizing of business opportunities.</td>
<td>Not always so.</td>
</tr>
<tr>
<td>10.</td>
<td>Provides finance for turning around sick, potentially sick, but viable units.</td>
<td>Not always so.</td>
</tr>
<tr>
<td>11.</td>
<td>Encourages entrepreneurial initiatives and innovations which accelerate business development and the pace of national economic growth.</td>
<td>Also helps achieve business development and economic growth.</td>
</tr>
</tbody>
</table>

Source: Indian Venture Capital Association
2.4 Venture Capital and Seed Capital

Venture Capital is not quite the same as Seed Capital as last is the given as a specialized, business turned and good backing through outside sources to an undertaking having low opportunity to get off the ground to turn into a considerable business. It is given to an exceedingly specific business which by and large needed to demonstrate an idea and is a beginning little measure of capital. However no starting advertising is carried out through seed capital and investment is made to a model item or fruition of a strategy for success\(^{38}\).

The risk capital is additionally high in Seed Capital not higher than those connected with Venture Capital financing gave that fund managers have fitting ability sets. Seed Capital includes long lead times around seven to ten years and high management sets back the finances as management is exceedingly included in working with investees to help assemble their company. The distinction between the Seed Capital and Venture Capital is in Seed Capital interest free finance is given to urge experts to end up promoters of modern extend and Venture Capital is intrigued by procuring additions from the investment made\(^{39}\).

<table>
<thead>
<tr>
<th></th>
<th>Seed Capital Scheme</th>
<th>Venture Capital Scheme</th>
</tr>
</thead>
<tbody>
<tr>
<td>Basis Beneficiaries</td>
<td>Incentive or aid Very small entrepreneurs</td>
<td>Commercial viability Medium &amp; large entrepreneurs are also covered.</td>
</tr>
<tr>
<td>Size of assistance</td>
<td>Restricted to Rs 1.5 million</td>
<td>Usually up to 40 per cent of promoters’ equity</td>
</tr>
<tr>
<td>Appraisal process</td>
<td>Normal</td>
<td>Skilled and specialized</td>
</tr>
<tr>
<td>Estimated returns</td>
<td>20 percent</td>
<td>30 percent Internal Rate of Return (IRR)</td>
</tr>
<tr>
<td>Flexibility</td>
<td>Nil</td>
<td>Highly flexible. Can be extended as equity, supports loans in various stages.</td>
</tr>
<tr>
<td>Value addition</td>
<td>Nil</td>
<td>Multiple ways</td>
</tr>
<tr>
<td>Exit option</td>
<td>Usually as sell-back to promoter</td>
<td>Several, including offer to public</td>
</tr>
<tr>
<td>Funding source</td>
<td>Owner funds/general pool</td>
<td>Outside borrowing/contribution allowed</td>
</tr>
</tbody>
</table>

Source: Indian Venture Capital Association


\(^{39}\) Ibid
2.5 Venture Capital and Bought-out Deals

The Bought-out Deals does not give equity finance at diverse phases of development and does not include in project on high risks. The desire of capital increases in purchased out arrangements is like that of Venture Capital yet there is a distinction between its goals and purposes. The Venture Capital is value financing where investor's returns are burdened as capital addition instead of conventional salary. It is a financing in new endeavor utilizing new innovation to process new items in desire of higher increases. All such variables are not preset in purchased out arrangements40.

2.6 Features of Venture Capital

Management of informational asymmetries obliges venture capitalists to consolidate dissimilar and extraordinary characteristics in the venture capital financing. An exhaustive examination of these characteristics is key to secure the true nature of venture capital41. These are as takes after:-

*Investment in High-tech territories:* - Venture capital is utilized just as a part of new innovative rising territory particularly business misuse of lab examination. It is utilized as a part of cutting edge zones however it is not equivalent word to innovation financing42.

*High Risk Proposition:* - Financing development is a risky business. A financial investor, while contributing accept two sort of risks viz., Product Risk: item in fact sound yet may not be popular for one reason or the other; Market Risk: startling rivalry, issues of showcasing issue identified with channels of conveyance and so forth may be available.

*Ceaseless Involvement: Management Support:* - Success in funding regularly originates from an imaginative company in which the investor's protracted and tormenting background in the company creation methodology is joined together with the business visionary's management ability and definite learning of business or engineering. Venture Capitalists normally have a dynamic inclusion in the business of the contributed in the wake of making a venture43.

*Restricted Life of Ventured Capital Firm:* - Limited life time of venture capital funds constrains the fund managers to show outcomes to the investors (suppliers of investment)

---

40 Ibid
41 Sharma K, *An Analysis of Venture Capital Industry in India*, ICFAI Reader, p. 82-86, 2007
42 ibid
43 “ • ,
21
which further urge market. Consequently they attempt to stay away from deceptive assume control of the investor company for individual reason.

**Equity Related Investment:** Investment made by the venture capitalists into portfolio company are constantly in equity or instruments which are convertible into ordinary share capital at some future date. This kind of financing helps young entrepreneurs and financial investors both to accomplish their goals. The ambitious person needs subsidizes and if the funds are given as equity it could be utilized further to assembles more advances for the company. In the meantime, there is no outpouring of installment for the cash starved company in for cold hard currency its beginning phase of advancement44.

**Supporting Entrepreneurial Talent:** Venture Capitalist venture in, energize and support business people where the letter has restricted assets or in circumstances where entrepreneur is not than the entrepreneur himself.

**Long Term Investment:** In a venture capital financing bundle, there includes long term financing order, on the grounds that real impart of going from three to eight years.

