
UNIT 18 VENTURE CAPITAL

Objectives

After studying this unit, you should be able to understand:

- 1 meaning and chief characteristics of Venture Capital;
- 1 modus operandi of Venture Capital Funds, i.e.
 - 1 Stages of financing
 - 1 Modes of financing
 - 1 Exit routes
- 1 regulatory framework for Venture Capital Funds in India and the tax concessions granted to them; and
- 1 venture Capital Funds in India.

Structure

- 18.1 Introduction
- 18.2 Distinguishing Features
- 18.3 Stages of Venture Capital Financing
- 18.4 Modes of Financing
- 18.5 Exit Routes
- 18.6 Regulatory Framework
- 18.7 SEBI Foreign Venture Capital Investors Regulations, 2000
- 18.8 Tax Exemptions
- 18.9 Venture Capital Funds in India
- 18.10 Summary
- 18.11 Self Assessment Questions
- 18.12 Further Readings

18.1 INTRODUCTION

One of the essential pre-requisites for the setting up of an industrial enterprise is timely and adequate availability of finance. This problem becomes more acute when an entrepreneur is a new and unknown technocrat, who possesses innovative ideas to develop a new product, but lacks his own capital which is essential to turn his ideas into a successful commercial venture. Finance required for such purpose is more risky in nature, because the innovative ideas of the entrepreneur have not been tried on a commercial scale. On the other hand, if the venture proves successful, it has potential for high returns. Usual sources of finance cannot be tapped by the entrepreneurs for lack of availability of funds from his own sources. In such circumstances Venture Capitalist comes to his rescue by providing risk bearing capital, which is widely known as Venture Capital.

Venture Capital may be broadly defined as long-term investment in business, which has potential for significant growth and financial returns. This is usually provided in the form of equity apart from conditional loans and conventional loans. Venture

Capitalists is thus not a financier only, but bears the risk as well. His return from the enterprise depends upon the extent of the success achieved by it.

The most distinguishing feature of Venture Capital is that it meets the needs of a business wherein the probability of loss is quite high because of the uncertainties associated with the enterprise, but the returns expected are also higher than normal. The entrepreneur intends to enter into an untrodden field. Thus, the Venture Capitalist invests in a business where uncertainties have yet to be quantified into risks. Venture Capital is thus termed as high risk, high return capital.

18.2 DISTINGUISHING FEATURES

Venture Capital can be distinguished from other forms of finance on the basis of its special characteristics which are as follows:

- 1) The most distinguishing feature of Venture Capital is that it is provided largely in the form of equity, when the investee company is unable to float its equity shares independently in the market, or from other sources in the initial stage. Thus risk capital is provided, which is not available otherwise due to the high degree of risk involved in the venture.
- 2) The venture capitalist, though participates in the equity, does not intend to act as the owner of the enterprise. The venture capitalist does not participate in the day-to-day management, but aids and guides the management by providing the benefit of his skill, experience and expertise. He nurtures the new enterprise till it enters the profit-earning stage.
- 3) The Venture Capitalist does not intend to retain his investment in the investee company for ever. He intends to divest his shares, as soon as the company becomes a profitable business and the returns from the business are high as per expectations. At this stage he withdraws himself from the venture and in turn provides finance for another venture.
- 4) A Venture Capitalist intends to earn largely by way of capital gains arising out of sale of his equity holdings, rather than through regular returns in the form of interest on loans.
- 5) A Venture Capitalist also provides conditional loans which entitles him to earn royalties on sales depending upon the expected profitability of the business. (Such loan is partly or fully waived if the business enterprise does not prove to be a success).

18.3 STAGES OF VENTURE CAPITAL FINANCING

A venture capital fund provides finance to the venture capital undertaking at different stages of its life cycle according to requirements. These stages are broadly classified into two, viz. (i) Early stage financing, and (ii) Later stage financing. Each of them is further sub-divided into a number of stages. We shall deal with them individually.

Early Stage Financing includes: (i) Seed capital stage, (ii) Start-up stage, and (iii) Second round financing.

