3.1 Introduction

The life cycle and development of Venture Capital is appeared below. With the diverse necessity of the funds at distinctive stages, the life cycle phase of the endeavor likewise differs. The necessity of the money is needed at the starting stage, center stage and last stage. It likewise changes as stated by the prerequisite of the strategy for success, engineering and business sector prerequisites. This variety in prerequisite at diverse phase of business characterizes Venture Capitalists as Angel Investors, Venture Capitalists or Private Equity investors.111

Startup Financing Cycle

Source: European Venture Capital Association

111 Pandey I M. Venture Capital – The Indian Experience, p. 40, 1999
3.2 Venture Capital Spectrum/Stage

Depending upon the requirement at different stages the Venture Capital investments is appropriate for any innovative business idea. The various stages of Venture Capital Investments are as follows\textsuperscript{112}:

3.2.1 Early stage Finance

a. Seed capital
b. Startup Capital
c. Early/First Stage Capital
d. Later/Third Stage capital

3.2.2 Later Stage Finance

a. Expansion/Development Stage Capital
b. Replacement Finance
c. Management Buy Out and Buy in
d. Turnarounds
e. Mezzanine/Bridge Finance

Not all business firms pass through each of these stages in sequential manner. For instance seed capital is normally not required by service based ventures. It applies largely to manufacturing or research based activities. Similarly second round finance does not always follow early stage finance. If the business grows successfully it is likely to develop sufficient cash to fund its own growth, so does not require venture capital for growth. The table below shows risk perception and time orientation for different stages of venture capital financing\textsuperscript{113}.

3.2.1.1 Seed Capital

It is a thought or idea rather than a business. European Venture Capital Association (EVCA) characterizes seed capital as “The financing of the initial product development or capital provided to an entrepreneur to prove the feasibility of a project and to qualify for startup capital.”\textsuperscript{114}

\textsuperscript{112} Ramesh S. and Gupta Arun, Venture Capital and Indian Finance Sector, p. 234, 1995
\textsuperscript{113} Ibid
\textsuperscript{114} EVCA, Yearbook, European Venture Capital Association: Brussels, 1996-2006
The attributes of the seed capital may be specified as follows:

a. Absence of ready product market
b. Absence of complete management team
c. Product/process still in R & D stages
d. Initial period/licensing stage of technology transfer

Broadly talking seed capital financing may take 7 to 10 years to attain realization. It is the earliest and accordingly least secure phase of Venture capital financing. The new engineering and enhancements being endeavored have equivalent shot of triumph and disappointment. Such ventures, especially hi-tech, undertakings sink a great deal of money.

### Venture Capital- Financing Stages

<table>
<thead>
<tr>
<th>Financing Stage</th>
<th>Period (funds locked in years)</th>
<th>Risk perception</th>
<th>Activity to be financed</th>
</tr>
</thead>
<tbody>
<tr>
<td>Early stage finance</td>
<td>7-10</td>
<td>Extreme</td>
<td>For supporting a concept or idea or R &amp; D for product development</td>
</tr>
<tr>
<td>Start up</td>
<td>5-9</td>
<td>Very high</td>
<td>Initializing operations or developing prototypes</td>
</tr>
<tr>
<td>First stage</td>
<td>3-7</td>
<td>High</td>
<td>Start commercial production and marketing</td>
</tr>
<tr>
<td>Second stage</td>
<td>3-5</td>
<td>Sufficiently high</td>
<td>Expand market &amp; growing working capital need</td>
</tr>
<tr>
<td>Later stage finance</td>
<td>1-3</td>
<td>Medium</td>
<td>Market expansion, acquisition &amp; product development for profit making company</td>
</tr>
<tr>
<td>Buy out-in</td>
<td>1-3</td>
<td>Medium</td>
<td>Acquisition financing</td>
</tr>
<tr>
<td>Turnaround</td>
<td>1-3</td>
<td>Medium to high</td>
<td>Turning around a sick company</td>
</tr>
<tr>
<td>Mezzanine</td>
<td>1-3</td>
<td>Low</td>
<td>Facilitating public issue</td>
</tr>
</tbody>
</table>

Source: Indian Venture Capital Association

Broadly talking seed capital financing may take 7 to 10 years to attain realization. It is the earliest and accordingly least secure phase of Venture capital financing. The new engineering and enhancements being endeavored have equivalent shot of triumph and disappointment. Such ventures, especially hi-tech, undertakings sink a great deal of money.

\[^{115}\text{Ibid}\]
and need a solid fiscal backing for their adjustment, initiation and possible success. Notwithstanding, while the most initial phase of financing is loaded with risk, it additionally gives more terrific potential to acknowledging noteworthy additions in long term. Ordinarily seed ventures need asset base or track record to get account from expected sources and are generally reliant upon entrepreneur’s personal sources. Seed capital is given in the wake of being fulfilled that the entrepreneur’s has utilized up his own particular assets and did his thought to a phase of acknowledgement and has initiated research. The benefit underlying the seed capital is frequently innovation or a thought instead of human possessions (a great administration team so regularly looked for by venture capitalists).

**Volume of Investment Activity:** It has been watched that Venture Capitalists rarely make seed capital financing and these are generally little by correlation to different manifestations of Venture account. The nonattendance of enthusiasm toward giving a lot of seed capital might be ascribed to the accompanying three components:

a) Seed capital tasks by their exceptionally nature oblige a generally little measure of capital. The success or failure of an individual seed capital financing will have little effect on the execution of everything except the smallest venture capital investments. This is on the grounds that the smallest venture capital investments are seen to be cost wasteful regarding time needed to investigate structure manage them.

b) The time skyline to realization for most seed capital financing is regularly 7-10 years which is longer than everything except most long term investors will covet.

c) The risk of product and technology outdated nature expands as the time to realization is extended. These sorts of obsolescence are especially prone to happen with high engineering investments especially in the fields identified with Information Technology.

### 3.2.1.2 Start Up Capital

It is stage second in the Venture Capital cycle and is discernable from seed capital ventures. An entrepreneur frequently needs fund when the business is simply beginning. The startup stage includes beginning another business. Here the entrepreneur has moved closer

---


117 Ibid
towards stronghold of a going concern. Here in the business idea has been completely examined and the business chance now turns into that of transforming the idea into item118.

