IJMSRR
E- ISSN - 2349-6746
ISSN -2349-6738

A STUDY ON STAGE-WISE PERFORMANCE OF THE SELECT VENTURE CAPITAL COMPANIES IN TAMILNADU

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Abstract
Economic growth of any nation is influenced by its industrial development, which provides job opportunity, economic up-gradation, poverty eradication, infrastructure development, education, hospitality, cleanliness, etc. In the early stages, the industrial development was initiated by central and state governments, but it was changed over the periods owing to political and other reasons. The venture capital sector is the most vibrant industry in the financial markets today. Venture capital firms face a resource allocation problem characterized by high risk and strong information asymmetries. The movement of venture capital from developed to developing countries is not without inherent risks. Thus, venture capitalists in the developing countries are operating in a new environment characterized by unique risks and challenges. Further, as venture capital fund is in nascent stage, Indian venture capital firms are unable to generate returns or exit multiples on par with competing markets. If this continues then the allocation of new capital by investors to India will recede. In this context, the researchers have made an attempt to study the stage-wise investment of the select venture capital companies in Tamilnadu. The study encompasses both primary and secondary data. For collecting the primary data, personal discussions were held with the officials of the select venture capital companies. The secondary data were extracted from the records of the select venture capital companies for a period of five years from 2010-11 to 2014-15. The period is considered sufficient to reveal the fluctuations. Literature relating to the study was gathered from published reports, journals, magazines, books, etc. In regards to stage-wise investment, IL & FS Venture Corporation Limited, Canbank Venture Capital Fund Limited, IDBI Venture Capital Fund, SIDBI Venture Capital Limited and Draper International (India) Private Limited stand at the first, second, third, fourth and fifth places respectively. IFCI Venture Capital Funds Limited and TDCI Limited stand at the ninth and tenth places respectively. If the study provokes the authority concerned to take some positive measures for improving the performance, the researchers will feel amply rewarded.

Keywords: Venture Capital, Seed Stage Financing, Stages in Venture Capital, Risk Capital, Etc.

Introduction
Economic growth of any nation is influenced by its industrial development, which provides job opportunity, economic up-gradation, poverty eradication, infrastructure development, education, hospitality, cleanliness, etc. In the early stages, the industrial development was initiated by central and state governments, but it was changed over the periods owing to political and other reasons. The venture capital sector is the most vibrant industry in the financial markets today. Venture capital is finance provided by professionals who invest in young, rapidly growing companies that have the potential to develop into considerable economic contributors. The venture capitalists provide managerial and technical assistance with the aim of supporting talented entrepreneurs and assisting them in strengthening their growing business. The Indian venture capital companies were large financial institutions which had been set up to finance only. Having with skilled and competent manpower, technology, research and entrepreneurship, proper environment and policy support, India can be achieved fast economic growth through venture capital industry in a sustained manner. When a venture capital firm invests in a new venture, it will appraise the performance of its investment at the time of liquidation, and also during the life of the investment.

Venture Capitalists
A venture capitalist is an individual or a company who provides investment capital, management expertise, networking and marketing support while funding and running highly innovative and prospective areas of products as well as services. Venture capitalists are specialized intermediaries that direct capital to firms and professional services to companies that might otherwise be excluded from the corporate debt market and other sources of private finance. Venture capitalists are directly involved in the venture capital investment process from scouting and screening activities to post-investment and exit. Venture capitalist operates as financial intermediary between investors who are suppliers of capital on one hand, and investee companies who are recipients of risk capital on the hand. Management approach of the venture capitalist differs from a lender or a bank. When venture capitalists invest in a business, they typically direct and guide the venture so as to lead it towards capital gains. They are a crucial part of the company's decision making and occupy a place in board of directors. The professional venture capitalists act as mentors and with the aim to provide support and advice on a range of management,

IJMSRR
E- ISSN - 2349-6746
ISSN -2349-6738

sales and technical issues to assist the company to develop its full potential. Venture capitalists improve the performance of investee firms through their ability to coach new businesses and to nurture them to produce greater technological output.

Venture capital companies are grouped into three categories: independents, captives and semi-captives. Independent venture capital firms represent firms with diluted ownership, making no single investor a majority shareholder. In this type, investment resources are usually sourced from varied investors and it stands out as the most popular among all venture capital organizations. Captive venture capital companies are established by the parent company and draw its investment resources from that organization. Semi-captive venture capital companies are wholly established by a single company but with significant amount of its funds being sourced through third party investors. In recent years, venture capital firms have increasingly turned to foreign countries in search of venture opportunity. The cross-border extension of venture capital firms presents an interesting case of internationalization, as they are at variance with both conventional portfolio and direct investment model. The investment made by venture capitalists generally involves financing new and rapidly growing companies; purchasing equity securities; taking higher risk in expectation of higher rewards; having a long frame of time period; actively working with the company's management to devise strategies pertaining to the overall functioning of the project; and networking and marketing of the product/service being offered. The underlying assumption is that the entrepreneur and the venture capitalist would act together in the interest of the enterprise as partners.