- i) **Seed Capital Stage:** This is the primary stage associated with research and development. The concept, idea, process pertaining to high technology or innovation are tested on a laboratory scale. Generally, the ideas developed by Research and Development wings of companies or scientific research institutions are tried. Based on laboratory trial, a prototype product development is carried out. Subsequently, possibilities of commercial production of the product

is explored. The risk perception of investment at this stage is quite high and only a few venture capital funds invest in the seed capital stage of product development. Such financing is provided to the innovator in the form of low interest bearing personal loans.

- ii) **Start-up Stage:** Venture capital finance is made available at the start-up stage of the projects which have been selected for commercial production. A start-up refers to launching or beginning a new activity which may be the one taken out from the Research and Development stage of a company or a laboratory or may be based on transfer of technology from abroad. Such product may be an import substitute or a new product/service which is yet to be tried. But the product must have effective demand and command potential market in the country. The entrepreneurs who lack financial resources for undertaking production, approach the venture capital funds for extending funds through equity.

Before making such investments, venture capital fund companies assess the managerial ability, capacity and the commitment of entrepreneur to make the project idea a success. If necessary, the venture capital funds lend managerial skills, experience, competence and supervise the implementation to achieve successful operation. High degree of risk is involved in start-up financing.

- iii) **Second Round Financing:** After the product has been launched in the market, further funds are needed because the business has not yet become profitable and hence new investors are difficult to attract. Venture capital funds provide finance at such stage, which is comparatively less risky than the first two stages. At this stage, finance is provided in the form of debt also, on which they earn a regular income.

Later Stage Financing: Even when the business of the entrepreneur is established it requires additional finance, which cannot be secured by offering shares by way of the public issue. Venture capital funds prefer later stage financing as they anticipate income at a shorter duration and capital gains subsequently. Later stage financing may take the following forms:

- i) **Expansion Finance:** Expansion finance may be needed by an enterprise for adding production capacity once it has successfully gained market share and expects growth in demand for its product. Expansion of an enterprise may take the form of an organic growth or by way of acquisition or takeover. In the case of organic growth the entrepreneur retains maximum equity holdings of the entrepreneur and the venture capitalist could be in much higher proportion depending upon factors such as the net worth of the acquired business, its purchase price and the amount already raised by the company from the venture capitalists.
- ii) **Replacement Finance:** In this form of financing, the venture capitalist purchases the shares from the existing shareholders of the company who are willing to exit from the company. Such a course is often adopted with the investors who want to exit from the investee company, and the promoters do not intend to list its shares in the secondary market, the venture capitalist perceives growth of the company over 3 to 5 years and expects to earn capital gain at a much shorter duration.
- iii) **Turn Around:** When a company is operating at a loss after crossing the early stage and entering into commercial production, it may plan to bring about a change in its operations by modernising or expanding its operations, by addition to its existing products or deletion of the loss-making products, by reorganising its staff or undertaking aggressive marketing of its products, etc. For undertaking the above steps for reviving the company, infusion of additional capital is needed. The funds provided by the venture capitalist for this purpose are called turn

around financing. In most of the cases, the venture capitalist which supported the project at an early stage may provide turnaround finance, as a new venture capitalist may not be interested to invest his funds at this stage.

Turn around financing is more risky proposition. Hence the venture capitalist has to judge in greater depths the prospects of the enterprise to become viable and profitable. Generally substantial investment is required for this form of financing.

Besides providing finance, the venture capitalist also provides management support to the entrepreneur by nominating its own directors on the Board of the company to effectively monitor the progress of recovery of the company and to ensure timely implementation of the necessary measures.

- iv) **Buyout Deals:** A venture capitalist may also provide finance for buyout deals. A management buyout means that the shares (and management) of one set of shareholders, who are passive shareholders, are purchased by another set of shareholders who are actively involved in the operations of the organisation. The latter group of shareholders buyout the shares from the inactive shareholders so that they derive the full benefit from the efforts made by them towards managing the enterprise. Such shareholders may need funds for buying the shares, venture capitalist provide them with such funds. This form of financing is called buyout financing.