**Supply of Reputation Capital:** Venture capitalist is rehash players in the financing business. Reliably prevalent return in risky conditions is an essential for their survival and development. This worry makes them exceedingly picky in selecting winning ventures. The evident meaning of selecting an undertaking by venture capitalist is that they arrive their notoriety of judgment about what's to come potential of the venture. In the terms of company hypothesis, budgetary cooperation by investors affirms the believability of the undertakings future development. The reputation impact has many positive overflow impacts for the venture. Brokers, different leasers, suppliers, talented directors, and wholesalers approach to join business once venture capitalist is involved45.

**Illiquid Investment:** Return on venture capital investments are illiquid. For the most part venture capital is put into little and recently settled company. Clearly more often than not, these companies are not listed on stock trade. It implies that once investment is made, it could be recuperated just in the situation when company is effective and is sold at market cost to other or attain a securities exchange listing. Returns however are totally lost when company comes up short and goes into receivership or liquidation46.

44 Ibid
46 Ibid

22
2.7 Characteristics of Venture Capital

The three essential attributes of venture capital funds which might them famously suitable as a wellspring of risk finance seem to be:

(1) that it is equity or quasi equity investments;
(2) it is long-term investment; and
(3) it is a dynamic form of venture.

Initially, venture capital is equity or semi equity on the grounds that the investors expect risk. There is no security for his venture. The Venture Capital Funds by taking part in the equity capital systematize the procedure of risk taking which pushes effective domesticated innovation improvement47.

Investors of venture capital have no liquidity for a time of time. Venture Capitalists or fund trust that the company they are supporting will flourish and following five to seven years from making the investment it will be substantial and beneficial enough to offer its experience the stock exchange. Yet a prize is the for liquidity and holding up. The venture capitalists want to sell their share for many times what they paid for. On the off chance that the unit falls flat the investors misfortunes everything. The likelihood dispersion of wanted returns for most venture capital financing is exceedingly skewed to the right. The triumph rate is 10-20 percent48.

Besides, venture capital is long term financing including both cash and time. At long last, venture capital financing includes cooperation in the management of the company. The Venture Capitalists takes part in the Board and aides the firm on vital and strategy matters. The characteristics of venture capital by and large are, financing new and quickly developing company; buy of value shares; support in change of creative innovation based thoughts into items and management; and worth to company by animated cooperation; expect risks in the desire of vast remunerates; and have a long term point of view. These characteristics of investment render it famously suitable as a wellspring of risk capital for locally created innovations49.

48 Ibid
49 Subhash, K.B. and Govindakutty Nair, T., Globalization and Venture Capital System, p. 466, 2004
New venture suggestions in high engineering range are magnetic in light of the apparent probability of considerable development and capital increases. Despite the fact that funding advanced as a system for right on time sage financing it incorporates advancement, extension and buyout financing for units which are unable to raise supports through ordinary financing channels. Units in creating nations need stores for financing different phases of improvement. Such an expansive methodology might help wander trusts to differentiate their investment and spread risks50.

2.8 History of Venture Capital in India

The business life cycle of Venture Capital can structure the groundwork of systems to be taken the administration for the further development of the business51. The development of investment in India has four separate stages:

Phase I- creation of TDICI in 1980's and regional funds as GVFL & APIDC in early 1990's: Throughout the introductory period of 1988 to 1992 there were 9 Venture Capital Institutions in India and Government of India controlled them unbendingly however they work as open entities. The starting funding was carried out by World Bank which instigated Government of India to begin Venture Capital Funds. The significant playing point was on assessment on capital increases which were easier than the corporate rate to these Venture Capital Funds as sanctified under the 1988 standards. The greater amount of the advancement completed in this stage was identified with financing of undertakings having new innovative imaginative business began by original young entrepreneurs. Venture Capital financing worked as Banks in this stage without any insurance security before the liberalization of the economy began in year 1990. This stage was having issues with deference unpracticed regulation and regulatory issues. This prompted misgivings by the investors who got hesitant in contributing new wanders with inventive thoughts. The issue of stocks and shares were taken care of by Controller of Capital Issues (CCI). As stated by 1988 funding rule, any association obliging beginning wander stores need to send a provision to CCI52.

Consequent to the liberalization of the economy in 1991, the workplace of CCI was nullified in May 1992 and the forces were vested in Securities and Exchange Board of India

51 Rustogi R., Incorporating the Emerging Trends in the Indian Capital Market, p. 120, 2002
52 Ibid
(SEBI). The Securities and Exchange Board of India Act, 1992 enable SEBI under segment 11(2) thereof to enroll and direct the working of venture capital funds. This was carried out in 1996, through an government notification. The ability to control venture funds has been provided for SEBI just in 1995 and the notice turned out in 1996. Till this time venture funds were overwhelmed by Indian firms. The new regulations turned into the harbinger of the second period of the funding development.53

Phase II- Entry of Foreign Venture Capital Funds (VCF) between 1995-1999: This stage was pulled in the development of numerous outside institutional investors who put resources into Venture Capital financing. There was financing by the different abroad and private provincial Venture Capitals in Venture Capital Funds54.

The new regulations were presented in the year 1996 identifying with Foreign Venture Capital Funds (FVCF) in the year 1996. Nonetheless, the hindrance of regulatory regime by the Government of India prompted the confinement of Foreign Direct Investment in the nation. For the development of Foreign Venture Capital Funds (FVCF), Security Exchange Board of India (SEBI) designated council for the need to change regulations concerning Venture Capital Funds. There was blast in Information Technology Sector which further quickened the development of Venture Capital Funds in India55.

