

AN EVALUATION ON FINANCIAL ASSISTANCE OF INDIAN VENTURE CAPITALIST

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ABSTRACT

In recent times, number of Venture Capital Companies/ Funds has been set up by commercial banks, private sector units, state financial institutions and foreign companies in India. Unlike in the case of developed countries, the contributions from insurance companies and pension funds have been very negligible. Such a situation warrants the SEBI and the Government to review the operational performance of venture capital companies and the adequacy of the guidelines in meeting the venture activities. The present study attempts to find out the financial assistance of the capitalist to Venture capital aided companies/units and how and to what extent the investors help the units to survive and grow in the competitive market. The main objectives of the study are to evaluate and analysis the investees' view on nature financial assistance of Indian venture capitalists. It also examines the relationship between the Indian venture capitalists and their assisted units. The study is both empirical and analytical in nature. The study depends on both the primary sources of data. The primary data were collected through a well-structured questionnaire. A scrutiny of the 42 questionnaires led to the rejection of 6 questionnaires on account of incomplete responses. Thus, the responses of 36 assisted units were used for the present study. The 36 sample units were classified based on the form of assistance received in two groups of equity support and debt/bonds. Public Limited companies attracted more equity assistance and private companies and partnership firm are provided debt finance. Assistance also varied according to the type of industry, technology level of assisted units, project size, product type and approach adapted by VCFs to their assisted unites. Thus, the analysis shows that assisted companies differ widely in their experience, opinions and operations characteristics.

KEYWORDS: *Venture Capital Companies, Commercial Banks, Private Sector Units*

INTRODUCTION

Venture capital means funds invested in small and medium high-risk firms which give a risk of total loss or an opportunity for very high returns that are founded on commercial applications of some technological innovations. These investments are made in new business based on tested technology that is being transferred to new markets.

Venture Capital Funds generally finance new and rapidly growing companies typically knowledge-based, sustainable, up scalable companies, purchase equity/ quasi-equity securities: assist in the development of new products or services; add value to the company through active participation; take higher risks with the expectation of higher rewards; have a long-term orientation. Venture capital investments are categorized by the different stages in the financing of the firm such as seed capital; startup; expansion and development financing prior to going public issues.

Origin of the Concept

The concept is basically of US origin where it has achieved tremendous success. Venture Capital can be traced back to six decades when George Doriot, the father of venture capital and Rockefeller family provided finance to companies making use of new technologies. The real development of venture capital took place in 1958 when the Small Business Investment Act was passed by the US Congress to license to companies and provide venture capital, tax incentives and government loans etc. These companies were known as Small Business Investment Companies (SBICs). In the UK, it received a boost by way of the Government's Business Expansion Scheme which permitted individuals to claim tax reliefs for investment in companies not listed on the Stock Exchanges. The American experience prompted the Japanese to adopt the concept. Now, Japan is experiencing an entrepreneurial and venture capital boom as a traditionally homogeneous culture attempts to learn what makes innovation work in the US. In the eighties, a number of Asian Countries established venture capital firms and the Governments have been playing an important role in their development.

Venture Capital in India

The venture capital financing in India began in a small way with the opening up of the Credit Capital Venture Fund (India) Ltd., in 1986 (now known as IL&FS Venture Corporation Ltd) set up by Credit Capital Finance Corporation Ltd., a premier private sector merchant bank. In the public sector, Industrial Credit and Investment Corporation of India and Unit Trust of India jointly set up Technology Development and Information Company Ltd., in 1989 for providing venture finance (now known as ICICI Venture Funds Management Company Ltd.,) In recent times, more number of Venture Capital Companies/ Funds have been set up by commercial banks, private sector units, state financial institutions and foreign companies in India.

Role of Venture Capital

Venture capital helps entrepreneurs through the capital-raising process and provides targeted, quality deals to its network of investors. Venture Capital also equips the venture capital community with the tools needed to make the investment process and business development easy and efficient. These tools include a clearinghouse that provides valuable, direct industry connections; a supportive community based on common experiences; the latest market news across the globe; and access to a high-quality network of professional service providers.

Statement of the Problem

A number of defects have also been pointed out by critics in relation to several venture capital companies such as inadequate capital base, insufficient management capacity, fragmentation of efforts over far too many projects without any well thought out strategies and lack of finance for the development of prototypes or setting up of pilot plants at the laboratory stage. Unlike in the case of developed countries, the contributions from insurance companies and pension funds have been very negligible. Such a situation warrants the SEBI and the Government to review the operational performance of venture capital companies and the adequacy of the guidelines in meeting the venture activities.

REVIEW OF LITERATURE

Over a period of time, a number of studies on the performance of venture capital investment have been made by venture capital practitioners, economists, academicians, research and other in India as well as in foreign countries. These studies deal with different areas of venture capital. A survey of these studies will throw light on the distinguishing features

and importance of those studies and will pave the way for further investigation.

Most of the studies have analysed only on or some parts of the venture capital performance. In other words, the literature studies have not evaluated so far on the performance of the venturecapital aided companies in India. Hence the present study attempts to find out the financial assistance of the capitalist to Venturecapital aided companies/units and how and to what extent the investors help the units to survive and grow in the competitive market.

