VENTURE CAPITAL AND ENTREPRENEURSHIP DEVELOPMENT IN ANDHRA PRADESH
A CASE STUDY OF APIDC – VENTURE CAPITAL LIMITED

ABSTRACT SUBMITTED FOR THE AWARD OF THE DEGREE OF
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1. **INTRODUCTION**

Entrepreneurship is the dynamic process of creating incremental wealth. Individuals who assume the major risks in terms of equity, time, and/or career commitment or provide value for some product or service create the wealth. The product or service may or may not be new or unique but value must somehow be infused by the entrepreneur by receiving and locating the necessary skills and resources. The concept of entrepreneurship has been around for a very long time, but its resurgent popularity implies a sudden discovery. Richard cantillon is credited with giving the concept of entrepreneurship a central role in Economics. According to him Entrepreneurs consciously make decisions about resource allocations. They would always seek the best opportunities for using resources for the highest commercial yields. Adamsmith spoke of the enterpriser in his wealth of nations as an individual who undertook the formation an organization for commercial purposes. He has ascribed to the entrepreneur the role of industrialist, but he also viewed entrepreneur as a person with unusual foresight who could recognize potential demand for goods and services. Another economist, Jean Baptiste Say described and entrepreneur as one who possessed certain arts and skills of creating new economic enterprises, yet a person who had exceptional insight into society’s needs and was able to fulfill them.

A change in the connotation of an entrepreneur form captain of Industry to an elusive character where the entrepreneur is characterized as one who garners profits at the expense of others had distorted the concept of entrepreneurship. The concept of entrepreneurship has been revised by an economist, Joseph Schumpeter described entrepreneurship as a force in creative destruction, where by established ways of doing things are distraught by the creation of new and better ways to get things done. Hence Schumpeter described entrepreneurship as a process and entrepreneurs as innovators who use the process to shatter the status quo through new combinations of resources and new methods of commerce. Joseph A. Schumpeter thus writes. “The entrepreneur in an advanced economy is an individual who introduces something new in the economy a method of production not yet tested by experience in the branch of manufacture concerned, a product with which consumers are not at familiar, a new source of raw-material or of new markets and the like”. He further states the entrepreneur’s function is to “reform or revolutionize the pattern of production by exploiting an invention or more generally, an untried technological possibility for producing a new commodity or producing an old one in a new way, by opening up a new source of supply of materials or a new outlet for products… Entrepreneurship, as defined, essentially consists in doing things that are not generally done in the ordinary course of business routine”.

Entrepreneurship is a process undertaken by an entrepreneur to augment his business interest. Thus Entrepreneurs do not emerge spontaneously on their own Entrepreneurs appear to have been motivated by a combination and interaction of various factors. Thus entrepreneurship is influenced by
a host of factors and in the recent years entrepreneurship became a fine art as its has evolved as a science of management and a catalytic tool of economic growth and development. Hence entrepreneurship as a process undertaken by an entrepreneur to augment his business interest involves innovation and creativity that will go towards establishing an enterprise. The qualities of entrepreneurship are his ability to discover and innovate opportunity and to organize an enterprise, there by contributing to real economic growth. Entrepreneurship is a composite skill, the resultant of a mix of many qualities and traits – these include tangible factors such as imagination, readiness to take risk, ability to bring together and put to use other factors of production such as capital, labour, land and also intangible factors such as the ability to mobilize scientific and technological advances. Therefore entrepreneurship is the propensity of mind to take calculated risk with confidence to achieve a pre-determined business or industrial objective. In the words of A.H.Cole, entrepreneurship is the purposeful activity of an individual or a group of associated individuals undertaken to initiate, maintain or organize a profit oriented business unit for the production or distribution of economic goods and services.

In other words entrepreneurship means the function of creating something new, organizing and coordinating and undertaking risk and acting on economic uncertainty. Higgins defines the term entrepreneurship as a function of seeing investment and production opportunity, organizing an enterprise to undertake a new production process, raising capital, hiring labour, arranging for the supply of raw materials and getting top managers for the day to day operation of the enterprise. Thus the entrepreneurship is the complex phenomenon and it is an attitude of mind which calls for calculated risks. Hence the true entrepreneur is one who can see possibility in a given situation where others see none and has the patience to work out the idea into schemes to which financial support can be provided. Therefore the simulation of entrepreneurship is a function of both internal and external factors.

The small scale industry sector in a country like India is considered as an ideal nursery for the rapid growth and development of entrepreneurship. The man who will set up small industry unit have to come from within the country and community and therefore they have a much greater impact on generating the right climate for successful entrepreneurship. Hence programmes for the developing of the entrepreneurship must recognize that alternately the change they see to induce his attitude is more than just providing information, land, or money. It is to provide new goals which will ensure for the risk taken a modest income but seeks bigger challenges in setting off and running their own business. The risks are greater but so are the rewards both in monetary sense and psychologically, in the feeling of confidence and pride it generates in a person.
2. ENTREPRENEURSHIP AND ECONOMIC DEVELOPMENT

The role of entrepreneurship in economic development involves more than just increasing per capita output and income; it involves initiating and constituting change in the structure of business and society. This change is accompanied by growth and increased output, which allows more to be divided by the various participants. What in an area facilitates the needed change and development? One theory of economic growth depicts innovation as the key not only in developing new products or services for the market but also in stimulating investment interest in the new ventures being created. This new investment works on both the demand and the supply sides of the growth equation: the new capital created expands the capacity for growth (supply side) and the resultant new spending utilizes the new capacity and output (demand side).

In spite of the importance of investment and innovation in the economic development of an area, an adequate understanding of the product-evolution process is still lacking. This is the process through which innovation develops and commercializes through entrepreneurial activity, which in turn stimulates economic growth.