The startup capital is characterized as: "Capital required funding the item improvement, introductory showcasing and station of item office." The attributes of start-up capital are:-

a)  *Establishment of company or business*: the company is organized or is established recently. New business movement could be dependent upon masters, experience or a twist off from R & D.

b)  *Establishment of most not all the parts of the group*: the abilities and wellness to the employment and circumstance of the entrepreneur’s group is an imperative variable for startup account.

c)  *Development of marketable strategy or thought*: the marketable strategy ought to be completely created yet the worthiness of the item by the business sector is dubious. The company has not yet started trading119.

In the startup preposition Venture Capitalist's investment criteria shifts from thought to individuals included in the venture and the business sector good fortune. When submitting any account at this stage, Venture Capitalists be that as it may, surveys the managerial capability and the limit of the entrepreneur, also the abilities, suitability and skill of the managerial group are likewise assessed. In the event that obliged they supply managerial ability and supervision for usage. The time skyline for startup capital will be commonly 6 or 8 years. Failure rate for startup is 2 out of 3. Start up requirements subsidizes by method for both first adjust financing and resulting catch up ventures. The risk has a tendency to be lower with respect to seed capital circumstance. The risk is controlled by at first putting a more modest measure of capital in new companies. The choice on extra financing is based upon the effective execution of the company. Be that as it may, the term to acknowledgment of a start up venture remains longer than the term of fund regularly gave by the lion's share of budgetary companies. Longer time scale for exit routes course requests proceeded watch on start up ventures120.

*Volume of Investment Activity*: Despite potential for mainstream returns most venture firms abstain from putting resources into new businesses. One explanation behind the lack of

---

118 Ibid
120 Ibid
start up financing may be high markdown rate that investor applies to venture recommendations at this level of risk and development. They frequently want to spread their risk by imparting the financing. Hence syndicates of investor’s frequently take part in startup finance\textsuperscript{121}.

3.2.1.3 Early Stage Finance

It is additionally called first stage capital is given to entrepreneur who has a demonstrated item, to begin business processing and promoting, not blanket market extension, de-risking and obtaining expenses. At this stage the company passed into right on time victory phase of its life cycle. A demonstrated administration group is put into this stage. an item is made and an identifiable business is continuously focused on. British Venture capital Association (BVCA) has vividly characterized early stage fund as: “Finance provided to companies that have completed the product development stage and require further funds to initiate commercial manufacturing and sales but may not be generating profits\textsuperscript{122}.”

The characteristics of early stage finance may be:-

a. Little or no sales revenue.

b. Cash flow and profit still negative.

c. A small but enthusiastic management team which consists of people with technical and specialist background and with little experience in the management of growing business.

d. Short term prospective for dramatic growth in revenue and profits\textsuperscript{123}.

The early stage fund typically takes 4 to 6 years time skyline to realization. Early stage money is the soonest in which two of the basics of business are set up i.e. completely collected a management team and an attractive item. A company needs this round of account in view of any of the accompanying reasons:-

a. Project overruns on product development.

b. Initial loss after start up phase.

The firm needs extra equity reserves, which are not accessible from different sources in this manner provoking investor that, have financed the start up stage to give further financing. The management risk is moved from variables inside to the firm (absence of

\textsuperscript{121} Bloomfield S., Venture Capital Funding: A practical guide to raising finance, p. 330, 2005

\textsuperscript{122} Ibid

\textsuperscript{123} Ibid
administration, absence of item and so forth.) to component outer to the firm (aggressive weights, in sufficient will of budgetary foundations to give satisfactory capital, risk of product obsolescence and so on.)124

At this stage, capital needs, both fixed and working capital needs are greatest. Further, since firms don't have establishment of an exchanging record, account will be troublesome to acquire along these lines funding especially equity financing without associated debt burden is key to survival of the business125.

The following risks are regularly associated to firms at this stage:-

a) the early stage firms may have drawn the consideration of and caused the test of a bigger competitor.

b) there is a risk of item outdated nature. This is more so when the firm is involved in high-tech business like computer, information technology etc126.

Second stage Finance

It is the capital accommodated promoting and helping an endeavor that has started the creation yet does not have positive money streams sufficient to deal with its developing needs. Second stage fund, the second trench of Early Stage Finance is likewise alluded to as take after on account and might be characterized as the procurement of funding to the firm which has long ago been in receipt of outer capital yet whose fiscal needs have consequently blasted. This may be second or even third infusion of capital127.

The characteristics of a second stage finance are:

a. A developed product on the market

b. A full management team in place

c. Sales revenue being generated from one or more products

d. There are losses in the firm or at best there may be a breakeven but the surplus generated is insufficient to meet the firm’s needs.

---

125 Ibid
126 Ibid
127 Ibid
128 Ibid
The second round financing regularly comes in after start up and early stage funding thus have shorter time to development, for the most part going from 3 to 7 years. This phase of financing has both positive and negative reasons. The negative reasons incorporate:

a. Cost overruns in market development
b. Failure of new product to live up to sales forecast.

c. Need to re-position products through a new marketing campaign
d. Need to re-define the product in the market place once the product deficiency is revealed.

Positive reasons incorporate:

a. The sales give off an impression of being surpassing conjectures and the undertaking needs to secure advantages for apparatus up for handling volumes more stupendous than estimates.
b. The high development endeavors stretch quicker than their working capital license, in this manner requiring extra fund. Point is to give working cash flow to introductory development of an endeavor to help expanding stocks and receivables.

It is extra infusion of funds and is a satisfactory a piece of investment. Frequently provisions for such extra fund might be incorporated in the first financing bundles as a choice, subject to certain management performance targets.

3.2.1.4 Later Stage Finance

It is called third stage capital is given to an endeavor that has created business creation and essential promoting set-up, normally for business development, obtaining item improvement and so on it is accommodated business extension of the undertaking.

The enterprises eligible for this round of finance have following characteristics:

a. Established business, having already passed the risky early stage.
b. Expanding high yield, capital growth and good profitability.
c. Reputed market position and an established formal organization structure.