Phase III-(2000 onwards to 2003)- Venture capital gets to be risk averse unwilling and action decays: This stage prompted accident of Venture Capital request universally as NASDAQ likewise reported loss of 60% in the US showcase. This further prompted an effect on Indian market and interest of Venture Capital declined throughout 2001 onwards. This brought about venture by the Venture Capitalists in mature companies having less risk and trade off the loss caused. This stage proceeds work the end of year 200356.

Phase IV- (2004 ahead)- Investment of Global Venture Capitals firms in India: As there is increment development of Indian economy from 7%-8% a year 12%-14% a year in areas like assembling there is expand in investment by Global Venture Capital firms from 2004 onwards57.

54 Ibid
55 Ibid
56 Ibid
57 Ibid
2.8.1 Growth of Venture Capital in India

The development of Venture Capital in India has accomplished its greatest in the year 2007 which was slowly expanding in the past years. Be that as it may, there was decrease in venture throughout 2008 because of accident down in worldwide market and is still not grabbing the pace as it has gotten prior\textsuperscript{58}.

Venture Capital development is interrelated with modern development in our nation with significant financing in Research and Development as lion's share of the venture is included in creative engineering. The larger part of speculation by Venture Capitalists were in the field off like medicinal services, IT-Ites, Telecom, Bio-innovation, Media & Entertainment, shipping & logistics and so forth. The top Venture Capitalists in this period were ICICI investment reserve, It&fs funding store, Canbank and so on\textsuperscript{59}.

2.8.1.1 Factors Responsible for Growth of Venture Capital in India

The Technology Policy Statement of the government set the rules for technological self-reliance. The approach articulation focused on the accompanying goals\textsuperscript{60}:

- to attain technological competence and self-reliance, particularly in strategic and critical areas, making the maximum use of indigenous resources;
- to use traditional skills and capabilities, making them commercially competitive;
- to provide the maximum gainful and satisfying employment;
- to ensure maximum development with minimum capital outlay;
- to identify obsolescence of technology in use and arrange for modernization of both equipment and technology;
- to develop technologies which are internationally competitive, particularly those with export potential;
- to reduce demands on energy, particularly energy from non-renewable sources;
- to ensure harmony with the environment, preserve the ecological balance and improve the quality of the habitat; and,

\textsuperscript{59} Ibid
\textsuperscript{60} Technical Policy of India, 1983
to recycle waste material and make full utilization of byproducts.

While, medium- and substantial scale commercial enterprises could take after the legislature arrangement system with the assistance of advancement money from the All-India Financial Institutions, little and medium-scale industries fail to offer the account to do so. Notwithstanding the creation, as noted, of venture financing institutions by 1988, money for innovative venture on a little or medium-scale was not uninhibitedly accessible.

The Venture Capital Companies working at present might be separated into four aggregations:

- Promoted by All-India Development Financial Institutions
- Promoted by State Level Financial Institutions
- Promoted by Commercial Banks
- Private Venture Capitalists.
- Promoted by all India Development Financial Institutions

The IDBI began a Venture Capital in 1976 according to the long term financial approach of legislature of India, with an introductory of Rs. 10 crores which raised by forcing a chess of 5% on all installment made for the import of innovation ability activities obliging trusts from Rs.5 lacks to Rs.2.5crores were acknowledged for financing. Promoter's commitment run from this fund was accessible at a concessional investment rate of 9% (throughout growth period) which could be expanded at later stages.

The ICICI gave the required driving force to Venture Capital exercises in India, 1986 it began giving funding fund in 1998 it pushed, alongside the Unit trust of India (UTI), Technology Development and data Company of India (TDICI) as first venture capital company registered under the Companies Act, 1956. The TDICI may give financial help to venture capital undertaking which are situated up by technocrat business people, or innovation data and guidance services.

The risk capital establishment created by the Industrial Finance Corporation of India (IFCI) in 1975, was changed over in 1988 into the Risk Capital and Technology Finance Company (RCTC) as a subsidiary company of the IFCI the rate gives support as conventional

---

62 Ibid
loans, interest free conditional loans on profit and risk sharing basis or equity participation in extends financial support to high technology projects for technological up gradations. The RCTC has been renamed as IFCI Venture Capital Funds Ltd. (IVCF)\textsuperscript{65}.

Promoted by State Level Financial Institutions: In India, the State Level Financial Institutions in a few states, for example, Madhya Pradesh, Gujarat, Uttar Pradesh, and so on., have made a magnificent showing and have given funding to a small scale enterprise. Several young entrepreneurs have been the beneficiaries of the liberal funding environment. In 1990, the Gujarat Industrial Investment Corporation, advertised the Gujarat Venture Financial Ltd (GVFL) alongside different promoters, for example, the IDBI, the World Bank, and so forth. the GVFL gives money related help to business as equity, conditional loans or income notes for technologies development and innovative products. It also provides finance assistance to entrepreneurs. The legislature of Andhra Pradesh has additionally advertised the Andhra Pradesh Industrial Development Corporation (APIDC) funding ltd. to give investment financing in Andhra Pradesh\textsuperscript{66}.

Promoted by Commercial Banks: Canbank Venture Capital Fund, State Bank Venture Capital Fund and Grindlays Bank Venture Capital Fund have been set up the respective commercial banks to undertake venture capital activities. The State Bank Venture Capital funds give financial help to purchased out arrangement and additionally new company as equity which it disinvests after the commercialization of the undertaking. Canbank Venture Capital Funds gives money related aid to ended up being economically exploited innovations. It gives aid both as equity and conditional loans\textsuperscript{67}.