18.4 MODES OF FINANCING

The venture capital funds provide finance to venture capital undertakings through different modes/instruments which are traditionally divided into: (i) equity, and (ii) debt instruments. Investment is also made partly by way of equity and partly as debt. The VCFs select the instrument of finance taking into account the stage of financing, the degree of risk involved and the nature of finance required. These instruments are detailed below:

- a) **Equity Instruments:** Equity instruments are ownership instruments and bestow the rights of the owner on the investor/VCFs. They are:
- i) **Ordinary Shares** on which no dividend is assured. Non-voting equity shares may also be issued, which carry a little higher dividend, but no voting rights are enjoyed by the investors. There may be different variants of equity shares also, e.g. deferred equity shares on which the ordinary shares rights are deferred till a certain period or happening of an event. Moreover, preferred ordinary shares carry an additional fixed income.
 - ii) **Preference Shares** carry an assured dividend at a specified rate. Preference shares may be cumulative/non-cumulative, participating preference shares which provide for an additional dividend, after payment of dividend to equity shareholders. Convertible preference shares are exchangeable with the equity shares after a specified period of time.

Thus, the venture capital fund can select the instrument with flexibility.

- b) **Debt Instruments:** VCFs prefer debt instruments to ensure a return in the earlier years of financing when the equity shares do not give any return. The debt instruments are of various types, as explained below:

- i) **Conditional Loans:** On conditional loans, no interest rate as lower rate of interest and no payment period is prescribed. The VC funds, recover their funds, along with the return thereon by way of a share in the sales of the undertaking for a specified period of time. This percentage is pre-determined by VCFs. The recovery by the VCFs depends upon the success of the business enterprise. Hence, such loans are termed as 'conditional loans'.

- ii) **Convertible Loans:** Sometimes loans are provided with the stipulation that they may be converted into equity at a later stage at the option of the lender or as agreed upon between the two parties.
- iii) **Conventional Loans:** These loans are the usual term loans carrying a specified rate of interest and are repayable in instalments over a number of years.

18.5 EXIT ROUTES

The venture capital company/fund after financing a venture capital undertaking nurtures it to make it a successful proposition, but it does not intend to retain its investment therein forever. As the venture capital undertaking starts its commercial operations and reaches the profit-earning stage, the venture capitalist endeavours to disinvest its investments in the company at the earliest. The primary aim of the venture capitalist happens to realize appreciation in the value of the shares held by him and thereafter to finance another venture capital undertaking. This is called the exit route. There are several alternatives before venture capitalist to exit from an investee company, as stated below:

- i) **Initial Public Offering:** When the shares of the investee company are listed on the stock exchange(s) and are quoted at a premium, the venture capitalist offers his holdings for public sale through public issue.
- ii) **Buy back of Shares by the Promoters:** In terms of the agreement entered into with the investee company, promoters of the company are given the first opportunity to buy back the shares held by the venture capitalist, at the prevailing market price. In case they refuse to do so, other alternatives are resorted to by the venture capitalist.
- iii) **Sale of Enterprise to another Company:** Venture capitalist can recover his investments in the investee company by selling the holdings to outsider who is interested in buying the entire enterprise from the entrepreneur.
- iv) **Sale to New Venture Capitalist:** A venture capitalist can sell his equity holdings in the enterprise to a new venture capital company, who might be interested in buying the ownership portion of the venture capital. Such sale may be distress sale by the venture capitalist to realise the investments and exit from the enterprise. Alternatively, such sale may be for inducting a willing venture capitalist who wishes to take the existing liability in the company to provide second round of funding.
- v) **Self-liquidating Process:** In case of debt financing by the venture capitalist, the process is self-liquidating in nature, as the principal amount, along with interest is realised in instalments over a specified period of time.
- vi) **Liquidation of the Investee Company:** If the investee company does not become profitable and successful and incurs losses, the venture capitalist resorts to recover his investment by negotiation or settlement with the entrepreneur. Failing which the recovery is resorted to by means of winding up of the enterprise through the court.

Activity 1

- 1) List out the characteristics of Venture Capital.
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- 2) List out the various forms of early stage financing.

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18.6 REGULATORY FRAMEWORK

The venture capital funds and venture capital companies in India were regulated by the Guidelines issued by the Controller of Capital Issues, Government of India, in 1988. In 1995, Securities and Exchange Board of India Act was amended which empowered SEBI to register and regulate the Venture Capital Funds in India. Subsequently, in December, 1996 SEBI issued its regulations in this regard. These regulation replaced the Government Guidelines issued earlier. The SEBI guidelines, as amended in 2000, are as follows:

1) Definitions

A Venture Capital Fund has been defined to mean a fund established in the form of a trust or a company including a body corporate and registered with SEBI which—

- i) has a dedicated pool of capital, raised in the specified manner, and
- ii) invests in venture capital undertakings in accordance with these regulations.