OBJECTIVES OF THE STUDY

The main objectives of the study are to evaluate and analysis the investees' view on nature financial assistance of Indian venture capitalists. It also examines the relationship between the Indian venture capitalists and their assisted units.

RESEARCH METHODS

The study is both empirical and analytical in nature. The study depends on both the primary sources of data. The primary data were collected through a well-structured questionnaire and was supplemented with information obtained through personal interviews with a few experts and executives of Indian Venture Capital companies.

The study was conducted in five industrial cities of India. The cities selected are New Delhi, Mumbai, Hyderabad, Bangalore, and Chennai. The selection of five cities is justified on the following grounds:

- They are major industrial cities that are growing rapidly
- They have a large number of venture capital corporate offices
- They have a large number of venture capital assisted companies.
- New business enterprises like software development, IT sector are in these cities. Therefore these five cities are chosen for the study.

The sample of 120 unites assisted by the 7 venture capital companies are chosen for the study. These 120 unites details relating to their address, location is provided by the venture capital companies. So all the 120 units whose addresses are made available by the VCC are contacted through questionnaires and only 42 units responded. A scrutiny of the 42 questionnaires led to the rejection of 6 questionnaires on account of incomplete responses. Thus, the responses of 36 assisted units were used for the present study.

First, a chi-square test was applied for examining the association between the venture capital investor and venture capital investees. And stepwise multiple linear regression was performed relating to some selected variables. i.e. capacity utilization (dependent variable) is associated with a form of business, type of business, age-wise business classification, technology-based business classification, total cost wise business classification, a stage of assistance wise business classification, method of assistance wise business classification and method of approach based business classification.

It provides an analysis of the relationship between the venture capital inventors and investees, capacity utilization of the assisted companies, the nature of assistance received and monitoring of the assisted companies. The data and information obtained from the companies through questionnaires were the sources for the analysis.

EVALUATION OF FINANCIAL ASSISTANCE

The 36 sample units were classified based on the form of assistance received in two groups of equity support and debt/bonds. The table below provides details.

Table 1: Classification of Companies on the Basis of Form of Financial Assistance Received

Form of	No. of	In
Equity	28	78
Debt/Bonds	8	22
Total	36	100

The table 1 shows that there are 28 companies/units that received equity support which is 78% of the sample and 8 companies/ units received debt/bonds form of financial assistance which is 22% of the sample. The form of assistance is associated with certainly selected variable viz., a form of business, type of business, cost of the project, product type, present stage etc. The results are presented below.

Form of Business with Form of Assistance

The sample units were classified into three forms of business and are associated with the method of assistance. This association was tested through chi-square analysis.

Table 2: Form of Business and Form of Assistance

Form of Assistance	Form of Business			
	Partnership	Private Limited	Public Limited	Total
Equity	0	6	22	28
Debt/Bonds	4	4	0	8
Total	4	10	22	36

Table Value of χ^2 :5.99, Computed Value of χ^2 : 22.114

There is no significant association between the form of business and the form of assistance. The calculated chi-square value is 22.114. The computed value is highly significant at 5% level of significance. Therefore the null hypothesis can be rejected. Hence, the form of assistance is associated with the form of business.

Partnership firms have bond financial and public limited companies have only equity assistance. The private limited companies have availed of both types of assistance. Thus the form of business seems to determine the form of assistance received.

Type of Industry with Form of Assistance

The 36 sample units were classified into eight types of industry and were associated with a form of assistance received. Mostly, a form of assistance varies from one type of industry to another. Therefore, this association was tested through chi-square analysis.

Table 3: Type of Industry and Form of Assistance

Form of Assistance	Type of Industry								
	Industrial product	Computer software/hardware	Consumer related	Medical related	Food & food processing	Bio-tech	Energy related	Others	Total
Equity	4	11	1	3	1	4	2	2	28
Debt/Bonds	1	-	2	-	1	-	1	3	8
Total	5	11	3	3	2	4	3	5	36

Table Value of χ^2 : 12.0, Computed Value of χ^2 : 13.821

There is no significant association between the form of assistance and type of Industry. The computed chi-square value is 13.821. The calculated value is significant at 10% level of significance. Therefore the null hypothesis can be rejected. Hence, the form of assistance is associated with the type of Industry.

Technology Level with Form of Assistance

The samples of 36 units were classified into three categories based on the technology level and were associated with a form of assistance. This association is tested through chi-square analysis.

Table 4: Technology Level and Form of Assistance

Form Of Assistance	Technology Level			
	High - Tech	Low-Tech	Without-Tech	Total
Equity	19	5	4	28
Debt/Bonds	2	3	3	8
Total	21	8	7	36

Table Value of χ^2 :4.61, Computed Value of χ^2 :4.764

There is no significant association between the form of assistance and technology level. The computed chi-square value is 4.764. The calculated value is significant at 10% level of significance. Therefore the null hypothesis can be rejected. From the above result, it is evident that the high tech-project business, received the assistance mostly as equity, but in business without high technology debt was a dominant method of financing. Hence, the form of assistance is associated with the technology level.