Although the entrepreneurial spirit was so considerable in global countries, specifically in India, the major problem that can be considered as a challenge for entrepreneur is finance. As it is true that the economic development of a country directly depends on the contributions of entrepreneurs through their innovative ideas generate from their creative abilities. Hence, most of the entrepreneurs were deterring starting on their enterprises due to lack of financial assistance. Not only that, the complex behavior of traditional investors away from new and innovative businesses due to high degree of risk and uncertainty. However, there was a big gap in financing the entrepreneur’s ventures.

While suffering a lot in getting finance the entrepreneurs started looking at a new solution that can help them very highly in surmounting the problems of financing their ventures. Fortunately, in this direction a new financial instrument as well as a service emerged in the name of venture capital to cater to the needs of technocrats and budding entrepreneurs.

3. VENTURE CAPITAL

Venture capital is a new financial service, the emergence of which went towards developing strategies to help a new class of new entrepreneurs to translate their business ideas into realities. As the name suggests it implies capital provided to start a new venture, it is known as venture capital. This new financial intermediary emerged in eighties. The term venture capitalist denotes institutional investors that provide equity financing to projects and play an active role in advising the managements. Venture capital is an important source of funds for technology-based industries, which
contribute significantly to growth process. It helps entrepreneurs to actualize scientific ideas and inventions. Hence, Venture capital is a potential source for augmenting the supply of good securities with track record of performance to the stock market, which faces shortage of good securities to absorb the savings of the investors. However, Venture capital is quite distinguishable to traditional bank and institutional finance as the feature of the Venture Capital is different from the traditional one.

Venture capital is one of the least-understood areas in entrepreneurship. Some think that venture capitalists do the early-stage financing of relatively small, rapidly growing technology companies. While true, this is a narrow definition; it is better to view venture capital more broadly as a professionally managed pool of equity capital. Frequently, the equity pool is formed from the resources of wealthy limited partners. Other principal investors in venture-capital limited partnerships are pension funds, endowment funds, and other institutions, including foreign investors. The pool is managed by a general partner – the venture-capital firm – in exchange for a percentage of the gain realized on the investment and a fee. The investments are in early stage deals as well as second- and third –stage deals and leveraged buyouts. In fact, venture capital can best be characterized as a long-term investment discipline, usually over a five-year period, in the creation of early-stage companies, the expansion and revitalization of existing businesses, and the financing of leveraged buyouts of existing divisions of major corporations or privately owned businesses. In each investment, the venture capitalist takes an equity participation through stock, warrants, and/or convertible securities and has an active involvement in the monitoring of each portfolio company bringing investment, financing planning, and business skills to the firm.

Venture capital works in a different manner, because it differs by characters as well nature from the traditional finance. Hence, in venture capital a promoter comes forward either with a new business as yet an untried product or process. He needs a financial backer to help him to set up his plans or buy out a part or the whole of an existing enterprise. He may not be able to go to the regular bank or conventional financial institutions for one of the two reasons: the predict may be untried and there may be teething problem to overcome in its design and marketing. Alternatively, their promoter may have no previous track record as investor. In such cases, the financier (a venture capitalist) may come forward and lend him the money in the understanding that, if the enterprise proves successful, it will go public, i.e., it will make an initial public offer (IPO) of its share. The more successful the venture has been, the higher will be the profit made by the both the promoter and financier through sale of shares. So it is intended that the venture capital assistance should go mainly to the schemes with the objectives of encourage the indigenous technology and its commercial application,
adopt and modify the applications of imported technology in such a manner that it will be appropriate to the Indian environment. The assistance is generally being provided for the purpose of Setting up of pilot projects, for technological innovations and modernization, for developing appropriate technology, and for meeting the cost of marking surveys and market promotion programmes.

4. REVIEW OF THE LITERATURE

A review of the studies on entrepreneurship and highlight the traits among entrepreneurs as well as a social pattern. The main conclusions of some of the earlier studies on entrepreneurship are summarized here:

The studies by Gadgil and Medhora (1995) come to the conclusion that the caste system and its obligations tend to reduce occupational mobility, technical change, and innovation, which go against the social and religious prescriptions. It is necessary to mention in this connection that the studies are related to an earlier period of the industrialization of the country.

Hazlehurst (1997) in his study notes that refugee entrepreneurs tend to be more innovative than local entrepreneurs.

On the basis of the social origins (Caste or social community to which entrepreneurs belong) of the sample entrepreneurs, Berna concludes that in explaining entrepreneurial activity economic factors such as access to capital. Possession of business experience and technical knowledge are more important than sociological factors such as caste, attachment to traditional activities, and approval or disapproval of the social group to which a potential entrepreneur belongs.

Hazlehurst’s study reveals that in many cases the extended family is the limit of entrepreneurship, supplying managerial and financial resources needed for business and industrial operations.

Singh’s (1998) study discloses that the public enterprises are characterized by low profit and savings rates which may be partly due to lack of entrepreneurial skills in the public sector.

In the earlier period prior to 1980 a number of studies were conducted on entrepreneurship but after 1980 the number of studies proliferated on different aspects of
entrepreneurship. Among the researchers who conducted field studies, one study of 54 manufacturing units conducted by Nasziger (2000) in the Visakapatnam city of Andhra Pradesh shows that the economic status of the father was closely related to entrepreneurial success.

V.Lakshmana Rao (2001) studied 51 entrepreneurs in two coastal districts of Andhra Pradesh and found that a majority of entrepreneurs were natives and belonged to upper castes having previous experience in the same field. However their level of education and economic status were low.