A Venture Capital Fund may be set up either as a trust or as a company. The purpose of raising funds should be to invest in Venture Capital Undertakings in the specified manner.

A Venture Capital Undertaking means a domestic company –

- i) whose shares are not listed on a recognised stock exchange in India, and
- ii) which is engaged in the business for providing services, production or manufacture of articles or things and does not include such activities or sectors which have been included in the negative list by the Board.

The negative list of activities includes real estate, non-banking financial services, gold financing, activities not permitted under Government's Industrial Policy and any other activity specified by the Board.

2) Registration of Venture Capital Funds

A venture capital fund may be set up either by a company or by a trust. SEBI is empowered to grant a certification of registration to the fund on an application made to it. The applicant company or trust must fulfil the following conditions:

- i) The memorandum of association of the company must specify, as its main objective, the carrying of the activity of a venture capital fund.
- ii) It is prohibited by its memorandum of association and Articles of Association from making an invitation to the public to subscribe to its securities.
- iii) Its director, or principal officer or employee is not involved in any litigation connected with the securities market.
- iv) Its director, principal officer or employee has not been at any time convicted of an offence involving moral turpitude or any economic offence.
- v) The applicant is a fit and proper person.

In case an application has been made by a Trust, the instrument of Trust must be in the form of a Deed and the same must have been duly registered under the Indian Registration Act, 1908. It must also comply with the above-mentioned conditions (ii) to (v).

On receipt of the Certificate of Registration, it shall be binding on the venture capital fund to abide by the provisions of SEBI Act and these Regulations. Venture Capital Fund shall not carry on any other activity than that of a Venture Capital Fund.

3) Resources for Venture Capital Fund

A Venture Capital Fund may raise moneys from any investor – India, foreign or non Resident Indian – by way of issue of units, provided the minimum amount accepted from an investor is Rs. 5 lakh. This restriction does not apply to the employees, principal officer or directors of the venture capital fund, or non-Resident Indians or persons or institutions of Indian Origin. It is essential that the venture capital fund shall not issue any document or advertisement inviting offers from the public for subscription to its securities/units.

Moreover, each scheme launched or fund set up by a venture capital fund shall have firm commitment from the investors to contribute at least Rs. 5 crore before the start of its operations.

4) Investment Restrictions

While making investments, the venture capital fund shall be subject to the following conditions:

- a) A Venture Capital Fund shall disclose the investment strategy at the time of application for registration.
- b) A Venture Capital Fund shall not invest more than 25% of its corpus in one venture capital undertaking.
- c) It shall not invest in the associated companies.
- d) It shall make investment in the venture capital undertakings as follows:
 - i) at least 75% of the investible funds shall be invested in unlisted equity shares or equity-linked instruments (i.e., instruments convertible into equity shares or share warrants, preference shares, debentures compulsorily convertible into equity),
 - ii) not more than 25% of the investible funds may be invested by way of
 - a) subscription to initial public offer of a venture capital undertaking whose shares are proposed to be listed, subject to a lock in period of one year.
 - b) debt or debt instruments of a venture capital undertaking in which the venture capital fund has already made investment by way of equity.

5) Prohibition on Listing

The securities or units issued by a venture capital fund shall not be entitled to be listed on any recognised stock exchange till the expiry of 3 years from the date of issuance of such securities or units.

6) Private Placement of Securities/Units

A venture capital fund may receive moneys for investment in the venture capital undertakings only through private placement of its securities/units. For this purpose the venture capital fund/company shall issue a placement memorandum which shall contain details of the terms subject to which moneys are proposed to be raised. Alternatively, it shall enter into contribution or subscription agreement with the investors, which shall specify the terms and conditions for raising money.

The venture capital fund shall also file with SEBI a copy of the above memorandum/ agreement together with a report on money actually collected from the investors.