The funds are used for further plant extension, advertising, working capital or improvement of enhanced items. Third stage financing is a mix of equity with debt or subordinate debt. As

---

128 Saha U.S., Smooth Ride to Venture Capital How to Get VC Funding for Your Business, p. 110, 2009
129 Ibid
130 Ibid
131 Taneja S., Venture Capital in India, p. 120, 2002

51
it is half path between equity and debt in US it is called "mezzanine" finance. It is also called last round of finance in run up to the trade sale or public offer. Venture Capitalists incline toward later arrange financing vis-a-vis early stage investment, as the rate of failure in later stage financing is low. It is on account of firms at this stage have a past execution information, track record of administration, built methods of monetary control. The time skyline for realization is shorter, going from 3 to 5 years. This helps the financial investors to adjust their own particular portfolio of investment as it gives a running yield to venture capitalists. Further the advance part in third stage account gives expense preference and better return than the investors.\textsuperscript{132}

There are four sub divisions of later stage finance:

a. Expansion/Development Finance
b. Replacement Finance
c. Buyout Financing
d. Turnaround Finance

3.2.2.1 Expansion/Development finance

An endeavor made in a given business expands its benefit exponentially by accomplishing the economies of scale. This development could be attained either through a natural development, that is by growing generation limit and setting up fitting dispersion framework or by method for acquisitions. At any rate, development needs fund and investors help both natural development and additionally acquisitions for extension. At this stage the true business sector sentiment is utilized to break down rivalry. It may be found that the entrepreneur needs to create his managerial group for taking care of development and dealing with a bigger business\textsuperscript{133}.

The realization skyline for expansion/development venture is one to three years. It is supported by Venture Capitalists as it offers higher remunerates in shorter period with easier risk. Funds are required for new or bigger production lines and warehouses, processing limits, creating enhanced or new items, creating new markets or entering fares by big business with built business that has effectively attained equal the initial investment and has begun making profits\textsuperscript{134}.

\textsuperscript{132} Ibid
\textsuperscript{133} Ibid
\textsuperscript{134} Ibid

52
3.2.2.2 Replacement Finance

It methods substituting one shareholder’s for an alternate, instead of bringing new capital coming about up in the change of proprietorship example. Venture Capitalists buy shares from the entrepreneurs and their associations empowering them to diminish their shareholding in unlisted companies. They likewise purchase dividend coupon. Later, sale of the company or its posting on stock exchange, these are re-changed over to ordinary shares. Along these lines Venture Capitalist makes a capital addition in a time of 1 to 5 years135.

3.2.2.3 Buy-out / Buy-in Financing

It is a resent improvement and another manifestation of investment by Venture Capitalists. The funds gave to the current working management to secure or buy a critical share holding in the business they oversee are called Management Buyout (MBO). The Management Buy-in alludes to the funds gave to empower a manager or a group of managers from outside the company to buy into it. It is the most mainstream type of funding around stage financing. It is less unsafe as Venture Capitalist puts resources into robust, continuous and more develop business136.

The funds are accommodated securing and revitalizing an existing product offering or division of a real business. MBO (Management buyout) has generally safe as big business to be purchased have existed for quite a while other than having positive money stream to give normal comes back to the investor, who structure their venture by sensible mix of debt and equity. Recently there has been a steady movement far from start up and early back towards MBO good fortunes. This movement is a direct result of more level risk than start up investments137.

3.2.3.4 Turnaround Finance

It is extraordinary structure later stage fund which a large portion of the investor maintain a strategic distance from on account of higher level of risk. At the point when a secured venture gets wiped out, it needs back and also management support for a real rebuilding to revitalize development of benefits. Unlisted companies at an early phase of improvement frequently has higher debt than equity; its money streams are backing off because of absence of managerial expertise and failure to adventure the business potential.

135 Singh J.K., Venture Capital Financing in India, p. 180, 2005
136 Ibid
137 Ibid
The ailing companies at the later phases of improvement don't typically have high debt trouble yet need equipped staff at different levels. Such undertakings are propelled to give up control to new management. The Venture Capitalists need to complete the recuperation procedure utilizing active management as a part of within 2 to 5 years. The risk profile and foreseen rewards are likened to right on time stage venture.138

3.2.2.5 Bridge Finance

It is the pre-public offering or premerger/acquisition account to a company. It is the last adjust of financing before the planned exit. Venture Capitalists help in building a stable and encountered management group that will help the company in its beginning public offer. More often than not time bridge finance aides enhances the valuation of the company. The bridge finance frequently has an realization time of 6 months to one year and consequently the risk included is low. The risk finance is paid back from the returns of general public issue.139

3.3 Venture Capital Investment Process

Venture Capital Investment process is not quite the same as typical project financing. With a specific end goal to comprehend the investment process handle an audit of the accessible writing on investment account is done. A model of venture capital investment activity with some variations is commonly used presently. As per this model this activity is a five step process as follows:140:

1. Deal Organization
2. Screening
3. Evaluation or due Diligence
4. Deal Structuring
5. Post Investment Activity and Exit
6. Deal Origination:

In producing an deal flow, the VC investor makes a pipeline of arrangements or venture chances that he might think about for putting resources into an arrangement that may begin in different ways referred as Referral framework, Active inquiry framework and

---

138 Ibid

54
intermediaries Referral framework is an essential wellspring of arrangements. Arrangements may be alluded to VCFs by their parent organizations, exchange accomplices, industry acquaintanceships, companions and so on. An alternate arrangement stream is animated pursuit through systems, exchange fairs, meetings, classes, outside visits and so on delegates is utilized by investors within created nations like USA, is sure intermediaries who match VCFs and the potential entrepreneurs141.

3.3.1 Screening

The Venture Capital Funds, before trying for an in-profunditv investigation, complete starting screening of all undertakings on the essential of some expansive criteria. For instance, the screening procedure may restrict undertakings to areas in which the investor is commonplace as far as innovation, or item, or business scope. The measure of venture, topographical area and phase of financing could likewise be utilized as the expansive screening criteria142.

3.3.2 Due Diligence

Due Diligence is the business language for all the exercises that are connected with assessing a venture proposal. The Venture entrepreneurs assess the nature of business visionary before assessing the qualities of the item, market or innovation. Most Venture Capitalists request a marketable strategy to make an evaluation of the conceivable risk and profit for the project. Marketable strategy holds definite data about the proposed project. The assessment of projects by Venture Capital Funds in Indian incorporates: Preliminary assessment: the aspirant needed to give a concise profile of the proposed data to build by all appearances qualification. Detailed assessment is once the preparatory assessment is over, the proposal is assessed in more amazing subtle element. Venture Capital Funds in India anticipate that the entrepreneurs will have: - honesty, long term vision, urge to develop, managerial abilities, business introduction. Venture Capital Funds in India additionally make the risk examination of the proposed activities which incorporates: project risk, business risk, innovative risk and entrepreneurial risk. A definite conclusion is taken as far as the expected risk-return trade-off143.

141 Ibid
142 Ibid

55
3.3.3 Deal Structuring

In this process, the Venture Capitalists and the venture company arrange the terms of the deals that are the sum structure and cost of the investment. This procedure is termed as deal structuring. The understanding likewise incorporate the Venture Capitalists right to control the venture company and to transform its management if necessary, buyback plan determines the entrepreneurs equity share and the target shares and the objectives are to be accomplished144.