Private Venture Capital Funds: Several private sector venture capital funds have been established in India such as the 20th century Venture Capital Company, Indus venture capital Funds, Infrastructure Leasing and financial Services Ltd\textsuperscript{68}.

2.9 History and Evolution of Venture Capital in US and UK

Preceding World War Two, the wellspring of capital for entrepreneurs all around was either the legislature, government-supported foundations intended to put resources into such ventures, or casual investors (today, termed "angel investors") that typically had some earlier relationship to the entrepreneurs. By and large, all around history private banks, sensibly,

\textsuperscript{65} Ibid
\textsuperscript{66} Machiraju H. R., \textit{Indian Financial System}, p. 302, 2002
\textsuperscript{67} Bhole L.M. \textit{Financial Institutions and Markets}, p. 272, 1992
\textsuperscript{68} Ibid
have been unwilling to give cash to a recently settled firm as a result of the high risk and absence of insurance. After World War II, in the U.S. a set of intermediaries developed who had some expertise in putting resources into fledging firms having the potential for greatly quick development.69

Form its earliest beginnings on the U.S. East Coast, investment slowly extended and turned into an undeniably professionalized foundation. Throughout this period, the locus of the funding business moved from New York and Boston on the east Coast to Silicon Valley on the west drift. By the mid 1980s, the perfect common investment firm was situated in Silicon Valley and put to a great extent in hardware with lesser wholes committed to biomedical advances. Until the present, notwithstanding Silicon Valley, the two other significant fixations have been Boston and New York City.70

In both Europe and Asia, there are noteworthy amassing of funding in London, Israel, Hong Kong, Taiwan, and Tokyo. In the U.S., the legislature has assumed a part in the improvement of investment, however, generally, it was backhanded. The aberrant part, i.e., the general approaches that additionally profited the advancement of the funding business, was likely the most critical. Probably the most critical of these were:71

a. The U.S. government for the most part rehearsed sound fiscal and monetary strategies guaranteeing generally low swelling with a stable money related environment and cash.
b. The U.S. charge approach, however it developed, has been good to capital increases, and various abatements in capital additions expenses may have had some positive impact on the accessibility of investment.
c. With the special case of a brief time in the 1970s, U.S. pension funds have been permitted to put reasonable sums in investment reserves.
d. The NASDAQ stock exchange, which has been the passageway technique of decision for financial investors, was strictly controlled and portrayed by expanding openness along these lines restricting investor’s reasons for alarm of duplicity and misdirection.

This made a general macroeconomic environment of transparency and unoriginality, decreasing risk for investors. Put diversely, environmental risks coming from government

69 Ibid
70 Ibid
71 Ibid
movement were minimized— a sharp difference to most developing countries. Another imperative approach has been an ability to put vigorously and persistently in university research. This investment supported eras of graduate understudies in the sciences and building. From this examination has come prepared particular and advancements; U.S. universities especially. MIT, Stanford, and UC Berkeley assumed a specific striking part. The most significant immediate U.S. government contribution in empowering the development of investment was the entry of the Small Business Investment Act of 1958 approving the creation of Small Business Investment Corporations (SBIC). This enactment made a vehicle for financing small firms of numerous sorts. The enactment was muddled; however for the improvement of investment the accompanying characteristics were generally critical:

a. It allowed individuals to from SBIC with private finances as paid-in capital and afterward they could get cash on a 2:1 degree at first up to $300,000, i.e., they could use up to $300,000 of SBA-ensured cash for their investment of $150,000 in private capital.

b. There were additionally expense and different profits, for example, salary and a capital increases pass through and the recompense of a conveyed interest as remuneration.

The SBIC system turns into one that numerous different countries either gained from or copied. The SBIC program likewise gave a vehicle to banks to go around the depression-period laws precluding business permitted them to obtain equity in small firms. This made considerably more capital accessible to young firms, and was a noteworthy wellspring of capital in the 1960s and 1970s. The last financing companies allowed SBIC to bring cash up in people in open market. Generally, these public SBICs fizzled or were exchange by the mid 1970s. After the mid 1970s, except for the bank SBIC, the SBIC system was no more noteworthy for the funding business.

The SBIC project encountered genuine issues from its commencement. One issue was that as a legislature organization it was exceptionally bureaucratic having numerous decides and regulations that were always showing signs of change. Notwithstanding the debasement,
something profitable additionally happened. In particular, and particularly, in Silicon Valley, various people utilized their SBIC to power their individual capital, and some were successful to the point that could repay the project and raise institutional cash to get traditional financial investors. The SBIC project quickened their capital aggregation, and as critical, government regulations made these new investors professionalize their investment actions, which had been casual before entering the system. Notwithstanding celebrated firms, for example, Sutter rise ventures, Institutional Venture Partners, Bank of America Ventures, and Menlo Ventures started as SBIC75.

The chronicled record likewise shows that administration activity can harm venture capital. The most striking illustration came in 1973 when the U.S. Congress, because of broad debasement in pension funds, changed Federal benefits reserve regulations. In their flurry to restrict benefits fund misuses, Congress passed the Employee Retirement Income Security Act (ERISA) making pension reserve administrators criminally at risk for misfortunes brought about in High-risk ventures. This was interpreted to include venture capital funds; as a result pension managers shunned venture capital nearly destroying the entire industry76.

This was just turned around after animated campaigning by recently made National Venture Capital Association (NVCA). In 1977, it succeeded in beginning a slow releasing process that was finished in 1982. The new elucidation of these pension fund rules helped first a trickle then a surge of new cash into funding ventures. The best instance of the fare of Silicon Valley-style investment practice is Israel where the legislature assumed an inept part in empowering the development of funding77.