Statement of the Problem

The emerging scenario of global competitiveness has put a gigantic pressure on the industrial sector to improve the quality level with minimization of cost of products by making use of latest technological skills. The implication is to obtain adequate finance along with the needed hi-tech equipment to produce an innovative product which can be successful and grow in the present market condition. The Indian venture capital industry is slow and belaboured, bounded by resource constraints resulting from the overall framework of the socialistic economic paradigms. This industry is at a critical juncture today and facing significant challenges on manifold fronts. The primary reason is the dearth of good quality venture capital companies. Since its inception, the Indian venture capital industry has been affected by international and domestic developments. Venture capital firms face a resource allocation problem characterized by high risk and strong information asymmetries. The movement of venture capital from developed to developing countries is not without inherent risks. Thus, venture capitalists in the developing countries are operating in a new environment characterized by unique risks and challenges. Further, as venture capital fund is in nascent stage, Indian venture capital firms are unable to generate returns or exit multiples on par with competing markets. If this continues then the allocation of new capital by investors to India will recede. In this context, the researchers have made an attempt to study the stage-wise investment of the select venture capital companies in Tamilnadu.

Objectives of the Study

The following are the objectives of the present study:

1. To examine the stage-wise investment of the select venture capital companies in Tamilnadu.
2. To suggest suitable measures to improve the performance of the select venture capital companies based on the findings of the study.

Testing of Hypotheses

The study is based on the formulation of the following null hypotheses. The validity of them was tested with the help of appropriate analysis.

Ho_5: There is no significant relationship in stage-wise investment over the years.

Ho_6: There is no significant relationship among the investments in various stages.

Methodology

The study is analytical in nature with a focus on examining the stage-wise investment of the select venture capital companies in Tamilnadu. The study is restricted to 10 top performing venture capital companies, which are heavily invested in ten districts of Tamilnadu such as Chennai, Coimbatore, Erode, Karur, Madurai, Namakkal, Thoothukudi, Tirupur, Trichy and Vellore. Further, the study is confined to only investment performance of the select venture capital companies. The study encompasses both primary and secondary data. For collecting the primary data, personal discussions were held with the officials of the select venture capital companies. The secondary data were extracted from the records of the select venture capital companies for a period of five years from 2010-11 to 2014-15. The period is considered sufficient to reveal the fluctuations. Literature relating to the study was gathered from published reports, journals, magazines, books, etc. The collected data were analyzed and interpreted as intelligibly as possible to highlight the divergent activities related to the performance of the select venture capital companies. The data were analyzed with the help of different statistical techniques such as analysis of two-way variance, co-efficient of variation and growth rates.