7) **Winding up of Venture Capital Fund Scheme**

A Scheme of a Venture Capital Fund set up as a Trust shall be wound up, in any of the following circumstances, namely:

- i) when the period of the scheme, if any is over or
- ii) if the trustees are of the opinion that the winding up shall be in the interest of the investors, or
- iii) 75% of the investors in the scheme pass a resolution for the winding up, or
- iv) SEBI so directs in the interest of investors.

A Venture Capital Company shall be wound up in accordance with the provisions of the Companies Act.

8) **Powers of the Securities and Exchange Board of India**

SEBI has the following powers:

- a) to appoint inspecting/investigating officers to undertake inspection/investigation of the books of accounts, records and documents of Venture Capital Fund.
- b) to suspend the certificate granted to a Venture Capital Fund if it contravenes any provisions of the SEBI Act or these guidelines or fails or defaults in submitting any information as required by SEBI or submits false/misleading information, etc.
- c) to cancel the certificate in the following cases:
 - i) Venture capital fund is guilty of fraud or has been convicted of an offence involving moral turpitude.
 - ii) Venture capital fund has been guilty of repeated defaults mentioned in (b) above.
 - iii) Venture capital fund contravenes any of the provisions of the Act or the Regulations.

18.7 SEBI FOREIGN VENTURE CAPITAL INVESTORS REGULATIONS, 2000

Investments in Venture Capital Funds or Venture Capital Undertakings in India can also be made by foreign venture capital investors, incorporated outside India. To regulate such investors, SEBI issued the above mentioned Regulations in the year 2000. The salient features of these regulations are as follows:

Registration

A foreign venture capital investor (FVCI) must be registered with SEBI after fulfilling the following eligibility conditions and on payment of application fee of US \$1000:

- 1) Its track record, professional competence, financial soundness, experience, reputation of fairness and integrity.
- 2) RBI has granted approval of investing in India
- 3) It is an investment company, trust, partnership, pension or mutual or endowment fund, charitable institution or any other entity incorporated outside India.
- 4) It is an asset/investment management company, investment manager or any other investment vehicle incorporated outside India.

- 5) It is authorised to invest in Venture Capital Fund or to carry on activity as Venture Capital Fund.
- 6) It is regulated by an appropriate foreign regulatory authority or is an income tax payer. Otherwise, it submits a certificate from its bankers about its promoters' track record.
- 7) It is a fit and proper person.

SEBI will grant the Certificate of Registration on receipt of the registration fee of US \$10,000 on the following conditions:

- a) it would appoint a domestic custodian for the custody of securities.
- b) to enter into an agreement with any bank to act as its banker for operating a special non-resident rupee/foreign currency account.

Investment Criteria

FVCIs must disclose their investment strategy to SEBI. They are permitted to invest their total funds committed in one venture capital funds, but for investing in venture capital undertakings they have to follow the norms as prescribed by SEBI domestic VCFs.

Powers of SEBI

SEBI has the following powers as regards FVCIs:

- i) Power to conduct inspection/investigation in respect of conduct and affairs of FVCIs.
- ii) Power to issue directions in the interest of the capital market and investors.
- iii) Power to suspend or cancel registration.
- iv) Power to call for any information.

18.8 TAX EXEMPTIONS

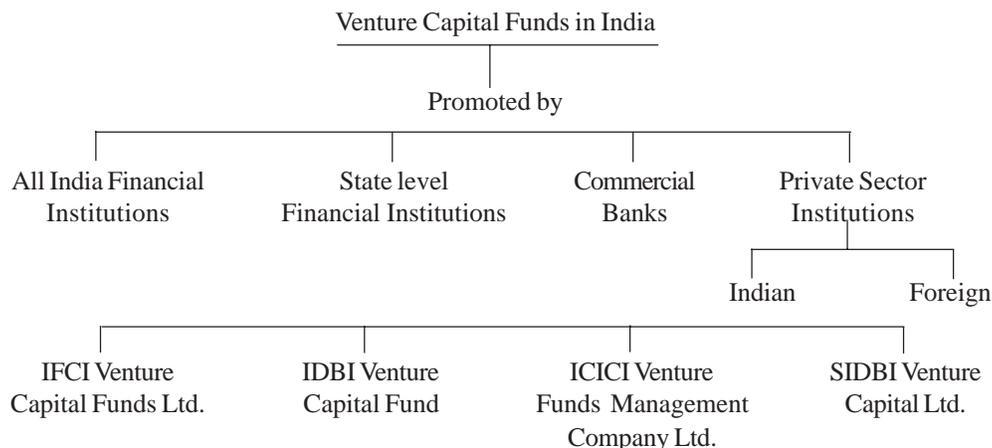
Clause 23F was inserted in Section 10 of the Income Tax Act in the year 1995 to exempt income by way of dividends or long term capital gains of a venture capital fund/company, derived from investments in equity shares of venture capital undertakings, subject to fulfilment of certain conditions.