3.3.4 Post Investment Activities

Once the deal has been organized and understanding settled, the Venture Capitalists for the most part expect the part of an accomplice and partner. He likewise gets included in forming the course of the venture. The level of the Venture Capitalists association relies on upon his strategy. It may not, however be attractive for Venture Capitalists to get included in the regular operation of the venture. On the off chance that a budgetary or managerial emergency happens, the Venture Capitalists may intercede, and even introduce another management group145.

3.3.5 Exit

Venture Capitalists for the most part need to money out their additions in five to ten years after the investments. They assume a positive part in controlling the company towards specific exit routes. There are four ways for a venture capitalist to exit its investment146:

a. Initial Public Offer (IPO)

b. Acquisition by another company

c. Re-purchase of venture capitalists share by the investee company

d. Purchase of venture capitalists share by a third party

The promoters buy-back is the most mainstream disinvestment course in India is promoters buy back. This course is suited to Indian conditions in light of the fact that it keeps the possession and control of the promoter in place. The clear restriction, in any case, is that in a greater part of cases the business worth of the shares of the venture firm might have acknowledged such a great amount of after a few years that the promoter might to be in a

144 Ibid
145 Ibid
146 Kothari. R.. Financial Services in India: Concept and Application, p. 232, 2010
money related position to buy them back. In India, the promoters are constantly given the first alternative to buy back equity of their endeavor. For instance, RCTO takes part in the aided company's equity with suitable assistance for the promoter to repurchase it. So also, Confine-VCF offers a chance to the promoters to buy back the shares of the supported firm inside a concurred period at a decided ahead of time cost.

On the off chance that the promoter neglects to buy back the shares inside the stipulated period, Confine-VCF might have the caution to strip them in any way it regarded proper. SBI Capital Markets guarantees through looking at the particular stakes of the promoters and their copartners, which buy back, might be a practical choice. GV might make disinvestment, in interview with the promoter, normally after the venture has settled down, to a gainful level and the entrepreneurs is in a position to profit of fund under expected plans of support from banks or other financial institutions.

### 3.3.5.1 Initial Public Offers (IPOs)

The profits of disinvestments through the public issue route course are enhanced attractiveness and liquidity, better prospects for capital increases and broadly referred to status of the venture and business control through public share participation. This choice has certain limits in the Indian connection. The advancement of the public issue might be troublesome and exorbitant since the original business people are not known in the capital markets.

Further, troubles will be created if the business visionaries business is discerned to be an ugly financing suggestion by investors. Additionally, the stress by the Indian investors on transient benefits and profits may have a tendency to make the business sector cost ugly. Yet an alternate trouble in India up to this point was that the Controller of Capital Issues (CCI) rules for deciding the premium on shares considered the book esteem and the combined normal EPS till the date of the new issue. This equation neglected to give due weight age to the normal stream of gaining of the venture firm. In this way, the recipe might disparage the premium. The legislature has now abrogated the Capital Issues Control Act, 1947 and thusly, the workplace of the Controller of Capital Issues. The existing companies are currently allowed to alter the premium on their shares. The Initial Public Offer for disinvestments of

---

247 Ibid
248 Ibid
Venture Capital Fund’s holding can include high transaction costs in view of the wastefulness of the optional market in a nation like India. Additionally, this alternative has gotten far less practical for little ventures by virtue of the higher posting necessity of the stock exchanges\textsuperscript{150}.

3.3.5.2 Sale on the Over the Counter (OTC) Market

A dynamic secondary capital market gives the fundamental driving force to the achievement of the venture capital. The Venture Capital Funds ought to have the capacity to offer their possessions, and investors ought to have the capacity to exchange imparts helpfully and openly. In the USA, there exist overall created OTC markets where merchant’s exchanges impart on telephone/terminal and not on a trade floor. This system empowers new, little companies which are not generally qualified to be recorded on the stock exchange, to enroll on the OTC markets and gives liquidity to investors. The National Association of Securities merchants Automated Quotation System (NASDAQ) in the USA every day cites in excess of 8000 stock costs of companies upheld by investment. The OTC Exchange in India was made in June 1992\textsuperscript{151}.

The Government of India had sanction the creation for the Exchange under the Securities Contracts (Regulations) Act in 1989. It has been pushed together by UTI, ICICI, SBI Capital Markets, Can Bank Financial Services, GIC, LIC and IDBI. Since this rundown of business producers (who will choose every day costs and select merchants for exchanging) incorporates a large portion of people in general segment wander lenders, it ought to get quick, and it ought to be feasible for gurus to exchange the securities of new little and medium size venture. The other disinvestment components, for example, the administration purchase outs or deal to other wander stores are not acknowledged to be suitable by Venture Capital Funds in India\textsuperscript{152}.

The prerequisites of funds differ with the life cycle phase of the undertaking. Indeed before a marketable strategy is ready the business visionary puts his time and assets in studying the business, discovering and comprehension the target clients and their needs. At the seed stage the business visionary keep on financing the venture with his funds or family

\textsuperscript{150} Ibid
\textsuperscript{151} Ryrie W., Venture Capital Development, p. 284, 1995
\textsuperscript{152} Ibid
finances. At this stage the funds are required to request the specialist's management in plan of marketable strategies, meeting potential clients and engineering accomplices.\footnote{Ibid} Next the funds might be needed for advancement of the product/process and preparing models, procuring key individuals and developing the managerial group. This is trailed by stores for gathering the assembling and advertising offices in a specific order. At long last the funds are required to grow the business and attain the discriminating mass revenue driven era. Venture Capitalists cater to the needs of the entrepreneurs at distinctive phases of their endeavors Depending upon the stage they finance, venture capitalists are called angel investors, Venture capitalist or private equity supplier/investor.\footnote{Ibid}

### 3.4 Methods of Venture Financing

Venture Capital is ordinarily accessible in three structures in India, they are\footnote{Shanmugham, R., Financial Services, p. 158, 2011}:

- **Equity**: All Venture Capital Funds in India give equity yet by and large their commitment does not surpass 49% of the aggregate equity capital. Accordingly, the powerful control and larger part responsibility for firm stays with the entrepreneurs. They buy shares of an endeavor with an aim to at last auction them to make capital gains.