Cost of Project with Form of Assistance

The sample units were classified into four categories on the basis of their project cost and were associated with a form of assistance. This association was tested through chi-square analysis.

Table 5: Cost of Project and Form of Assistance

Form of Assistance	Cost of Project				
	Less than 50 Lakhs	Rs. 50 to 100 Lakhs	Rs.100 to 300 Lakhs	Above Rs.300 Lakhs	Total
Equity	-	5	14	9	28
Debts/Bonds	3	3	1	1	8
Total	3	8	15	10	36

Table Value of χ^2 : 7.81, Computed Value of χ^2 :14.545

There is no significant association between the form of assistance and the cost of the project. The computed chi-square value is 14.545. The calculated value is significant at 5% level of significance. Therefore the null hypothesis can be rejected. Hence, the form of assistance is associated with the total cost of the project.

The above Table shows that the large size projects received most of their assistance in the form of equity and less in the terms of debt/bonds whereas small size projects received assistance only in the form of debt/bond.

Product Type with Form of Assistance

The samples of 36 companies/units were classified into three types based on their product nature and this was associated with a form of assistance. This association was tested through chi-square analysis.

Table 6: Product Nature and Form of Assistance

Form of Assistance	Product Nature			
	New	Old with Modern Tech	Existing	Total
Equity	20	5	3	28
Debt/Bonds	2	3	3	8
Total	22	8	6	36

Table Value of χ^2 4.61, Computed Value of χ^2 5.954

There is no significant association between the form of assistance and product nature. The calculated chi-square value is 5.954. The calculated value is significant at the 10% level. Hence the null hypothesis is rejected. So the form of assistance is significantly associated with the product nature.

Present stage of Business with Form of Assistance

The sample units were classified into four categories of companies based on the present stage of business and are associated with a form of assistance. The form of assistance is usually dependent on the status of the business. Therefore this association was tested through chi-square analysis.

The table shows that the just introduced companies received assistance mostly in terms of equity and sick stage companies received assistance in both Equity and debt forms. There is no significant associated between the present stage of business and form of assistance.

Table 7: Present Stage of Business and Form of Assistance

Form of Assistance	Present stage				
	Introduction	Stability	Improving	Sick	Total
Equity	16	8	2	2	28
Debt/Bonds	5	-	1	2	8
Total	22	8	6	4	36

Table Value of Chi-Square for 3d.F. At 5% Level of Significance: 7.81 Computed Value of X²: 4.316

The calculated value of the chi-square value is 4.316. The computed value is much less than the table value. This is not significant at 5% level of significance. Therefore the null hypothesis is accepted. Their form of assistance is not associated with the present stage.

Capacity Utilization with Form of Assistance

The units were classified under three groups based on their capacity utilization and were associated with the form of assistance received. The hypothesis was tested by applying chi-square test. The classification table, chi-square test result, and significance of the test are given below.

Table 8: Capacity Utilization and Form of Assistance

Form of Assistance	Capacity				Total
	Less than 50%	50% to 75%	75% to 100%	Total	
Equity	3	17	8	28	
Debt/Bonds	3	3	2	8	
Total	6	20	10	36	

Table Value of Chi-Square for 3 D.F. at 5% Level of Significance: 5.99, Computed Value of X²: 3.311

The Null Hypothesis is that there is no significant association between the two variables. The computed chi-square value is 3.311. The computed value is not significant at 5% level of significance. Therefore the null hypothesis is accepted. Hence, the form of assistance is not associated with the capacity utilization of the companies.

Approach to Investees with Form of Assistance

The sample units are classified into two categories based on the approach of VCCs to investees and are associated with a form of assistance received. This association is tested through chi-square analysis.

Table 9: Approach to Investees and Form of Assistance

Form of Assistance	Approach Adopted		
	Hands on	Hands off	Total
Equity	25	3	28
Debt/ Bonds	3	5	8
Total	28	8	36

Table Value of Chi-Square For 3 D.F. at 5% Level of Significance : 3.84, Computed Value of X² : 9.654

There is no significant association between the approach adopted and form of assistance. The computed chi-

square value is 9.654. The calculated value of chi-square is much greater than the table value. Hence, the null hypothesis is rejected. The approach adopted and forms of assistance are statistically and significantly associated. Table 9 also shows that the 'hands-on' approach to companies attracted finance in the form of equity.

FINDINGS AND CONCLUSIONS

In this paper, an overview of Assisted Companies, their characteristics, capacity utilization, a form of assistance, terms of financing and their view on their nature of financial assistance received from the Venture Capital Companies are discussed. Among the factors associated with capacity utilization, an age of the units and stage of assistance have shown a significant association. Public Limited companies attracted more equity assistance and private companies and partnership firm are provided debt finance. Assistance also varied according to the type of industry, technology level of assisted units, project size, product type and approach adapted by VCFs to their assisted unites. Thus, the analysis shows that assisted companies differ widely in their experience, opinions and operations characteristics.

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