Since the financial year 2000-01 under clause 23FB the entire income of venture capital funds has been granted exemption from taxation as these incomes merely pass through the dividends to investors. Hence, from the assessment year 2001-02 any income of venture capital fund/company has been exempted. Such exemption' continues even after the shares of venture capital undertaking are listed on a recognised stock exchange. Income distributed by the venture capital funds will be taxed in the hands of the investors at rates applicable to them.

Services sector has also been included under the venture capital functions.

18.9 VENTURE CAPITAL FUNDS IN INDIA

Venture capital funds are comparatively of recent origin in India. As new technological developments and growth of entrepreneurship have started in India during the last two/three decades, a number of venture capital funds have been set up in India. These funds have been promoted by institutions at the national and state levels, banks and private sector individuals, as shown in the following chart



In 2003 there were 43 domestic venture capital funds and 6 foreign capital funds registered with SEBI.

Amongst the Commercial Banks, ANZ Grindlays Bank set up the first private sector venture capital fund, namely; India Investment Fund with an initial capital of Rs. 10 crore subscribed by Non-Resident Indians. Amongst the Indian banks, the subsidiaries of State Bank of India and Canara Bank have floated venture capital funds.

Gujarat Venture Capital Finance Ltd., set up by Gujarat Industrial and Investment Corporation Ltd. in association with the World Bank, is a pioneer venture capital firm in India. Its investors include the World Bank, Gujarat Industrial and Investment Corporation, Industrial Development Bank of India, CDC (UK) SIDBI and other private and public sector organisations. Currently, it is managing four funds.

IL&FS Venture Corporation Ltd. is a fund management company. It is a subsidiary of Infrastructure Leasing and Financial Services Ltd. set up jointly with Bank of India and multilateral development agencies. It was earlier known as Credit Capital Venture Fund (India) Ltd. At present the company is managing 7 domestic venture capital funds.

IFB Venture Capital Finance Ltd: This company has been promoted by IFB Industries Ltd. jointly with IDBI and ICICI.

IFCI Venture Capital Funds Ltd. (IVCF): In 1975, the IFCI Ltd. established 'Risk Capital Foundation' as a society to provide risk capital assistance in the form of soft loans to professionals and technocrats setting up their own industrial ventures. In 1988, this society was converted into a company named Risk Capital and Technology Finance Corporation Ltd. primarily to provide direct equity to the companies (instead of providing soft loans to promoters). It introduced Technology Finance and Development Scheme in 1988 to provide finance for improvement of technology. Subsequently, it took up the management of a venture fund to provide finance for innovative projects. The earlier two schemes were discontinued and its entire focus was laid on management of venture capital. The company is now known as IFCI Venture Capital Funds Ltd.

Venture Capital Fund of IDBI

IDBI has constituted a Venture Capital Fund with the objective to encourage commercial application of indigenous technologies or adoption of imported technologies, development of innovative products and services, holding substantial potential for growth and bankable ventures involving higher risk including those in the Information Technology sector.

All industrial concerns are eligible under the scheme. The main criteria for granting assistance is high growth prospects, potential for capital appreciation and clear-cut exit route within 3 to 5 years. IDBI excludes mature industries, commodity-type products and highly competitive sectors.

Assistance is provided in the form of equity, term loans and convertible debt with ceiling of 80% of the project cost. IDBI's exposure is restricted to Rs. 20 crore in each venture, though there is no upper limit on the cost of the venture. Promoter's contribution should be 20% of the cost of the project. Repayment period may be upto 5 years after initial moratorium of one to one and a half year IDBI charges up-front fee @ 1.05% of term loan and a front-end fee @ 2.6% on direct subscription to equity.

IDBI secures its assistance by first mortgage/charge on the fixed assets and by personal guarantees from promoters or by way of pledge of shares by promoters.