- **Conditional Loan**: it is repayable as a royalty after the venture can create sales. No investment is paid on such credits. In India, Venture Capital Funds change royalty running between 2% to 15%; real rate relies on upon different elements of the venture, for example, incubation period, expense stream examples, danger and different components of the endeavor.

- **Income Note**: it is a mixture security which consolidates the characteristics of both standard loan and conditional loan. The entrepreneurs need to pay both investment and eminence on deals, however at considerably low rates.

- **Participating Debenture**: such security conveys charges in 3 stages. In the start up stage, before the venture achieves operations to a base level, no investment is charged, after this, low rate of premium is charged, up to a specific level of operation. When the venture is business, a high rate of investment is obliged to be paid.
Quasi Equity: Quasi Equity instruments are changed over into equity at a later date. Convertible instruments are regularly changed over into equity at the book esteem or at certain numerous of EPS, i.e. at a premium to par value at a later date. The premium consequently remunerates the promoter for their drive and hand work. Since it is execution related, it rouses the promoter to work harder to minimize weakening of their control on the company. The different quasi equity instruments are follows:\[156]\:

a. Cumulative convertible preference shares.

b. Partially convertible debentures.

c. Fully convertible debentures.

Other Financing methods: As few venture capitalists, particularly in the private sector, have started introducing innovative financial securities like participating debentures, introduced by TCFC is an example\[157].

3.5 Players in Venture Capital Industry

There are following group of players in Venture Capital Industry\[158]:

a. Angels and angel clubs

b. Venture capital funds
   i. Small
   ii. Medium
   iii. Large
c. Corporate Venture funds
d. Financial service venture groups

3.5.1 Angels and angel clubs

Angels are affluent people who invest specifically into companies. They can structure angel clubs to facilitate and pack their activities. Beside the money, angels often provide their personal knowledge, experience and contacts to support their investees. With average deals

---

\[156\] Ibid
\[157\] Ibid
sizes from USD100,000 to USD 500,000 they finance companies in their early stages. Examples for angel clubs are – Media Club, Dinner Club, and Angel’s forum\(^{159}\).

### 3.5.2 Small and Upstart Capital Funds

These are more modest Venture Capital Companies that basically give seed and startup capital. The alleged “Boutique firms” are regularly represented considerable authority in specific businesses or business fragments. Their promotion is about USD 20 to USD 50 million (is this arrangements size or aggregate cash under management or cash under administration for every fund). With respect to little and medium companies Venture capital funds solid rivalry will clear the commercial center. There will be mergers and acquisitions prompting an amassing of capital. Funds had practical experience in diverse business regions will structure vital companies. Just the more effective funds will have the capacity to draw in new cash\(^{160}\).

### 3.5.3 Medium Venture Funds

The Medium Venture Funds back all stages after seed and work in all business portions. They give cash to deals up to USD 250 million. Single funds have up to USD 5 billion under deals\(^ {161}\).

### 3.5.4 Large Venture Funds

As the medium funds, substantial funds work in all business parts and give different kinds of cash flow to companies after seed stage. They frequently work universally and financial deals up to USD 500 million the huge funds will attempt to enhance their position by mergers and acquisitions with different trusts to enhance size, notoriety and their monetary muscle. Conceivable territories to enter are other fiscal services by method for merger and acquisition with budgetary administrations partnerships and the counseling business. For the recent one the funds have a rich asset of skill and contacts in house. In a declining business sector for their center action and with heaps of tumbling companies out there is no motivation behind the Venture Capital Fund sought to offer exhortation and counseling just to their investees\(^ {162}\).

\(^{159}\) Ibid

\(^{160}\) Ibid

\(^{161}\) Ibid

\(^{162}\) Ibid
3.5.5 Corporate Venture Funds

These Venture Capital funds are situated up and possessed by innovation companies. Their point is to broaden the parent company’s innovation base in a win-win-circumstance for both, the investor and the investee. All in all, corporate funds put resources into developing or developing companies, frequently when the investee wishes to make extra ventures in engineering or item advancement. The normal arrangements size is between USD 2 million and USD 5 million. The huge funds will attempt to enhance their position by mergers and acquisitions with different funds to enhance size, reputation and their monetary muscle. Furthermore they will to differentiate. Conceivable ranges to enter are other monetary services by method for merger and acquisition with financial services cooperation and the counseling business. For the recent one the funds have a rich asset of dexterity and substance in house\textsuperscript{163}.

3.5.6 Financial Funds

An answer for fiscal funds could be a movement to a higher securitization of Venture Capital activities. That implies that the parent company move the risk to their clients by making new items, for example, stakes in a Venture Capital fund. Be that as it may, the accomplishment of such items will rely on upon the general atmosphere and desires in the economy. As long as the sown turn proceeds without any indication of recuperation clients may less risky alternatives\textsuperscript{164}.

3.6 Privatization of Venture Capital

The Private Equity sector is comprehensively characterized as putting resources into a company through an arranged methodology. Investments regularly include a transformational, worth included, dynamic management strategy. Common types of private equity incorporate investment, development and mezzanine capital, angel investing and private equity funds. Private equity investments try to acquire a generous enthusiasm toward a company keeping in mind the end goal to have an animated part in firms’ vital choices. Their objective is to help the worth of a company and walk away with significantly more cash at the time of liquidating their investment\textsuperscript{165}.

\textsuperscript{163} Ibid
\textsuperscript{164} Ibid
\textsuperscript{165} Ibid
Private equity comprises of investors and funds that make investment straightforwardly into privately owned businesses or behavior buyouts of public companies. Capital for private equity is raised from institutional investors and might be utilized to fund new innovations, grow working capital inside a owned company, make acquisitions, or to reinforce an balance sheet. The term "private equity" envelops an extent of procedures used to financial commercial ventures in ways that don't include the utilization of publicly tradable assets such as corporate stock or bonds\textsuperscript{166}.

3.6.1 Private Equity Funds

Private Equity Funds are investment companies that, generally speaking, don't exchange traded on an open market securities. Rather, they regularly look for equity stakes (that is, incomplete proprietorship) in privately owned businesses. They might additionally put resources into supposed private arrangements of securities from public company. Private equity purchasers are greatly concentrated on money stream and have a reputation for being expense cutters\textsuperscript{167}.

Private Equity investments have rebuilt the pattern of acquisitions and helped in worth creation as against vital purchasers. Private equity's developing association in numerous parts is significantly all the more striking. The way of investment of private equity firms and trusts, the techniques utilized, worth making practices, beneficial passageways are fundamentally unique in relation to that of other key and corporate purchasers. Private Equity investments, proposed progressions to regulations, sectoral development, investment regulations and additionally effect of the most recent Union plan a the credit crunch have been managed. Private Equity is the provisions of equity capital by fiscal investors – over the medium or long term– to non-cited companies with high development potential\textsuperscript{168}.