The government has a generally good economic record; there is at least debasement, gigantic financing in military, especially hardware research and the incredible higher instructive framework. The imperativeness of the connections between Israelis and Jewish people in U.S. high engineering industry and the making of the Israeli investment framework ought not to be disparaged. For example, the well-known U.S. financial investor, Fred Adler, started putting resources into Israeli new businesses in the early 1970s, was included in framing the first Israeli Venture Capital Fund. Still the making of Israeli Venture Capital

---

75 Ibid
76 Ibid
77 Ibid
industry might hold up until the 1990s, when the legislature supported an association Yozma, to energize investment in Israel\textsuperscript{78}.

Yozma gained $100 million from the Israeli government investment of $8 millions in ten finances that were required to raise an alternate $12 million each from a noteworthy remote accomplice, probably foreign funding company. Yozma additionally held $20 million to contribute itself. These sibling funds were the spine of a now vibrant group that puts resources into abundance of $1 billion in Israel in 1999. In the U.S., investment developed through a natural experimentation process, and the part of the legislature was restricted and opposing. In Israel the legislature assumed a basic part in a steady environment in which private-area funding had effectively risen\textsuperscript{79}.

The part of government contrasts as in the U.S. the most significant part of the administration in was roundabout, in Israel it was generally positive in aiding the development of funding, in India the part of the legislature has must be proactive in uprooting obstructions. In each country, the state has assumed some part in the improvement of investment which is an exceptionally delicate institutional from because of the high-risk nature of its investments, so the state must be mindful so as to guarantee its arrangements don't unfavorably influence its investors. Put contrastingly, eccentric administrative movement infuses additional risks into the investment comparison. Be that as it may, prudent, overall arranged government arrangements to make impetuses for private division association have in the proper lead to the foundation of what turns into an autonomous administering toward oneself investment industry\textsuperscript{80}.

\textbf{2.9.1 Venture Capital Financing in the USA}

Venture Capital, which has assumed a helpful part in the constructive advancement of the USA, owes its development in that nation to the activity taken after World War II by a couple of rich American family upsets. Around them were Rockefeller (Standard Oil), Andrew Carnegie, the Phippses (Bessemer Steel), the Rosenwelbs (Sears), the Pitcairns (Pitsburgh Plate Glass) and the Whitneys (Vanderbilt Shipping)\textsuperscript{81}.

\begin{itemize}
\item \textsuperscript{79} Ibid
\item \textsuperscript{80} Taneja, S. \textit{Venture Capital in India}, p. 42, 2002
\end{itemize}
Anyway truth be told, the start of funding industry was made by George Doriot who, as a Harvard Business School teacher, advertised little business advancement at Harvard and teamed up in building in 1946 the American Research and Development Corporation (ARDC), a Boston based financing fund. The fund's, primary destination was to back a mixed bag of new organizations dependent upon university innovation from foundations like Massachusetts Institute of Technology (MIT). This was then the first venture organization which unequivocally tried to advertise the new advances being created in universities. The association financed almost 100 organizations over a time of 11 years and procured 55 times its investments. Consequently, other investment associations were shaped\(^82\).

The early 1950s denoted the high development of investment financing in the USA. Investments in Venture Capital were remunerated with significant yields. ARD's $70,000 investment in computers gear got to be worth more than $500 million. There was a marvelous development in the amount of Venture Capital Companies. From 1965 to 1972 about 40 Venture Capital Companies with conferred assets of practically $500 million were structured. Various investor firms joined the National Venture Capital Association for unified correspondence with the legislature, the securities business and people in general. As anyone might expect, a study led by Securities and Exchange Commission (SEC) uncovered that on a normal, funding supported organizations between January 1967 and March 1970, opened up to the world at about seven times the value 12 months after the financing. Throughout the period the normal thankfulness in the portfolio of a few investment assemblies was of the request of 30 to 40 for every penny for every year\(^83\).

In the interim, the legislature supported the Small Business Administration (SBA) to permit the organizations under the Small Business Investment Act, 1958. These organizations were known as Small Business Investment Companies (SBIC) and were given funding, expense motivations and government advances up to four times the introductory cash flow to make value sort ventures in small companies. In addition, in the 1960s and 1970s, various close-ended public venture funds were structured which were included in Venture Capital financing. These included insurance agencies, banks, common trusts, college angel investors, consolidated financing organizations, as additionally financing brokers and foreign investors.

\(^82\) Ibid
\(^83\) Ibid
Imperative names around the private activities included Xerox, 3m and General Electric which financed innovation based ventures\textsuperscript{84}.

It may be noted that in the USA, the development of Venture Capital industry has been connected with engineering improvement. For instance, Venture Capital financing helped the development of robust state gadgets organizations and computer science based commercial ventures in the 1960s. Once more, Venture Capital financing helped the early 1970s to extend the requisitions of semiconductors in microelectronics, which reshaped the substance of customer and modern items. In the late 1970s Venture Capital financing was accessible for the advancement of biotechnology. In the early 1980s, Venture Capital financing in the USA, stretched out their circle of venture to consumer related ventures\textsuperscript{85}.