B.E.V.V.N.Murthy (2003) studied the socio-economic profiles, ambitions, influencing factors of entrepreneurs in two selected towns of Andhra Pradesh and observed the loosening of the hold of caste on occupations. As a result, enterprising farmers and artisans were turning to occupations. The facilitating factors are encouragement by friends/relatives/family members, contacts with business people, and success stories of entrepreneurs, previous experience and property inherited/acquired.

N.P.Singh and Rita Sane gupta (2005) in their survey of 45 potential women entrepreneurs observed that 1. Married woman were more attracted towards entrepreneurship due to getting male help and support. 2. The need for achievement was moderate and 3. Majority of them were from middle income group.

Pannalal (2006) studied a sample of industrial estates in Andhra Pradesh. His inferences were that entrepreneurs were mostly middle aged that is they are in the age group of 31-40 years. Secondly parents’ background had a catalytic role, especially among those whose parents belonged to industry, trade and contract works. Thirdly the organisation setup was mostly single proprietorships, which was not only popular but also successful and the other common form was partnership. As regards the industries that were more successful, engineering industries were thriving in industrial estates, constituting 62 percent of the sample.

K.Madhu Murthy (2006) conducted a study of 80 entrepreneurs from Warangal, Visakapatnam and Hyderabad. He found that entrepreneurs supply is mostly from those who belong to agricultural and business families. They are relatively young, that is between 25-30 years and graduates. Among these graduates engineering graduates had some earlier experience before they had set up their establishments. The motivational factors for choosing entrepreneurial career are desire for independent life, personal fame
innovation and encouragement by several agencies. Some studies have highlighted the effectiveness of EDPS. P.N.Singh provided an overview of Entrepreneurship development in India, focusing on factors considered to be important for nurturing entrepreneurship. P.Asthana (2007) reviewed the experiences of EDPS in India and Abroad. The author, while suggesting a model programme raised some important issues regarding (a) structure and composition of EDPS, (b) Areas of operations (c) Fixing of priorities (d) Follow-up (e) Spatial dispersal of EDPS (f) Training of Trainers and (g) pattern and Financing new ventures.

V.G. Patel (2007) under a World Bank research project studied the three Gujarat innovations, (i) The technicians and new entrepreneurs’ scheme of finance (TSNES) (ii) Entrepreneurship development programme (EDP) & (iii) The sheds construction programme for industrial infrastructure, to assess the effectiveness of such innovative policies and programmes in new entrepreneurship formation. The conclusions of the study are (i) programmes are effective and accelerating the development of small scale industries; (ii) Potential industrial entrepreneurship is lying latent in a variety of castes, communities and occupational groups,(iii) Success in the ventures is the result of enterprise and competence rather than financial position of the entrepreneur; and (iv) EDPS can address those with inadequate entrepreneurial and managerial capacities and industrial information and self confidence.

Ravi K.Zutshi (2007) discussed the need to mould entrepreneurs who are better equipped to create hi-tech enterprises. In order to nurture entrepreneurship among persons with science and technical education, the author suggested a programme package consisting of entrepreneurial awareness, skill development, prototype design and project work and confidence building.

Nagendra P.Singh (2008) attempted at redefining the interrelated facets EDP and explained the methodology of entrepreneurship development, process and design. The author reviewed the Indian experiences and examined several alternatives for initiating EDP different target groups.

Some of the problems faced by entrepreneurs have been discussed by some authors. Ajit Kantikar advocated the adoption of extension approach by the support systems. He found that the low success rate of entrepreneurship training programme was to be attributed to the unsympathic and often hostile response of the support system. Based on
the experience of organizing two extension motivation programmes in the North Eastern states of India, he concluded that human component of the support system had to be sensitized to involvement of the institutions as also of the trainers, and the faculty selection of the geographical area and target group had contributed largely to the failures of EDPS.

Desigh Setty (2008) had discussed the problems and prospects of promoting entrepreneurship in small industry and the author suggested suitable support systems for each class of problem.

MMP Akhouri (2008) after examining the policies, programmes and progress made by SSI in ten Asian countries, highlighted the concept of integrated entrepreneurship development and its close linkages to the SSI development with the help of empirical evidence. He also highlighted the policy implementation gaps Entrepreneurship development.

Venture capital is a financial innovation of the twentieth century became known after the famous legend of Apple Computers, which started out in U.S in 1977 with the Capital firm, Arthur Rock and Co. it has become the major topic of discussion and is attracting more attention at present than ever before due to globalization. There has been a plethora of literature on venture capital finance, which is helping the practitioner’s viz., venture capital finance companies and fund managers and academicians for better understanding the role of VC in economic development.

There are number of studies on Venture Capital and activities of Venture capitalists in developed countries, Clark, 1987; Bygrave and Timmons, 1985 and 1992; Fried and Hisrich, 1988 and 1994; Macmillan et al, 1985 and 1987; Tyebjee and burno, 1984, Wan , 1991; Wilson, 1993 concentrated on the venture investment process and evaluation criteria.

There are few studies in the context of Asian countries: Ray 1991; Rayand Turynin, 1993; Pandey, 1995, they view that in the developing countries venture capital industry is at take-off it needs policy and other measures like developed countries to boost necessary development.

Those who have been most influential are the Americans like Bostern, James W, Gill.D, Green, Nilford, Henderson J.W, Klug, Jhon R, Lorens, Tony, Mc Graty, T.P, Oerez, Robert, Rogers.E.M, J.K.Harsen, Gampers, Raul, Mull, Frederick. H and Neher, Darwin V view that, venture capital finance is a capital investment in a business enterprise that carries elements of high risk that is very significant to the development of new business.