The venture capital fund of IDBI stood at Rs. 179 crore as on March 31, 2003.

ICICI Venture Funds Management Company Ltd.

This company is a wholly owned subsidiary of ICICI Bank Ltd. It provides assistance to small and medium industries promoted by technocrat entrepreneurs in the form of: (i) project loans, (ii) direct subscription to equity, and (iii) conditional loans.

The company provides venture capital assistance to a wide spectrum of industrial sectors. It extends assistance primarily through the venture funds and Private Equity Funds managed/advised by it. As on March 31, 2001 the company managed/advised eleven funds with an aggregate corpus of Rs. 9.06 billion with an investment focus both in Indian and global companies.

As the manager of these funds, the company is entitled to annual management fee and a performance fee which depends on the payouts to the fund investors. The accounts of these funds are maintained separately and do not form part of the company's accounts. In respect of private equity funds advised by the company it is entitled to an advisory fee. All fees are recognised as revenue of the company on accrual basis. Venture funding does not form part of the company's business on its own account, but out of the funds managed by it.

This company retains its position as the most significant institution in the Indian Private Equity Industry. It was one of the earliest to recognise the value of investing in knowledge based sectors like information technology and bio-technology. As at the end of March 2004 its paid up Capital was Rs. 31.3 million, Reserves Rs. 381 million and total assets Rs. 530.8 million and total liabilities Rs. 118.5 million.

SIDBI Venture Capital Limited

SIDBI Venture Capital Ltd. is a subsidiary of Small Industries Development Bank of India (SIDBI), which was established to carry out the business of setting up and managing venture capital funds in the small scale sector. This company has been acting as the Investment Manager to National Venture Fund for Software and Information Technology Industry (NFSIT). SIDBI Trustee Company Ltd., another subsidiary of SIDBI acts as Trustee company for the Fund.

NFSIT is a 10 year close-ended venture capital fund with a committed corpus of Rs. 100 crore. This fund has been contributed by SIDBI, IDBI and Ministry of Communications and Information Technology, Government of India. Investments by the Fund include Info-tech sector, software industry and related businesses, such as networking, multimedia, data communication, value-added telecommunication services and/or any other related sectors.

The Fund has raised an amount of Rs. 66.67 crore till 2002-03 from the contributors out of a committed corpus of Rs. 100 crore. Its cumulative sanctions aggregated Rs. 54.89 crore to 24 companies and cumulative disbursements till 2002-03 aggregated Rs. 30.09 crore to 17 companies. Slow growth in sanctions and disbursements was due to cautious approach followed by the fund on account of depressed market conditions. However, to spread risk, the company has created a diversified portfolio to cover a wide area of IT industries.

18.10 SUMMARY

In this unit we have explained the meaning and distinguishing features of Venture Capital. It has been rightly designated as “high risk, high reward” capital. Venture Capital is provided to venture capital undertakings at different stages of their life cycle, which have been duly explained. Venture capital takes the form of equity, conventional loans, conditional loans and convertible loans. A venture capitalist divest his investments in the investee company at the earliest possible opportunity. There are several exit routes for him, which we have explained.

In India, Venture Capital Funds/Companies are of recent origin and are regulated by Securities and Exchange Board of India (SEBI). SEBI has issued detailed regulations for this purpose, which have been explained in detail. Similarly, SEBI has also issued regulations for Foreign Venture Capital Investors. Incomes of Venture Capital Funds/Companies have been granted exemption from taxation under the Income Tax Act. In the end, the Venture Capital Funds/Companies established in India by all India Financial Undertakings have been described. Besides, there are a number of venture capital funds set up by other institutions and Indian and foreign investors.

18.11 SELF ASSESSMENT QUESTIONS

- 1) What do you understand by Venture Capital? Describe its distinguishing features.
- 2) Explain the various stages at which the venture capitalist provide finance.
- 3) Distinguish between conditional loans and convertible loans and explain their significance.
- 4) What do you understand by Exit Routes? Enumerate the important exit routes and explain the important ones.
- 5) What are Investment Restrictions imposed by SEBI on venture capital funds in India.
- 6) Explain the provision of Income Tax Act, granting tax concessions to venture capital funds in India.

18.12 FURTHER READINGS

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