In the late 1970s and the early 1980s there was a geometric development of funding accessible for Venture Capital. The measure of the aggregate pool rose from $2,500-3,000 million in the period 1969-77 to $19,600 million in 1985; and payment from $450 million in 1969 to 12-600 million in 1985\textsuperscript{86}. In biotechnology 400 privately funded companies had introductory financing from Venture Capital Funds. This period was stamped by a resurgence of science-based ventures because of the accompanying elements\textsuperscript{87}:

a. Continued development of supercomputer engineering;

b. provision of superconductivity and propelled materials in hardware and earthenware production;

c. propelled provisions in machine programming including artificial intelligence, and so on; and

d. proceeded enthusiasm toward health awareness ranges, requisition of bio-technology to wellbeing diagnostics, therapeutics, rehabilitative medication, and so on.

The accompanying characteristics in financing the ventures are seen in American Venture Capital Companies:

a. Marked valuation for investment in about 10 percent cases, yet failure 40 percent;

b. sorted out set-ups or existing operations are not the target customers;

\textsuperscript{84} Ibid
\textsuperscript{85} Wilson, H.I.M., \textit{An interregional analysis of Venture Capital and technology funding in the UK}, Technovation, Issue VI, p. 65-72, 1993
\textsuperscript{86} Ibid
c. engineering push is towards problematic, and not demonstrated marketed innovation in this way, the component of risk is transcendent;

d. all things considered management additionally comes in as an essential information in spite of the fact that greater part shareholding is not supported for guaranteeing such control;

e. the practice is to have written agreement characterizing administration part\

The example of overcoming success of Venture Capital in the USA is confirm by the creation of xerographic arrangement of improvement of Apple machines, setting up of Silicon Valley, and innovative modern innovative work base. Venture Capital financing in the USA include:

a. Financial structure and fiduciaries: Supplier of funds which include the partnership funds, banks, insurance companies and pension funds, management and individuals.

b. Business providers or makers of business plan which include the investment bankers, lawyers, accountants and the management.

c. Expert advisers which include the legal counsel, the tax advisers and the industry consultants.

d. Users of funds which includes the start-up ventures, the build business, the established companies and the pay down debts.

e. Lastly the provider of Venture Capital.

American Venture Capital firms give seed, start-up or mezzanine financing. A paramount characteristic of the investment business in the USA is ‘passive financing’, which was initially begun in 1979 by Citicorp, followed in 1980 by John Hancock. These wants designated funds for Venture Capital investment, however rather than straightforwardly putting them in undertakings they had then put latently in a cross-area of Venture Capital Funds. They additionally dedicated extra capital for co-investments from their pool of investee funds. In the late 1980s, strength contributing got to be exceptionally mainstream. This includes to the customizing of investments to meet the prerequisites of a particular industry (health awareness or telecommunications, for instance) or area (the west or the east coast based funds).

88 Ibid
90 Ibid
A few variables have helped the USA turning into the pioneer in the Venture Capital industry:

1. Historical, topographical and focal points have been with the USA. In the quick post-World War II period when Europe, Japan and other Asian countries were occupied with monetary remaking, the USA was ahead in industrial development and was giving financial help to these countries.

2. Industry in the USA demonstrated momentous ability to receive new advances, and extended Venture Capital funding; new young entrepreneurs were abundantly persuaded by the accessibility of investment.

3. Stock markets gave liquidity to investment; over-the-counter markets flourished and shares of Venture Capital backed companies were acknowledged by public in general with enthusiasm.

In the 1980s, the US venture industry started to search abroad for chances in venture investments, in nations where such ventures were not dynamic and business visionaries relied on upon customary wellsprings of financing. US-based funding companies have since been supporting governments and account organizations in creating nations to make investment firms, make another era of entrepreneurs, set up commercial enterprises with new engineering, make markets for new items and quicken the pace of financial improvement.

2.9.2 Venture Capital Financing in the UK

The birthplaces of funding in the UK might be followed to its colonial period. The building of tracks in parts of America and India, development of high-risk ventures like Suez Canal, and so on are illustrations here pooled assets were put in question and got huge capital additions. In any case, the advancement of funding, in the sense it is seen today, owes to the professionally overseen master reserve known as Charterhouse giving risk equity finance to youthful and developing small companies in the UK.

The potential of the private part to produce account for start-up and extension of small companies that are naturally unsafe, have been distinguished by the legislature. The Venture Capital industry has assumed a significant part in the rebuilding of the nation's modern base,

---

92 Ibid
especially in the creation and early development of wealth and occupation making undertakings.94

The UK venture capital industry is presently occupied with a more extensive reach of arrangements and sorts of financing than in the early 1980s. It gives debt, including mezzanine debt, and equity; expects to contribute for shorter periods than formerly; puts resources into established companies and those without a long track record; does not generally take part in the management of investee companies. To a substantial degree, these improvements have reflected the generously expanded number of purchase outs financed by Venture Capitalists as of late. By complexity, the sums put resources into start-up and early-stage business over the same period have just barely about kept pace with expansion.95

By 1980, the amount of active UK-based Venture Capital funds numbered around 20. Several new independent funds like Equity Capital for Industry (ECI), public utility pension funds, National Enterprise Board, and a few semi-stage Venture Capital bodies like Scottish and Welsh Development Agencies were joined. Development in risk equity finance has gotten noteworthy between 1980 and 1984. Almost 30 new funds were propelled. Throughout 1987, 130 dynamic Venture Capital funds were accounted for in the UK96. During this period, Britain's Venture Capital industry represented more than a large portion of all investment funds brought up in Europe. Venture capital industry in the UK has contributed £8.8 billion from 1985 till 1992. As stated by British Venture Capital Association (BVCA) overall financing by UK venture capital funds totaled £1,434 million in 1992. About 110 Venture Capital Companies put £1,251 million in 1,147 companies in the UK throughout 1992.97