Pratt and Pratt (Guide on Venture Capital, 1983 USA) views that venture capital is “the earkt stage financing of new and young enterprises seeking to grow rapidly’.
Venture Capital is the response of the market forces to fill the void between sources of fund for innovations and traditional lower cost sources of capital available to ongoing projects, BobZider, 1998 (How Venture Capital Works-Harvard Business Review);

Gompers, Paus, 1993 (Harward University); Mull Frederick, H.1990 (University of Geotfia) and Neher, Darwin, V. 1994 (Prinston University) concentrated in their Ph.D., thesis on the theory, structure and performance of Venture Capital.

Kucchal, S.C 1990, Verma, J.C view that, the venture capital can promote well the Indian industry if the problems pertaining to venture capital industry are solved.

Guptha , O.Pm Verma, J.C, Pandey, I.M, Srivasthava, Hemanth patwsrdhan, Ganeshan, Nhattacharya, Pandya Mukul, Machi Raju and Prasenna Chandra, view that the venture capital captivity has just begun in India. It can play amore innovative and developmental role in a developing country like India by combining risk financing with management and marketing assistance. It can foster the development of entrepreneurship and transfer of technology. Moreover this venture capital is right solution to the industrial sickness and up gradation of technology in small-scale industries.

Venture Capital – withering and dying – Amy Cortege, 25th October 2001, The Hindu explains about the future of venture capital industry and the reduction of investment and closing or shutting-down of offices by new comers.

Venture Capital comes of Age – Sandhya Prakash – Indian Management capital in the developing country like India.

Sethi, Sudhir, 24th February 1999, Venture Capital and entrepreneurship, The Economic Times (Pg.8) discusses about the entrepreneurship through venture capital.

D. Mukhopadhayay – November 1995 – Venture Capital Fund – A Perspective – Management Accountant explains about the history, operation and management of venture capital funds and indicates a set of policy measures required for their effective functioning in India.

Venture capital niche exists because it addresses the problems and imperfections like asymmetry of information, adverse selection and agency problem in the capital market a unique and distinct manner,
The road to success is not smooth. Getting venture capital is tough. Only ten in hundred get beyond pre-evaluation stage and only one gets funded. Getting money out of another person’s pocket was never easy; what is really required is confidence in one’s abilities and perseverance, **Bikrmjeet S. Guram, Venture Forth, 2nd June 2001, The Economic Times.**

Dotcoms may have brought down the credibility of venture capitalists but the future especially of the technology companies depends entirely on this form of funding, at ate **Nagendra V. Chowdary and Dr. G.Ramakrishna Reddy, Venture Capital – A Beleagured Past and a Promising Future? , Indian Management, March 2001.**

Venture Capital can play a more innovative and developmental role in a developing country like India. It could help the rehabilitation of sick units through people with ideas and turnaround management skills. Not only that, it can also play a significant role in service sector including tourism, publishing, health care and financial services etc of developing countries, **Dr.T.Sathyanarayana Chary, Venture Capital Industry – Issues and Measures for Development, Pratibimba, 2nd August 2001.**

Aspects of Venture Capital industry especially financing value addition and disinvestments mechanism may have far reaching implications for the development of the whole venture capital industry, **Vishnu Varshney, Productivity, 3rd October – December 1999.**

**I .M.Panday’s Venture Capital :** Indian experience, deals with evaluation and experience of venture capital in India and various countries of the world well that covered problems and prospects of venture capital in India with comparison of developed counties. Measures needed to boost the venture capital industry are also discussed.

**T. Satyanarayana Chary and A. Suresh Kumar: July-Dec 2011, Venture Capital and Entrepreneurship Development in India- An Analytical View, Acuitas, Pg.No-78-91, Vol 1 Issue 4.** They stated that venture capital is an out right solution for entrepreneurs to convert their novel and innovative ideas into viable and profitable as well commercial businesses in the present competitive global era.

It is very clear from the above review of literature on the subject that research on venture capital and entrepreneurship development is not limited but incomprehensive. Most of the studies dealt with either only Venture Capital Finance in a broader way or exclusively the concept of entrepreneurship development from different perspectives. Since venture capital is quite different from conventional finance, venture capital investors need good skills in selecting and promoting risk oriented, high and
unproven technological projects. Right from the inception, the venture capital has been catering to the needs of entrepreneurs. But to our astonishment, the success rate of venture capital in promoting the entrepreneurs is not so high in India, though its contributions are very significant in turning the new and innovative ideas time to time in uplifting the economy. Not only that even, the success of undertakings in venture capital type of finance duly depends on investees but not only the investor. However, the success of this new and innovative capital in terms of turning the entrepreneurs into a successful one is to be evaluated. So a modest attempt has been made in the study to tap such concept with special reference to A.P.I.D.C-Venture Capital Limited from the perspective of its role in promotion of entrepreneurs in Andhra Pradesh very analytically.

5. NEED FOR THE STUDY

Venture capital is a new financial instrument emerged in the 19th century to promote new and innovative business proposals that can lead the high economic growth. The role of venture capital finance is quite different and distinguishable to traditional type of finance, as venture capitalists participate not only in the capital but also in the management. So, there is a need to study the role play of typical venture capital organizations in development and promotion of business ventures of various entrepreneurs come from the first generation and technocrats having sound knowledge and creativity.

6. OBJECTIVES OF THE STUDY

The main objective of the study is to analyze the role of venture capital in promotion of entrepreneurism in Andhra Pradesh with special reference to APIDC Venture Capital Ltd. Hence, the specific objectives of the study are:

1. To study the concept of Venture Capital and Entrepreneurship.
2. To review the state of global and Indian Venture Capital industry.
3. To find out the contributions of APIDC Venture Capital Ltd in development and promotion of entrepreneurs in Andhra Pradesh.
4. To analyze practices, problems and prospects of Venture Capital financing of APIDC Venture Capital Ltd through the perceptions of entrepreneurs.

