

Venture Capital Fund – A Social Rescuer

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1. Statement of the Problem

According to 2011 Census Indian demographic profile, Indian population is confirmed to be more than 121 crores. The significant portion of this population consists of younger and middle-aged generation. There will be an acute shortage of employment in the next two decades. This unemployment problem may be a seed for the social unrest in the country. Hence Indian government needs to focus on this issue on an emergency basis.

Demographic Profile of India

(Amount in crores)

S. No	Population	1991	2001	2011
1.0	Total Population	84.6	102.9	121.1
1.1	Female	40.7	49.6	58.7
1.2	Male	43.9	53.2	62.3
2.1	Rural	62.9	74.2	83.3
2.2	Urban	21.8	28.6	37.7

Source: India in Figures 2018, Ministry of Statistics and Program Implementation

The government cannot create employment (at least immediately) for all. The government needs social support from NGOs and other established corporate groups who have more than sufficient funds and a sizable idle fund. There is a vast gap among educational institutions, business organizations and employment skills. This can be filled only through entrepreneurial development with a new technological enhancement.

In the process of establishing a new business in a developing economy like India, traditional debt finance is typically unsuitable for a start-up company. This is because the company often requires huge investment to grow in the initial stage even before revenue starts coming into the business. There will be huge outflow of funds without adequate inflow to run the day-to-day operations of the company in the initial stage of any business. Repayment of interest demanded by debt finance is an important risk in this stage and start-up companies cannot bear this burden. Hence, Venture capital funds are most suitable form in this scenario. Venture capital industries are specifically created for investing their funds in the start-up companies. Hence, an emergency need to focus and enhance the quality of leadership and entrepreneurial development among the younger generation of India.

2. Review of Literature

In India, Venture capital operations started only in the late 1980s. Venture capital was institutionalized by the government of India only during this decade. In 1988, the government of India announced venture capital guidelines.

The venture capital industry has four major players namely; entrepreneurs who need funding, investors who need high returns on their investments, investment bankers who want to provide loans and advances, and venture capitalists who integrate all these people together in one line.

Venture capitalists mobilize equity capital from individual investors who expect high returns on their investments. The investment bankers offer loans and advances to venture capitalists for the economic development of the country. These venture capital funds are diverted towards new entrepreneur and start-up companies. These funds are invested in new technologies and innovative modern business and help the country to promote commercial operations throughout the country and it creates more employment opportunities throughout the nation. Venture Capitalists not only provide finance but they also assist for the requisite support like networking, channels of distribution, research and development operations, marketing of products etc.

The review of literature exhibits the following agencies are actively involved in providing venture capital in India. These VCFs are the major ones at present: Chrys Capital, Cipher Securities India Private Limited, Dawn Consulting, Grameen Fund, Gujarat Venture Finances Limited, ICICI Venture, IFCI Venture Capital Fund, India Co Innovation Center, Indian Venture Capital and Private Equity Association, Mantra Consultants, Nova Star Funds, Techcap India Private Limited, Technology Capital Partners, The Aavishkaar India Micro Venture Capital Fund, The View Group, UTI Venture Funds, and Walden International.

The entire process of venture capital funding can be categorized into three major steps.

The first round is considered to be “seed finance” because the companies are yet in the start-up process and there is no any stable financial track record available in this stage. The investments at this stage are highly risky with the probability of loss. Venture capitalists play an active role in making an early stage company works.

The second round is considered to be “expansion stage” and venture capitalists will be involved in all major decision-making process and will also sit in the board of directors usually for their period of investment. They will also assist in getting

“second round” financing. The initial public offers (IPOs) usually started and the venture capitalists make things happen. An entrepreneur needs this kind of expertise.

The third round is “exit stage” where venture capitalists focus on return on investments. In return for the funds, venture capitalists receive a percentage stake in the capital of the company. Sometimes, a royalty may be offered by proprietors.

3. Role of Venture Capital in Economic Development

Venture capitalists focus on small and medium-sized business units who cannot acquire credit from scheduled banks and other nonbanking financial companies. Many entrepreneurs with new innovative ideas and technological knowledge require a large sum of money to invest in their business. Merchant banks and other commercial institutions cannot provide credit as these are highly risky units and they do not have huge market share in the relevant industries.

Venture capitalists are specifically suitable for these kinds of units. The role of venture capitalists and venture capital funds is indispensable for development of the country. In India, first generation entrepreneurs do not have assets to produce as a security when they approach commercial banks for loans. There is no any other alternative for these first generation entrepreneurs for acquiring resources at the seed stage of business. At the initial stage, these people invest money from their own sources and when the business gradually demands more efforts and finance, they are ready to put efforts; but as far as finance is concerned, there is no adequate social support from the commercial world. Venture capitalists play a vital role in rescuing from shutting down the business due to lack of adequate flow of finance and also provide specialized knowledge and support for further research and development of the business and to capture a significant portion of market share and also help them to establish the business.

Once the business is established, these first generation entrepreneurs can list in a stock exchange and can go for initial public offers. At this second stage also, venture capitalists assist these entrepreneurs with the help their specialized management committees and supporting them to underwrite and go through rigorous process of IPOs. If initial public offer is successful, these business concerns can grow further and stay longer in the market.

In the third stage, once the business is established in the market, venture capitalists can sell their share in the public market and leave the company with good return for their investment. This is the period that the business has been established very well in the market and the business cycle is usually in the boom trend.

Legally, venture capital funds are permitted to invest up to 80% of their resources in unlisted companies. Also, more than

20% of their corpus cannot be invested in any single company's equity capital. This creates a legal obligation to venture capitalists to distribute their funds in various companies throughout many industries, and not in any one specific profitable company.

It is also required that capital venture funds/companies are managed by professionals such as bankers, managers, administrators and persons with adequate experience of industry, finance, accounts, etc.

An entrepreneur has to submit some essential information regarding his business for availing of finance from venture capitalists. They are usually a brief history of business project, personal history of entrepreneur and his key managers, description of product to be manufactured or services to be rendered, the technological feasibility report and a description of technical process involved and technology to be followed in manufacturing process or services to be rendered.

4. Recommendation and Conclusion

It is evident that Venture Capital is the most attractive choice for new companies with limited operating history that are too small to raise capital in the public market and are too immature to secure a bank loan or complete a debt offering.

The government of India in consultation with NITI Aayog has recently announced that 14 employment zones will be set up in India to promote employment opportunity for at least 10 million people. The ministry allocated one-lakh crores for this purpose. In India, employment generation is sure to emerge as a key issue. The plans are currently being shaped to create more job opportunities for younger generation people.

A venture capital fund may raise monies from any investor whether Indian, foreigners, or nonresident Indian. In the globalized scenario, mobilization of funds is not an issue for a government. Indian government needs a real focus and attention towards developing more and more entrepreneurs so that these entrepreneurs can create more and more employment opportunities in return and that will ultimately reduce the unemployment problems in India.

The annual statistical report for the financial year 2017-2018 confirms that 1.25 million crores of bad debts to be recovered from various business organizations. This amounts to 11.8% bad debts of total loans provided by Indian banking industry. The government of India has recently issued a notice to all these business organizations. According to legal provisions, an IP notice can be issued and debts can be recovered from these concerns.

All the above confiscated funds may be redirected towards creating VCFs and developing new entrepreneurs which will ultimately help to reduce unemployment problem in India.

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