Venture Capital funds in the UK are assembled into five wide classes, in light of parentage, proprietorship and sources of funds as under98:

- a. Publicly listed independent Venture Capital investments which are different from private independent funds.
- b. Independent drivers who have a tendency to essentially participate in financing new companies and early stage businesses; make a higher extent of equity investment;

---

94 Ibid
97 Ibid
98 Ibid
have technological specializations; and take a more noticeable part in the administration of their customer business than other financing vehicles.

c. Captive Venture Capital organizations which are wholly-possessed subsidiaries or divisions of bigger monetary organizations, e.g. banks, pension funds and other fiscal institutions, for example, insurance companies.

d. Business Expansion Scheme (BES) funds which may be overseen either by autonomous or Captive Venture Capital organizations.

e. Government capital associations which are subsidized either specifically or by implication from government sources.

In 1983 the British Venture Capital Association (BVCA) was made with an enrollment of 33 funds. The BVCA report of 1992 indicated that 114 BVCA members had put dominatingly in the UK. They had £1,250.8 million put resources into 1,147 UK companies. Continental European investment totaled £119.2 million in 77 companies, while venture in the USA was marginally short of what a large portion of this sum at £51 million in 71 companies. In this manner the aggregate number of companies financed was 1,297, the emulative sum contributed being £8,802 million from 1985 till 1992. Investment in nations other than the UK, US and Continental Europe structures an irrelevant extent of the aggregate sum contributed by the British Venture Capital Companies as may be seen in table 2.4:

<table>
<thead>
<tr>
<th>Countries</th>
<th>Amount (£ million)</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>United Kingdom</td>
<td>1,250.8</td>
<td>87</td>
</tr>
<tr>
<td>United States</td>
<td>50.8</td>
<td>4</td>
</tr>
<tr>
<td>Continental Europe</td>
<td>119.2</td>
<td>8</td>
</tr>
<tr>
<td>Other Overseas</td>
<td>13.0</td>
<td>1</td>
</tr>
<tr>
<td>Total</td>
<td>1,433.8</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: British Venture Capital Association

Of £1,251 million invested in the UK in 1992, £980 million (78 percent) was invested in new opportunities. The remaining £272 million was invested in follow-on opportunities.

The independent group, covering associations whose share capital is subscribed by pension funds, insurance companies, investments trusts and so forth (with some having openly subscribed funds), represents 62.5 percent of investment and 67.7 percent of the contributed sum. Captive Organizations made by banks and different institutions, imparted about 20 percent of ventures. Fund management groups under Business Expansion Schemes (tax incentive schemes promoted by the government) help yearly a little more than 11 percent. Anyway these funds represent not exactly something like 6 percent of the measure of investment. The balance of investments is made by government or nearby associations who represent short of what 7 percent of investment.\(^{100}\)

The Venture Capital industry in the UK is not chiefly included in high-engineering ventures, yet in a wide run of risk capital circumstances including the cultivating of development and improvement of undertakings, putting critical wholes of cash behind settled innovation, taking an interest in the extension of developed countries and helping the advancement of new management teams. Taking on this more extensive part of risk capital procurement, the Venture Capital industry in the UK has been a vibrant power for change and the business flourishes in a sound, focused circumstance.\(^{101}\)

---

\(^{100}\) Ibid

\(^{101}\) Ibid
Table 2.6 Stages of Investment

<table>
<thead>
<tr>
<th>Stage</th>
<th>% of financing</th>
<th>% of amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Start-up</td>
<td>10</td>
<td>4</td>
</tr>
<tr>
<td>Other early stage</td>
<td>7</td>
<td>3</td>
</tr>
<tr>
<td>Early stage</td>
<td>17</td>
<td>7</td>
</tr>
<tr>
<td>Expansion</td>
<td>46</td>
<td>22</td>
</tr>
<tr>
<td>Refinancing</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>Secondary purchase</td>
<td>8</td>
<td>3</td>
</tr>
<tr>
<td>Expansion</td>
<td>57</td>
<td>29</td>
</tr>
<tr>
<td>Management buy-outs (MBOs)</td>
<td>18</td>
<td>53</td>
</tr>
<tr>
<td>Management buy-ins (MBIs)</td>
<td>8</td>
<td>11</td>
</tr>
<tr>
<td>Total MBOs/MBIs</td>
<td>26</td>
<td>64</td>
</tr>
<tr>
<td>Total</td>
<td>100</td>
<td>100</td>
</tr>
</tbody>
</table>


Table 2.7 Industry-wise Investment

<table>
<thead>
<tr>
<th>Industries</th>
<th>% of companies</th>
<th>% of amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Consumer Related</td>
<td>18.6</td>
<td>25</td>
</tr>
<tr>
<td>Computer Related</td>
<td>14.3</td>
<td>7</td>
</tr>
<tr>
<td>Electronics Related</td>
<td>5.4</td>
<td>5</td>
</tr>
<tr>
<td>Medical Genetics/Biotech.</td>
<td>8.1</td>
<td>4</td>
</tr>
<tr>
<td>Industrial Products</td>
<td>6.5</td>
<td>15</td>
</tr>
<tr>
<td>Communications</td>
<td>6.0</td>
<td>2</td>
</tr>
<tr>
<td>Transportation</td>
<td>3.4</td>
<td>3</td>
</tr>
<tr>
<td>Energy/Mining</td>
<td>1.2</td>
<td>1</td>
</tr>
<tr>
<td>Construction</td>
<td>3.8</td>
<td>5</td>
</tr>
</tbody>
</table>