IJMSRR
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Findings

1. IL & FS Venture Corporation Limited invested more funds in startup stage. Further, there exists stability in investment in later stage. Startup stage registered highest annual growth rate (2.35), linear annual growth rate (1.64) and compound annual growth rate (1.66), followed by seed stage in the IL & FS Venture Corporation Limited. Conversely, turnaround stage highest negative annual growth rate (31.16), linear annual growth rate (67.34) and compound annual growth rate (44.63).
2. Canbank Venture Capital Fund Limited invested more funds in startup stage. Besides, consistency is found in investment in later stage. Seed stage registered highest annual growth rate (1.38), followed by startup stage (1.04) and turnaround stage (0.53). Startup stage registered highest linear annual growth rate (0.16) and compound annual growth rate (0.14), followed by seed stage in the Canbank Venture Capital Fund Limited. Conversely, later and turnaround stages registered negative annual growth rate.
3. IDBI Venture Capital Fund invested more funds in startup stage. Moreover, there exists consistency in investment in later stage. Turnaround stage registered highest annual growth rate (12.18), followed by seed stage (0.79) and startup stage (0.34) in the IDBI Venture Capital Fund. On the other hand, seed stage, startup stage, later stage and turnaround stage registered negative linear annual and compound annual growth rates.
4. Draper International Venture Capital Fund Limited has invested more funds in startup stage. Further, there exists consistency in investment in later stage. Turnaround stage has registered highest annual growth rate (11.18) and linear annual growth rate (1.94), followed by startup stage in the Draper International Venture Capital Fund Limited. Startup stage has registered highest compound annual growth rate (1.61) followed by seed stage (1.15).
5. SIDBI Venture Capital Limited invested more funds in startup stage. Further, there exists stability in investment in later stage. Startup stage registered highest annual growth rate (0.85) in the SIDBI Venture Capital Limited. On the other hand seed, startup, later and turnaround stages registered negative linear annual and compound annual growth rates.
6. TDCI Limited invested more funds in startup stage. Besides, there exists stability in investment in startup stage. Seed stage registered highest annual growth rate (3.56), linear annual growth rate (0.48) and compound annual growth rate (0.40) in the TDCI Limited. In contrast, seed, start-up, later and turnaround stages registered negative linear annual and compound annual growth rates.
7. APIDC Venture Capital Limited invested more funds in startup stage. Furthermore, consistency is found in investment in startup stage. Turnaround stage registered highest annual growth rate (3.92), followed by seed stage (0.96) and later stage (0.93) in the APIDC Venture Capital Limited. Conversely, seed, startup, later and turnaround stages registered negative linear annual and compound annual growth rates.
8. Industrial Venture Capital Limited invested more funds in startup stage. Besides, there exists stability in investment in startup stage. Turnaround stage registered highest annual growth rate (19.31), linear annual growth rate (4.76) and compound annual growth rate (3.73) in the Industrial Venture Capital Limited. In contrast, seed, startup, and later stages registered negative linear annual and compound annual growth rates.
9. ICICI Venture Funds Management Company Limited invested more funds in startup stage. Moreover, there exists consistency in investment in startup stage. Seed stage registered highest annual growth rate (4.42), linear annual growth rate (5.07) and compound annual growth rate (5.07), followed by later stage and startup stage in the ICICI Venture Funds Management Company Limited. Alternatively, turnaround stage registered negative annual growth rate (8.00), linear annual growth rate (9.68) and compound annual growth rate (8.50).
10. IFCI Venture Capital Funds Limited invested more funds in startup stage. Further, there exists stability in the investment in startup stage. Turnaround stage registered highest annual growth rate (6.53), followed by seed stage and startup stage. Startup stage registered highest linear annual growth rate (2.60) and compound annual growth rate (2.57), followed by seed stage and later stage in the IFCI Venture Capital Funds Limited. In contrast, turnaround stage registered negative linear and compound annual growth rates.
11. In regards to stage-wise investment, IL & FS Venture Corporation Limited, Canbank Venture Capital Fund Limited, IDBI Venture Capital Fund, SIDBI Venture Capital Limited and Draper International (India) Private Limited stand at the first, second, third, fourth and fifth places respectively. IFCI Venture Capital Funds Limited and TDCI Limited stand at the ninth and tenth places respectively. It implies that these two companies have lowest stage-wise investment during the study period.

Suggestions

1. Government of India has a crucial role in creating an enabling environment for the venture capital industry to succeed. Thus, a well-framed venture capital policy is important, as it has a considerable role to play to ensure that industries become the engine of economic growth. Therefore, government ought to focus on creating an environment that facilitates risk taking and responsibility and encourages experienced and wealthy individuals to recycle their experience and wealth. Encouraging entrepreneurs and business angels is an important goal for venture capital policy.

2. The government is supposed to facilitate and speed up the establishment of the 'Credit Referencing Bureau' to assist in reducing the risk in lending, thereby enabling banks to lower the cost of capital to the private sector to facilitate the required growth in the economy.
3. The prime objective of venture capital is to provide finance to innovative, promising, entrepreneurial businesses that are inherently risky. Most venture funds are inclined towards generating handsome returns in shortest possible time without fulfilling the broader objective of providing risk capital to innovative businesses. Hence, it is suggested that the select venture capital companies ought to formulate suitable policy incentives to encourage startup/early stage investments and promising ideas by new entrepreneurs.
4. The most financing mode of the select venture capital companies is equity and equity linked securities. This is contrary to western markets, where higher and ever increasing percentage of venture capital investments are structured with a layer of preference capital as it bears elements of both debt and equity. Hence, it is suggested that preference share capital should be encouraged more in place of equity in the select venture capital companies.
5. The role of banks in the venture capital industry is merely marginal. Though there are several venture capital funds formed by banks, they are not on par with corporate venture capital funds. Therefore, more venture capital funds should be formed by banks and other financial institutions to promote early stage venture investments. Besides, performance of the venture capital funds formed by banks should be improved.
6. The Indian venture capital industry is predominately dominated by foreign venture capital funds, which are actively investing in growth and later stage financing. Moreover, duration of investment is low in case of foreign venture capital funds. Hence, the select venture capital companies ought to launch strong domestic based venture capital funds on par with foreign venture capital funds.

Conclusion

Venture capital encourages the entrepreneurs to start and develop their own businesses and to help them grow into large companies. It boosts the national economy, creates new jobs and increases economic dynamism in the markets. The Indian venture capital industry plays an important role in promoting a more innovative economy by providing the investment and resources needed for high potential risky business to grow. Given such vast potential not only in information technology and software, but also in the field of service industries, biotechnology, telecommunications, media and entertainment, medical and health services and other technology based manufacturing and product development, venture capital industry can play a catalytic role to put India on the world map as a success story. If the study provokes the authority concerned to take some positive measures for improving the performance, the researchers will feel amply rewarded.

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