7. HYPOTHESIS

In view of the objectives of study, following hypotheses are formulated and tested

1. Fund mobilization by APIDC-VCL from various sources is constant during the period of study.
2. There is no significant difference in the distribution of disbursement of venture capital finance by APIDC-VCL over the study period.
3. Industrial distribution of number of projects and venture capital finance by APIDC-VCL is constant over the study period.

4. There is no significant difference in the number of projects and finance provided to undertakings at different stages of finance by APIDC-VCL over the period of the study.

5. There is no significant difference in the distribution of number of projects and venture finance provided to investees’ by APIDC-VCL in the four regions of India.

8. SCOPE OF THE STUDY

   The study covers a rigorous analysis over the concept of Venture Capital and Entrepreneurship Development with specific objectives the Andhra Pradesh and APIDC Venture Capital Ltd as a case problem. Where, analysis was made with regard to evaluation of Venture Capital in Andhra Pradesh and growth of Venture Capital as well as role of APIDC Venture Capital Ltd in promoting entrepreneurs in Andhra Pradesh.

9. LIMITATIONS OF THE STUDY

   Though the study is a very comprehensive one with a case problem of APIDC Venture Capital Ltd, it is subjected to certain limitations, they are:

   1) The findings of case analysis cannot be generalized to other Venture Capital funds, and

   2) Impact of Venture Capital is not studied from the perspective of various macro parameters except the selected one i.e. total finance extended to entrepreneurs through different sources of finance.

10. DATA SOURCES AND METHODOLOGY

   The present study used both primary and secondary data. Primary data was collected through two questionnaires, one for collection of the data pertaining to socio-economic profile of the 60 entrepreneurs using venture capital in Andhra Pradesh financed by three top venture capital funds, namely known, ICICI venture capital limited, IDBI venture capital limited and APIDC-Venture capital Limited. On the other hand, a different questionnaire focusing on only venture capital aspects circulated to all the 15 companies financed by the APIDC-VCL, but the responses have been received from only 10 companies as only 11 undertakings are working actively. Conversely, secondary data has been collected from various sources, namely, literature of Venture Capital and Entrepreneurship, annual reports of Indian Venture Capital Association and APIDC Venture Capital Ltd. Data, thus, collected with regard to growth of Venture Capital, Industry wise finance, Sources of finance, Methods of finance, Investment by stages, Investment by region and states in India as well as list of venture capital undertakings, Financial performance and investment portfolio of APIDC Venture
Capital Ltd is processed, analyzed and presented in a systematic way through various statistical tools, namely, Percentages, and chi-square test.

11. CHAPTERISATION

The study entitled “Role of Venture Capital in Entrepreneurship Development of Andhra Pradesh” was divided into five chapters and presented as follows:

Chapter – I: Introduction- It deals with the concept of Entrepreneurship Development, Problems of Entrepreneurship, risk of Entrepreneurship, Venture Capital and review of literature as well as Research Methodology.

Chapter – II: Global and Indian Experience of Venture Capital - This chapter discusses about venture capital experience of global countries in a detailed manner and finally the state of venture capital industry of India.

Chapter – III: Entrepreneurship Development and Socio Economic profile of Entrepreneurs of Andhra Pradesh – An Overview - It explains the Entrepreneurship Development in Andhra Pradesh, the traits of entrepreneurs, and the growth rate of small, medium and large scale industries in Andhra Pradesh. Besides, the chapter also presents the socio economic profile of entrepreneurs hails from state of Andhra Pradesh

Chapter – IV: A.P.I.D.C-Venture Capital Limited and Enterprises Promotion – An Overview - This chapter discusses about the selected Venture Capital organization i.e. APIDC Venture Capital Ltd and its contribution in the promotion and development of various ventures or the enterprises through its VC Fund in different segments of industries in Andhra Pradesh

Chapter – V: Perceptual Analysis of the Entrepreneurs towards APIDC – Venture Capital Limited's Role – An Analysis - This chapter makes a modest attempt to discuss on the perceptual analysis of select enterprises/ undertakings of APIDC-Venture capital Limited from several aspects of venture capital finance with reference to its role in entrepreneurial promotion

Chapter – VI: Summary of Findings, Suggestions and Conclusion - This chapter presents the summary of findings in terms of conclusions and suggestions.

12. SUMMARY OF FINDINGS

After reviewing the concept of entrepreneurship and venture capital in general as well as in particular with regard to APIDC-Venture Capital Ltd in respective chapters, the summary of findings suggestions and conclusion are presented in this chapter.
1) Entrepreneurship is the dynamic process of creating incremental wealth. Individuals who assume the major risks in terms of equity, time, and/or career commitment or provide value for some product or service to create the wealth. The product or service may or may not be new or unique but value must somehow be infused by the entrepreneur by receiving and locating the necessary skills resources.

2) In Andhra Pradesh entrepreneurship development is considerable in beverages, tobacco and tobacco products, cotton textile products, non metallic mineral products, IT, ITES and pharma industries.

3) Most of the entrepreneurs in Andhra Pradesh are from agriculture sector, professional groups and several industries, wherein a majority of entrepreneurs are in the age group of 35-50 years.

4) Profit and confidence in the line were the main motives that led individuals to enter specific industry as an entrepreneur.

5) Entrepreneur’s competence and opportunities in manufacturing were principal reasons for entering industry. On the other hand entrepreneurs to the possible extent met the requirements from their own personal resources and financial assistance from the venture capital funds.

6) Entrepreneurs plan to expand the operations by diversifying in to new product.

7) The major issues of entrepreneurs in Andhra Pradesh are facility of long-term loans, raw material shortage, lack of market for finished products, reaching the break even sales, government controls were standing in the way for the firm to operate under normal conditions, etc.