Source: British Venture Capital Association

Advancement worth saying in the Venture Capital industry in the UK is corporate venturing which includes associations between settled large companies and new smaller firms which try to endeavor business chances together for shared development and enhancement. Larger firms can help more modest ones with their budgetary, specialized and advertising assets, while new companies can offer an adaptable, responsive methodology to handy
chances for development. In corporate ventures the risk is imparted by both accomplices, the
bigger firm frequently raking a minority equity stake. Such business connections grant more
diminutive companies to create items and methods which they may not overall have had the
capacity to manage. Larger firms may profit from the entrepreneurial standpoint of their little
accomplices, and also quick item improvement and career training opportunities.102

The National Economic Development Office has taken a specific interest toward
encouraging corporate venture in Britain, and in 1988 it distributed a Corporate Venturing
Register to familiarize secured firms with potential smaller partners, and set up a Corporate
Venturing Center to help firms in reaching each other.103

The government in the UK has given two activities to aid the improvement of Venture
Capital funds. In 1983, the Business Expansion Scheme (BES) was set up to offer income tax
relief at a minor rate to individuals putting up to £40,000 for every year in new, full-risk
equity of unquoted British organizations with which the investor was not overall associated.
Firms utilizing the BES may not raise more than £500,000 of such capital in any year, unless
they are shipping companies or companies which let private residential property, where the
point of confinement is £5 million. By March 1988, something like 3,000 companies had
utilized the BES to raise some £780 million. Preparatory assessments of funds brought
through the BES up in the year finished 31 March 1989 have been put at £-350 million. A tax
relief was conceded in 1980 against tax liabilities on income for capital losses on the transfer
of specific shares by individuals and investment companies.104

2.9.2.1 The 3i Venture Capital Investment in the UK

3i Capital, a division of one of the world's biggest private venture capital companies,
has, since its beginning in the UK in 1945, put $7 billion in about 10,000 companies. It has
built a worldwide system of investment activities. 3i’s subsidiary, 3i Corporation, has been
working in the USA since 1982 through 3i Capital and 3i Ventures. The previous is occupied
with investment activities in the wider extend of businesses. The recent focused on seed
capital through early stage financing for companies in the software industry, computerization,
biotechnology and social insurance commercial ventures. Each one aggregation has business

102 Ibid
103 Ibid
104 Ibid
locales in Boston, Massachusetts and Newport Beach, California and benefits itself of investment chances both inside and outside the USA\textsuperscript{105}.

3i Ventures give cash flow to seed, start-up, and early-stage companies. It has given over $100 million (£-54 million) to innovation built companies with respect to the east and west coasts of USA and UK. This is just a little rate of the $3.5 billion (&2 billion) visit the 3i assembly has in its current portfolio. 3i’s run of the mill venture is $1 million (£500,000), despite the fact that it likewise makes much more diminutive seed speculations. 3i’s trusts came initially from its shareholders—the real British clearing banks, including the Bank of England\textsuperscript{106}.

In management start-ups, 3i contributes at the rate of over &2 million each working day and is the biggest source of capital in the UK. Throughout the previous five years 29 percent of its investment has been in new or early-stage companies. Notwithstanding making funds available, 3i aides in group building, arranging and promoting by including its own particular professionals. 3i is cautious in selecting an entrepreneurs; he might need to have the capacity to join the characteristics of ‘technical genius and charismatic leader driven by ruthless ambition who builds an industrial empire from a bike repair shop’\textsuperscript{107}.

3i spots solid attention on management quality, and meets all the individuals on the group of the client company. On the off chance that the customer's business 5 officially in operation and needs a capital support to get it legitimately off the ground, 3i visits the customer's work likewise. 3i chooses the financing system that might give the customer's business the best risk of triumph and minimize the budgetary risk. This could be an equity subscription or a perfectly customized advance, with investment just installments in the early stages, or a bundle of both. 3i subjects the marketable strategy for management start-up to watchful thought. The arrangement ought to hold emulating data\textsuperscript{108}:

- company foundation the historical backdrop of advancement of business thoughts, private issue targets, a depiction of the business;
- the individuals who are the promoters of the business, their experience and capacities, particular obligations in the new venture, what personal funds they are ready to focus on the venture;

\textsuperscript{106} Ibid
\textsuperscript{107} Ibid
\textsuperscript{108} Brooks, J., \textit{The Venture capital Handbook}. p. 105, 1999

42
the items an exact and straightforward portrayal of the proposed item or administration, specifying item offers as well as profit to clients;

- markets and promoting to distinguish the business, its patterns, the shares, the firm points for, company's potential clients and their needs, the equity they will pay, the opposition;

- manufacturing and operations—how the firm will generate the item and achieve it to the business sector, the premises, plant, supplies and supplies needed;

- company structure—how the firm will sort out the business to reach its targets: capacities and obligations, executives and non-chiefs, proposed compensation, subtle elements of shareholders and possessions109;

- financial information what amount of cash the firm will require: cash-flow explanations; benefit and misfortune records and asset reports for the initial three years, expressing on what presumptions the firm bases its projections;

- Risks—obviously and plainly recognize the risks the firm and 30 ought to be mindful of by method for primary risks in the commercial center and shortcomings in the business.

Consistently 3i makes vast amounts of investments to help its existing clients develop, and furnishes customers with the sort of investments that will help them to exploit further fortunes. 3i additionally helps customers discover partners and make acquisitions, assists with Unlisted Securities Market (USM) flotation and acquaints them with 51 experts to help take care of the management issues problems110.

---

109 Ibid
110 Ibid