Venture Capital is, strictly talking, a subset of Private Equity and alludes to equity investments made for the launch, earl advancement, or extension of a business. Private equity blankets not just the financing needed to make a business, additionally incorporates financing in the consequent advancement phases of its life-cycle. At the point when financing is needed

\textsuperscript{166} Ibid
\textsuperscript{168} Ibid

63
by a management group to purchase an existing company from its current stakeholders, such a transaction is known as a buy-out\textsuperscript{169}.

Private Equity and Venture Capital may allude to different phases of the venture yet the fundamental financing continues as before: it is the procurement of capital, after a methodology of transaction between the financing trust director and the entrepreneurs, with the point of creating the business and making quality\textsuperscript{170}.

Private Equity firms have a primary objective: search out organizations potential for development and with the expect to put set up the capital, ability and system required to forever reinforce the organization and raise its esteem. Private Equity is regularly ordered under the umbrella of “alternative investments”, corresponding to the stock and bond portfolios generally held by investors\textsuperscript{171}.

Private Equity and investment is an inexorably wellspring of fund for high-development potential organizations. The objective of Private Equity and funding is to help more organizations accomplish their aspirations for development by furnishing them with fund, key exhortation and data at discriminating phases of their improvement\textsuperscript{172}.

Most business visionaries who approach Private Equity and Venture Capital investors welcome the change in their business exercises and in their budgetary and monetary screening. In a comparable vein, the investor's experience and system of contacts were additionally captivated as extremely positive components\textsuperscript{173}. Furthermore, Private Equity and Venture Capital Investments furnish the organizations with more tenability their customers, suppliers, banks and contenders. This is especially valid for new companies, which have elusive possessions and which need to give various sureties\textsuperscript{174}.

Private Equity and Venture Capital investments empowers organizations to develop and create, and helps organizations which might have a more level development or might not have had the capacity to make due without it\textsuperscript{175}. It enhances the execution of many organizations and permits the advancement of new advances and their provisions. The

\textsuperscript{170} Ibid
\textsuperscript{171} Ibid
\textsuperscript{172} Ernst & Young, \textit{Acceleration: Global Venture Capital Insights Report}, p. 210, 2007
\textsuperscript{173} Ibid
\textsuperscript{174} Ibid
\textsuperscript{175} Ibid
business' concentrate on enhancing essential business execution implies that Private Equity and Venture Capital financing may be a standout amongst the most intense strengths driving financial wide change in corporate benefit. Between 2000 and 2004, Private Equity and Venture Capital companies accounts for the 1 million new employments which interpret to a compound yearly development rate of 5.4% for every year176.

European organizations, for example, Skype, Mobistar and Tomtom have profited from Private Equity and Venture Capital to get worldwide players. The huge victors profiting from the returns made by Private Equity and Venture Capital firms are their institutional moguls, primarily benefits reserves, which in 2006 kept on being the business' single biggest wellspring of capital. The recent represented 27.1% of the aggregate funds raised, consequently bringing the monetary additions once again to a huge number of beneficiaries and sparing record holders177.

There are a few alternatives to Private Equity: financing toward oneself, obligation or raising capital by means of securities exchange floatation. Self financing either independent from anyone else claimed stores or by companions, family or business heavenly attendants might be generally simple and speedy however it is sometimes a feasible long term answer for a development business. Particular connections can get caught with the business and the joint shareholders infrequently assume a viable part in supporting the ambitious person. On the other hand, proficient investors can activate an extraordinary arrangement of capital, help development and help the business person yet the methodology might be long and may mean surrendering a greater amount of the value of the organization178.

As creditors of the organizations, money lenders interest certifications – either individual or from the organization with few or no advantages, or business people recently profoundly included in their undertaking, will think that it hard or even difficult to generate theories ensures. Then again, the advance has no effect on the offer structure of the organization and the bank won't mediate with the running of the organization. A Private Equity investment brings capital, does not oblige interest installments, is liable to the risk of the organization like whatever possible shareholder and will just benefit if organization

177 Ibid
178 Ibid
develops. Such an investor has particular controlling rights over how the company is managed.

A Private Equity Investment is a medium to long term financing, which does not give the same liquidity as a securities exchange floatation and which binds the investors nearly to the company. The investment is more secure on the grounds that it is less defenseless against outer financial vacillations. The closed structure of a Private Equity Funds keeps fund managers from leaving rashly and fortifies the term engagement of the trust in the company in which it contributes. In correlation, a stock exchange flotation obliges that the company has officially arrived at a certain level of movement, and normal open reporting and control by stock exchange regulations.

After getting the agreement of the controlling powers, Private Equity firms (known as Private Equity management companies or General Partners (GPs)), create investment funds that gather capital from investors (known as Limited Partners or LPS). The Private Equity firms utilize this money to purchase high-potential companies (known as the portfolio or investee companies).

Therefore, Private Equity managers welcome institutional investors and individuals with specific ability or noteworthy possessions, to subscribe to a venture reserve at period (on normal ten years), which will take value stakes in high potential companies taking after an unmistakably characterized financing technique. This could be as stated by the span of the target company, their part, phase of improvement or land area. These investors are frequently known as “sophisticated or professional investors”, on the grounds that they comprehend the risk inalienable in this sort of operation. The gathering pledges period keeps ticking six months to one year.

Investment funds are for the mostly closed; consequently institutional investors can't leave those funds before their term. This component of monetary steadiness is one of the reasonable focal points for the entrepreneurs who look for Private Equity investments. In return for cash they give, investors get pre-negotiated stake in the value of the venture fund and they get to be fully-fledged shareholders, offering in the risk associated the Private

---

179 Ibid
180 Ibid
181 Ibid
182 Ibid
Equity firm. The point of the investors, through the fund, is not to control of the portfolio company (with specific special case of greater part shareholdings) however to help make esteem keeping in mind the end goal to understand a capital addition – imparted to the holders – on exit route. This kind of financing is regularly called 'patie capital', as it tries to benefit from long capital increases as opposed to fleeting customary ventures.