8) In Andhra Pradesh many financial Institutions were established to provide long term funds to various industries, particularly to the technocrat first generation entrepreneurs under the seed capital scheme. Emerging perspective of the industrial scene of Andhra Pradesh unravels the integrated strategy for entrepreneurship development in the state. Further the opening up of the economy and the globalization trends indicate that Andhra Pradesh has to traverse a path of industrial development where entrepreneurs of risk taking nature should be developed to face the new challenges. Hence a tough category of entrepreneurs can alone survive and prosper and the need of the hour is to intervene effectively in the entrepreneurial process for protecting the weaker among the list. In the case of entrepreneurs struggling to find a niche for them selves in the small-scale sector, entrepreneurship has to be nurtured by the venture capital.

9) Venture capital has become the age of the finance that can play a significant role in the economic development of any country, because it promotes technocrat entrepreneurs having new and innovative business proposals, which can lead the economy in ultimate growth and solves the problems of unemployment as well as enables the country to meet global challenges in the present economic conditions. But to enjoy the fruits of the venture capital
governments concerned should play the needed role in avoiding the problems and challenges of the venture capital industry in their countries and putting the venture capital on the right track to take-off

10) Venture Capital is a recent phenomenon in India, which is at infancy stage and requires proper framework and promotional efforts for the fast growth.

11) There is a need for encouragement of risk capital in India, as this will widen the industrial base of, high-tech industries and promote the growth of technology. The initial step might be to permit the launch of mutual funds by all those banks authorized to conduct business in India, at the same time extending the investment range of such funds to embrace unquoted stocks. The objectives of Indian Venture Capital Industry (VCI) are: To finance and development of high technology businesses, To provide financial assistance for attaining commercial application of indigenous technology or adapting imported technology for wider domestic application, and To provide risk capital to first generation entrepreneurs for setting up industrial projects and to accelerate the pace and quality of technological innovations for products having application in industry, agriculture, health, energy and other areas beneficial to the development process in India.

12) The Indian Venture Capital (VC) industry is just about a decade old industry as compared to that in Europe and US. In this short span it has nurtured close to 1000 ventures, mostly in SME segment and has supported budding technocrat/professionals all through. The VC industry, through its investments in high growth companies as well as companies adopting newer technologies backed by first generation entrepreneurs, has made a substantial contribution to economy. In India, however, the potential of venture capital investments is yet to be fully realized. There are around 30 venture capital funds, which have garnered over Rs.5000 crores. The venture capital investments in India presently representing 0.1 per cent of GDP, as compared to 5.5 per cent in countries such as Hong Kong and others.

13) Venture capital industry is at the take-off position in India. In fact it plays a profound role in promoting the development of entrepreneurship skills that remains unexploited among young and energetic technocrats. It is beyond doubt that every developing economy, like India should leap into economic development to attain the developed status through Venture capital only. But on the contrary, it is not properly promoted till to-date, hence, for creating an exact environment for the growth of venture capital in India concrete efforts from Government financial institutions, Private sector and other agencies are required.

14) For the ultimate development of Venture Capital industry the measures need to be provided, are:
a) Creating social awareness about the principal objectives and functions of the existing. Venture capital funds in the country to bridge the gulf between the society and the existing venture capital funds.

b) A less regulated and controlled business and economic environment where an attractive customer opportunity exists or could be created for high-tech and quality products.

c) Governmental encouragement for a broad-based (and less family-based) entrepreneurial traditions and innovation creativity.

d) A vigorous marketing thrust, promotional efforts and development strategy employing new concepts such as venture fairs, venture clubs, venture networks, business incubators etc., for the growth of venture capital.

e) A harmonious co-ordination needs to be maintained among the technology institutes, professional institutes and universities who are the producers of future venture capital managers. The coordinating organ so formed is expected to ventilate and outline of the latest requirements of the venture capital funds management. Central government should come forward to promote the referred coordinating organ in the form of a statutory body, the coordinating organ wide not only maintain link with the domestic professional institutes, technology institutes and universities but also with the global venture capital funds in order to exchange the novel ideas that can help in standardizing Indian practice on venture capital funds.

f) Encouragement and funding of R&D by private and public sector companies and the government for ensuring technological competitiveness.

g) For the success of venture capital fund, be it privately owned or public sector financial institution, strategies need to be found, to promote entrepreneurship. For this, venture capital funds need professionals with initiative, drive and vision to identify such entrepreneurs who have potential sound & ideas and innovative vision. Unfortunately, such professionals are not easily available particularly in developing countries like India. Therefore management schools need to develop social training programs to train venture capital managers in which risk taking and entrepreneurial attitude needs to be incubated.
h) A more general, business and entrepreneurship oriented education system where scientists and engineers have knowledge of accounting, finance and economics and accountants understand engineering or the physical sciences.

i) Exit Routes

15) Andhra Pradesh Industrial Development Corporation (APIDC) promoted APIDC–Venture Capital Limited (VCL) on 29th August 1989. The approval of the Government of India to commence operations was accorded in April 1990. APIDC-VCL was privatized in 1994 and Dynam ventures (East) Pvt. Ltd, has been awarded control of APIDC-VCL after a competitive selection process.

16) The company acts as manager and trustee to the APIDC Venture Capital Fund (VCF), 1990. It is the first state level Venture Capital Fund in India to be managed by owner-managers with strong entrepreneurial skills. Initially it was incorporated with an authorized capital of Rs.2 million, out of which Rs.0.2755 million was paid-up capital in 1989. The paid up capital was raised to the level of authorized capital of Rs.2 million during 1991-92.