Post acknowledgment of the target measure of capital, the Private Equity fund is closed. The private equity investment managers then look for high development companies to put resources into, emulating the venture technique they proposed to the institutional investors. In a few cases (30% on a normal), Private Equity investment funds will meet up and structure a "monetary syndicate" to make a venture. This will happen if the risks are high or if the measure of capital needed in the operation is especially considerable. For investment funds will speak to the aggregation in the syndicate's dealings with the business visionary. The delegate will take after an order arranged with the accomplices. The normal private equity fund size in 2006 was €322 million, extending from little seed capital funds of short of what €10 million up to extensive buyout finances managing few billion Euros. The private equity management group basically makes investment in the initial five years of the funds however this is variable.

3.6.2 Fund creation and underwriting by professional investors

Private Equity Funds contrast in their ranges of specialization, their shareholders and administration structures. The source of a Private Equity fund can influence the structure of an arrangement offered, can figure out if the trust director can settle on a quick financing choice or not and even an effect on the progression of the individuals managed and their management style when the capital is contributed.

Independent Private Equity Funds those in which third parties are the fundamental sources of capital and which none of the shareholder hold a majority stake. An independent fund is the most widely recognized sort of private equity fund. Captive funds are those in which one shareholder helps the greater part of the capital, i.e. where the parent association allots cash to the trust from its own particular internal sources. Captive funds could be

---

184 Ibid
185 Ibid
186 EVCA, Employment Contribution of Private Equity and Venture Capital in Europe, p. 86, 2005
187 Ibid
188 Quinn M., Buyout Funds: Conglomerates in old sheep's clothing, p. 230, 2007
subsidiaries of or divisions in a bank, a monetary foundation, a pension funds or a listed companies. Purported corporate or modern funds are propelled by companies looking to put resources into areas important to their center exercises and to distinguish new advances. This can likewise be the situation for banks that went to particular their part as a business financier from their part as investors\(^{189}\).

Semi-captive funds are supports in which, despite the fact that the principle shareholder helps a huge a piece of the capital, a noteworthy offer of the capital is raised from outsiders. Semi-captive funds might be subsidiaries of a budgetary foundation, an insurance agency, or a industrial company that work as an independent company. For captive and semi-captive finances as a recompense for less freedom for the management company, the parent company expect most, if not the sum of the obligation regarding discovering the capital needed for the investments. A few funds hail from the public sector. Their capital comes primarily or completely, straightforwardly or by implication, from public bodies. In the year 2007 saw Private Equity deals adding up to $ 19.03 billion being struck in India\(^{190}\).

### 3.7 Strong Private Sector Based Economy

With economic liberalization and abrogation of authorizing and control frameworks, the privatization of open part endeavors is continuously fulfilled in accordance with the existing arrangement of private responsibility for, property, agribusiness, assembling and administration commercial enterprises. The nation has a talented workforce and a substantial pool of specialized and logical labor generally respected all around the globe. Furthermore, there is an entrenched lawful and fiscal bookkeeping framework. Overseas investment can put resources into India through direct investments and portfolio ventures\(^{191}\).

The Reserve Bank of India now allows programmed support for immediate foreign investment in certain high necessity and other non-confined commercial enterprises and securities issued through rights offerings or particular or firm allocations, gave that such investment don't surpass 51 percent of the remarkable securities of the issuing company and such issuing company does not take part in certain limited parts of the Indian economy. On account of 34 designated high priority industry, investment up to 100 for every penny is

\(^{189}\) Ibid
\(^{190}\) Ibid
\(^{191}\) Das, S., *Perspectives on Financial Services*, p. 172, 2009
allowed on a completely reparable support, subject to getting the endorsement of the Foreign Investment Promotion Board and the Reserve Bank of India.  

As respects portfolio venture, under the rules issued in September 1992, certain FIIs are allowed, subject to specific confinements, to put resources into all securities exchanged on the secondary markets in India. FIIs should first enroll with the RBI and SEBI, and such enrollment for the most part allows exchanging on the optional market and taking an interest in broad daylight offerings.

Under the rules there is no constraint of the volume of venture made by a FII in India all in all and no lock-up period applies to its ventures of the secondary issued capital of any single Indian companies. The total property of all non-inhabitant portfolio ventures, including those of all FIIS and their customers, in a solitary Indian company may not surpass 24 percent of the issued offer capital of such Indian company, and no less than 70 for every penny of the aggregate investments made by a FII and its customers as per its FII authorization must be in equity and equity related instruments. A SEBI press discharge issued in May 1994 elucidated that FII investment by method for particular designation will be allowed up to 15 percent of aggregate offer capital, subject to the general roof of 24 percent. In August 1994, SEBI issued new rules for particular designations to promoters, including FIIs. Under these rules, the investments of FIIs under special allocations will be liable to a lock-up time of five years.

India offers endless chances for foreign investors especially in the accompanying sorts of investments as:

a. Growth Financing—There are perfect chances for speculation in extensive and medium size organizations looking for development in order to accomplish aggressive effectiveness, technologi- logical up gradation and critical development rate. Besides, merger of such organizations offer more extensive chances for venture.

b. New Ventures: New ventures utilizing new engineering to indulge the needs of residential and fare markets offer investment chances for foreign investors.

c. Joint Ventures: India's economy offers inconceivable extension for FIIs to put resources into joint ventures, utilizing new advances within assembling businesses and for creating framework, telecommunications and different ranges.

---

192 Babu, G.R., Financial Services In India, p. 236, 2009
193 Ibid
194 Ibid
195 SEBI: Various reports of the Annual Reports from 1992-93 to 2008-09
published by the legislature every now and then under its arrangement of investment liberalization.
d. International extension of Indian companies: Indian companies from enormous streamlined houses have made their units abroad, giving FIIIs chances to contribute. There are additionally financing chances for FIIIs in companies which are decreasing their debt troubles and expanding their equity base the whole time of deleveraging of capital rebuilding, and so forth. Foreign financing in India as contrasted with different nations of the subcontinent is less risky because of a stable authoritative apparatus and economy, notwithstanding outside trade variances and business sector instability.  

3.8 Key Success Factors for Venture Capital Industry in India

Information turns into the key variable for leeway for organization. Venture Capital firms require more master information in different fields. The different key triumph elements for Venture Capital industry are as take after.  