17) The company manages the venture fund of Rs.135 million. The authorized corpus capital of the fund is Rs.135 million out of which Rs.41.35 million is paid-up, which forms the corpus of the fund known as ‘APIDC Venture Capital Fund – 1990’. The fund resources come from the World Bank, the Industrial Development Bank of India (IDBI), the Andhra Pradesh Industrial Development Corporation (APIDC), Small Industrial Development Bank of India (SIDBI), Andhra Bank, Indian Overseas Bank (IOB) and NRIs etc.

18) APIDC-VCL will invest in companies with the ability to builds unique competitive advantages that others will find difficult to emulate. It will add value to portfolio companies through support in activities external to the company, being a responsive facilitator of the entrepreneurial process.

19) APIDC-VCL is mandated to restrict its investment to Rs.200 lakhs per round of investment. However, it has successfully syndicated large investments with other venture capital/private equity funds. This funding will be in the form of equity or quasi-equity investment. Hence, the company uses equity shares, redeemable preference shares, convertible debt and conditional loan as instruments for its venture capital finance.

20) APIDC-VCL will evaluate each deal against the investment strategy, the returns, target rates, the risks and more specifically, the quality of the management team, the match with our strategy of ‘Key differentials’ resulting in a strong competitive edge for their company, the size and growth rate of the market, potential for high profitability while protecting the
The new Equity Policy of the company proposes to give a special impetus to Industrial Development. So, the company focuses its investments on Food and Agro processing except traditional industries, Petroleum and Petro-chemicals, Chemicals & Fertilizers, Engineering & Automotives, Minerals based industries, Information Technology, 100% Export Oriented Units, Biotechnology, Renewable sources of Energy, Energy Saving Devices, Appliances, Energy Efficient and Waste Reduction Technologies and Processes, Pollution Control Equipment and Devices and Waste Utilization and Recycling.

Financial performance of APIDC is also very considerable and significant when compared to other venture capital funds as the IRR of APIDC-VCL is very high due to its portfolio of undertakings in which it has the investments.

APIDC- Venture Capital Ltd has invested Rs.365.85 lakhs in Computers and Software, Rs.60 lakhs in Chemicals, Rs.329.90 lakhs in Electronics, Rs.150 lakhs in Pharma, Rs.425.05 lakhs in Services, Rs.170.40 lakhs in Milk, Rs.100 lakhs in Agro, Rs.150 lakhs in Communications, Rs.50 lakhs in Cables, Rs.168.48 lakhs in Manufacturing and Rs.100 lakhs in Logistics.

Respondents understood venture capital is as Risk capital, Capital investment for only high-tech projects, Capital investment for unexploited ideas and Capital investment for innovative projects.

Most of the respondents got awareness through Financial Advisors/Analysts/Consultants followed by corporate news and personal awareness.

Respondents got awareness on APIDC-VCL through Financial Advisors/Analysts, followed by Beneficiaries of APIDC-VCL and others.

The Innovative ideas of all the respondents are Wireless communication, Patenet for the process, Costal-Transportation and Developing quality products and services with state of art and technical know-how.

The innovative ideas are generated because Business strategies & Research, General Bottleneck and more field exposure with live interaction with end consumers.

Out of 10 respondent firms only 5 companies approached APIDC-VCL with prototype and for remaining cases there is no proto-type development and not applicable respectively.
30) Most of the Respondents opined that APIDC-VCL positively encouraged them when they approached the company.

31) The main factors for getting venture finance by investee firms is due to commitment of the promoters and business potential.

32) Most of the Respondents Approached APIDC-VCL personally to get venture finance.

33) All most all the selected respondents (undertakings) are at expansion stage.

34) The selected undertakings has been provided Rs1.50 crore at early stage, Rs.2.50 crore at expansion stage and Rs.1 crore at acquisition stage respectively by APIDC-VCL.

35) Investee firms of APIDC-VCL have not faced any difficulty such as delays in disbursement, extending managerial services, other problems in getting finance.

36) APIDC-VCL is not having no investee firm floating at any Stock Exchange.

37) Investee firms have taken 1-2 year as minimum time period and 2-5 years as maximum time period for proving their ideas.

38) According to analysis 50 per cent of the respondent firms has commercialized their product/service immediately after proving the idea and rest of them have commercialized after one year.

39) Most of the respondent firms have experienced extremely good market response and remaining respondents has got moderate and average market response.

40) Most of the respondents opined that the role of APIDC-VCL in promoting new, innovative and technological enterprises is extremely good.

41) 50 per cent of the respondents opined that the management style of APIDC-VCL is ‘TO LIVE WITH’, others opined that the company’s style is like a good business partners and co-operative, constructive participative and supportive.

42) Besides investing money APIDC-VCL has provided different type of services to the investee firms as monitoring, value-addition, market information on changing trends, providing approaches to various commercial transactions including equity placement.

43) Most of the respondents of APIDC-VCL have opined that they would like to continue their association with the company at least 2 year.
Analysis revels that the company acts as partner in the most of the investees businesses and as owner in only few cases.

All most all the respondent companies have not got any service from APIDC-VCL without paying money.

Most of the respondents have preferred exit route through Circumstances and supposed different types of exit routes as Listing of the shares and reward for association and support during critical years, IPOs and Buy-Back.

The study revealed that there was no much time gap between amount sanctioned and disbursements of venture capital by APIDC-VCL to the entrepreneurs. It reflects the speed of decision making at APIDC-VCL.

Venture capital funds provide certain managerial services apart from the general financial services. These services include marketing services unlike the traditional financial service providers. APIDC-VCL has been providing marketing services like test market, marketing research, product positioning, commercialization, etc., for the benefit of entrepreneurs. APIDC–VCL takes interest in nurturing of the venture, which indicates that APIDC-VCL plays the role of a real venture capitalist.