Information about Govt. evolving arrangements: Investment, management and exit way ought to give adaptability to suit the business necessities and ought to additionally be determined by worldwide patterns. Venture Capital investments have commonly hailed from high net worth individuals who have risk taking ability. Since high risk is included in venture financing. Venture Capitalists comprehensively look for investments and exit on extremely adaptable terms which gives them certain levels of insurance. Such exits ought to be conceivable through IPO and mergers/acquisitions on a worldwide premise and not simply inside India. In this setting the judgment of the legal raising questions on medicine of expense on capital additions made by firms enrolled in Mauritius picks up hugeness - changing arrangements with a review impact is undoubtedly going about as a dampener to new gathering pledges by Venture capital firms  

Quick Response time: The organizations have level association structure brings about speedier choice making. The business visionary is assuaged of the trauma that one regularly experiences in an interface with a funding institutions or an advancement agency. They take after an obviously characterized choice making process that works with clock like exactness,
which implies that on the off chance that they coincide on a funding schedule of entrepreneurs can depend on them to stay it\textsuperscript{200}.

\textit{Learning about Global Environment}: With expanding worldwide coordination and portability of capital it is critical that Indian funding firms and in addition venture financed endeavors have the capacity to have chances for venture abroad. This might not just improve their capacity to produce better returns additionally add to their experience and mastery to capacity effectively in a global environment\textsuperscript{201}.

\textit{Great Human Resources}: Venture Capital ought to turn into an institutionalized industry financed and oversaw by fruitful business people, proficient and modern investors. Comprehensively, investor are not just back suppliers yet are additionally nearly included with the investee undertakings and give adroitness by method for administration and advertising backing. This industry has created its own particular ethos and society. Investment has one and only regular viewpoint that cuts crosswise over topography i.e. it is danger capital put by masters in the field. It is vital that funding in India be permitted to create by means of expert and institutional administration\textsuperscript{202}.

\textit{Balance between three components}: Venture Capital upheld companies that can give exceptional high returns. In any case, notwithstanding of examples of overcoming adversity like Apple, Fedex of Microsoft, a great deal of these arrangements fall flat. It is said that one and only out of ten companies succeed. That is the reason each arrangement has a component of potential benefit and a component of risk, contingent upon the deal’s size. To be effective, a Venture Capital Company must deal with the harmony between these three elements\textsuperscript{203}.

\textit{Frame work for key success factor}: Knowledge is key, to get the parity in this Magic Triangle. With information we mean learning about the money related markets and the commercial ventures to put resources into, risk management abilities and contacts to investors, conceivable investees and outside adroitness. High benefits, achievable by big deals, are not just paramount for the budgetary execution of the Venture Capital Company. As a great track record they are additionally a crucial contention to draw in trusts which are the foundation for big deals. In any case, big deals suggest higher risks of misfortunes. Numerous Venture Capital organizations attempt to impart and farthest point their risks. Results could be co-operations and watchful portfolio management. There are Venture

\textsuperscript{200} Ibid
\textsuperscript{201} Ibid
\textsuperscript{203} Ibid
Capital firms that decline to put resources into e-start-up in light of the fact that they discern it as excessively risky to take after today’s sort.  

3.8.1 Industrial Attractiveness

Intensity of competition: The numbers of Venture Capital firms are expanding year by year. In 2001 it is just 77 now it has been expanded to 160 in the year of 2008. The explanation for that is there is over all development in the GDP and likewise considerable development position in areas like biotechnology, ITES, retailing, telecom and so on because of this more players are enthusiastic to build their toehold in the business.

Domestic Economic Factors: There was a positive relationship there was between GDP growth rates. But in 2007 the growth of Venture Capital was decline to 89.79% from 240.91% in 2006 but here the value of deal was increasing. In 2008 the growth rate is 9% and project the next year GDP 8% to 9%. So here we can conclude that there is good growth prospect for the venture capital players to enter in the horizon of India.

The inflation rate is decreased to 4.5 in 2005 from 7.4 in 2004. At same time the growth of Venture Capital is also declining to 33.33% in 2005 from 251.06% in 2004. From the above chart we can conclude that inflation and Venture Capital has positive relationship. Now in June 2008 the inflation rate was 11.9 and the NO. Of deal in first two quarter in 2008 was 170 and value of deal was 6390 US $mn and in third quarter of 2008 there was only four deals. And in October the inflation touch the 13.01%. Due to increase in inflation rate the people will go to spend more. Thus, their savings will decrease. So more money will come into the market and demand of the products will increase continuously. Now due to growth of any sector will attract new entrepreneur to enter in the industry. For that they must need funds. So there is a great opportunity for venture capital industry to attract this new entrepreneur.

Small Scale Industries: Venture Capital, to be able to contribute to developing entrepreneurship in India, needs to concentrate its investment in small and medium enterprises. A “Package for Promotion of Micro and Small Enterprises” was announced in

---

204 Ibid
205 Indian Venture Capital Association, Survey of the Economic and Social Impact of Venture Capital in India, p. 235, 2009
207 Ibid
208 Ibid

February 2007. This includes measures addressing concerns of credit, fiscal support, cluster-based development, infrastructure, technology, and marketing. Capacity building of MSME Associations and support to women entrepreneurs are the other important features of this package. SMEs have been allowed to manage their direct/indirect exposure to foreign exchange risk by booking/canceling/rollover of forward contracts without prior permission of RBI\textsuperscript{209}.

To boost the micro and small enterprise sector, the bank has decided to refinance an amount of 7000 crores to the Small Industries Development Bank of India, which will be available up to March 31, 2010. The Central Bank said that it is also working on a similar refinance facility for the National Housing Bank (NHB) of an amount of Rs 4, 000 crores\textsuperscript{210}.

Exports and Imports: The value of Import and export are increasing year by year. In 2002-03 the value of import and export are 52.7 and 61.4 US $ bn respectively and in 2007-08 the value of import and export are 155.7 and 185.7 US $bn. It means industry needs more money for import and export. So it is an opportunity for venture capital. On the other side when company going to export the company must have good contact with other country’s company. So for that venture capital industry is useful because they have good contact and affiliation network with other country’s company\textsuperscript{211}.

Industry Profitability: The venture capital firms invest their money in most emerging sectors like biotechnology, IT-ES, retailing, infrastructure which gives higher return but also they all involved risk in substantial amount\textsuperscript{212}.

The success ratio of the venture capital investment is of which 40% of the investments are getting failure and only 10% of them are able to give 100% return. And the average return by the venture capitalists is only 24.5% which is not extra ordinary. This type of returns can be found in many other investment options. So there isn’t any special reason to invest in venture capital\textsuperscript{213}.

The process of Venture Capital and Private Equity in India is not getting any success in terms of the profit given to the investors which has led to few investments in our country.
The models of financing which has been opted by the foreign investors have number of regulatory hurdles leading to restriction in the investment process\textsuperscript{214}.