The study reveals that APIDC – VCL provides varied services like product development service, test market, marketing research, product positioning, commercialization, promotion activities and price determination to its entrepreneurs.

It is evident from the study that the entrepreneurs were able to estimate the potentiality of their product or service through close interaction with customers, industry analysis and market research. APIDC – VCL extends complete co-operation in this regard. This indicates that the most of the entrepreneurs have complete satisfaction with regards to marketing services rendered by APIDC-VCL.

The study makes it evident that APIDC-VCL is promoting entrepreneurs who have sound knowledge, technology awareness and ability to face risk.

The existing entrepreneurs who started with venture capital provided by APIDC-VCL would like to continue their association with APIDC-VCL for present and future needs. This indicates that APIDC – VCL was successful in its role as a venture capitalist.

13. CONCLUSION

According to the views of Investee firms APIDC-VCL has satisfied them in all aspects of venture financing and played a good role in promoting and managing the new and innovative ventures in India. Nevertheless APIDC-VCL has been promoting the
entrepreneurs having ability to create the change i.e. the introduction and infusion of new products and services into the market responsible for growth and prosperity of the economy. Thus the APIDC-VCL has played a paramount role in promoting a good entrepreneurial environment in Andhra Pradesh. Hence, for betterment of the so called entrepreneurship development, it is desirable for the company to consider the following:

i. APIDC-VCL should not focus only on the company’s product without analyzing the market is a bad sign. The emphasis should be on the market and the needs of potential customers.

ii. APIDC-VCL is supposed to not to give sales projections that deviate significantly from industry norms and sometimes figures are exaggerated heavily from those norms, since each industry has a range of accepted or standard financial statistics. Because deviations from industry norms suggest the entrepreneur has not thoroughly researched the industry or is trying to ‘sugarcoat’ the business plan.

iii. It is suggested that APIDC-VCL should not give unrealistic growth projections. This is probably the biggest warning sign of an inexperienced management team or an unlikely success.

iv. It is important to APIDC-VCL to have a clear and concise business plan from potential investors i.e. a 25 page business plan is better than a 250 page business plan.

v. It is also important to the company to pay careful attention to their investee firms’ distribution channels; because how the product reaches the market is undoubtedly one of the most important aspects of any business plan.

14. SUGGESTIONS

1) Venture Capital funds in India are working with greater objectives and passion, but they couldn’t achieve so far the objectives for which they are working, it does mean that still they are yet take-off stage. It is due to the traditional behavior of venture capitalists in India. Hence, to surmount all the problems, both operational and financial the venture capitalists, government and the regulator agencies should play their role very cagly. Such a way if the boost is given adequately to the venture capital industry, it is beyond doubt that the venture capital industry can take-off very shortly.

2) Though, APIDC-Venture Capital Ltd running its business very successfully and promoting entrepreneurs who are technocrats from first generation, there is a need to move from earth to heaven in achieving its objectives.

3) APIDC-VCL should also help a lot in marketing the product, managerial decision-making, diversification, acquisitions and so many other strategical issues of its undertakings.
4) Though, APIDC-Venture Capital Ltd creating a conducive environment for its undertakings (Entrepreneurs) through its style of functioning with the help of the professional managers, it has to behave more like a participating manager as well as business partner with the entrepreneurs instead of a true financial controller. The companies financed by APIDC-VCL which are selected for the research study are diversified and belong to non related sectors. They are from pharmaceuticals, port management, milk products, industrial products and information technology sectors. The capital employed of these companies is in the range of 100 lakhs to 250 lakhs.

5) APIDC-VCL has the ability to promote entrepreneurs having sound knowledge in technology, risk bearing capacity and exploit creative abilities through its venture capital schemes. So far it has nurtured 16 ventures from varied industrial sectors including Biotechnology. The fund is financing the new, creative and innovative ventures through venture capital and helping the economy a lot. It has look into certain issues for the betterment of its venture capital finance and the benefit of entrepreneurs. They are:

a) APIDC-VCL should help in adding value in all spheres to its undertakings.

b) Besides rendering various managerial services including marketing services, the company has to first educate all its entrepreneurs in understanding the trends and the pace of innovation, so as to sustain in this competitive market.

c) Companies should develop a network with other venture capital funds both operating themselves in India and abroad to aware the exact global trends over venture capital activities and the productive areas as well as strategies to be employed for the success of undertakings for the benefit of its entrepreneurs.

d) APIDC-VCL should spend considerable time with its undertakings in solving their problems, both operational and financial, and guiding them at times in managerial as well as marketing activities.

1. To have a correct idea APIDC-VCL is supposed to direct the entrepreneurs to explain the following issues in their business plan: What are the strategies of their competitors and their core competitive landscape?
2. Why do customers buy from them?
3. How good is their sales and support organization?
4. What is their financial situation?
5. What are their weaknesses and is it possible to benefit from them?

e) APIDC-VCL is suggested to take utmost care in commercializing the product/service in the market.
f) There is no investee firm being floated at any stock exchange. So APIDC-VCL should take some measures to make them to be at least in the list of OTCEI, through which the exit becomes very easy.

g) Some of the investee firms view that APIDC-VCL behaves as a financial controller rather a managing partner. So the company has to change its attitude in managing the investee companies.

h) There are no projects financed by APIDC-VCL in the North region of India so far. In future if the company also extends its venture finance to Northern India it can reach its ultimate objective.

15. SCOPE FOR FURTHER STUDIES

The present study focused on role of venture capital in promotion of entrepreneurs in Andhra Pradesh with specific reference to an active venture capital fund, APIDC-Venture capital limited as a case problem. Scholars wish to work on this area can make it bigger by taking into consideration all the venture capital funds working in India with a bigger sample size of investees.