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A Study on Growth and Venture Capital Financing in India

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Abstract: Starting a business is a challenging endeavour. An entrepreneur needs to deal with a lot of changes. The first funding needed for a company endeavour has always presented a greater difficulty for the companies. Venture capital has historically been a major source of funding for new businesses. Venture capital is money given to new businesses with the hope of helping them grow over time and in the long run because of their special business strategy. Investment in companies that require equity capital allows venture capitalists and venture capital funds to generate revenue. Venture capital funds will recognize these companies and offer expansion and financial support to ensure the business is executed successfully. Venture capital is becoming one of the most important resources for newly founded, creative businesses. It is associated to an increased risk factor. The paper explains how to comprehend the venture capital phenomenon in India.

Keywords: Venture Capital, growth, Challenges by Venture Capital

I. Introduction:

India has experienced significant growth in its startup ecosystem over the past decade. The country has witnessed a surge in entrepreneurial activities across various sectors, including technology, e-commerce, healthcare, fintech, and more. This growth has been fueled by a combination of factors, such as a large and young population, increasing internet penetration, and supportive government initiatives

Venture capital is vital for financial intermediary, different form traditional forms of finance. Conventional funding sources such as bank loans, bets, and collateral typically do not lend money for initiatives that carry a high risk. Instead of using debt, venture capital offers financial support through equity and equity-linked investments by sharing in risk and profits. In addition to financial backing, venture capital offers entrepreneurs hands-on assistance with their business endeavours.

The venture capital private equity financing that companies offer to small and new businesses is venture capital. In return for equity and a share in the businesses, venture capital firms or funds invest in these start-ups. Venture capitalists assume the risk of providing funding to high-risk entrepreneurs in the hopes that some of the businesses they assist will succeed. The primary focus of startup businesses is on cutting-edge technology or alternative business models, like social media and information technology.

Venture capital is a provision of risk bearing capital in the form of participation equity for growth of companies. The venture capital provides some value added in the form of management advice and contribution to overall strategy. The high risks for the venture capitalists are compensated by the possibility of high return through capital gains in the medium terms.

- **Venture capital in India**

Venture capital plays a crucial role in financing and supporting the growth of startups. In India, Venture Capital funding has been a major source of capital for emerging companies. Venture Capital firms, both domestic and international, actively invest in Indian startups, contributing to the expansion of the ecosystem.

II. Review of Literature:

Yuk-Shee Chan (2020) assesses the role of venture capital as a financial intermediary. According to the developed theory of financial intermediation, venture capitalist acts as informed agents with imperfect information in a market. Entrepreneurs are the well informed about the qualitative prospects about the project. Entrepreneurs try to push the ventures with lesser prospects of survival and profitability. This forms a hindrance for the venture capital investments as it leads undesirable allocation of funds in low return projects.

Kishan Kumar Shetty (2018) made a comparative study of impact of venture capital financing in fostering startups across India, USA and China. The impact found to be comparatively lesser in India than in USA and China. However, the momentous growth in investment is evident consumer technology sector. Larger network, positive cash flows from promising ventures and raising innovations forms the forte for venture capital financing in India

Vaishali Pagaria (2017) brings in the conceptual insights of venture capital financing. Venture capital is considered as alternative source of financing for potential new generation ventures in India. The study states that Venture capital as risk financing which provides financial assistance to high growth potential and innovative business with risk. This characteristic differentiates venture capital from traditional sources of finances.

K. Sharma and Smita Tripathi (2016) assessed the stages of venture capital investments in infrastructure sector. The results indicated that 64% of total venture capital in the sector was made in the first round. However, the venture capital investments in the second round attributed only 23.1%. The drastic decrease in the venture capital investments in subsequent rounds is evident. The rationale could be failure of venture backed firms to reach the milestone to earn the subsequent funding from venture capital investors. The venture capital investments in infrastructure sector are made mostly in established firms rather than starts-ups.

B**. Raghupathy and A. Thillairajan (2015**) studies the performance of Venture capital backed IPO and Non venture capital backed IPO in India. The results infer that the average performance of venture capital backed IPO stood higher in terms of profitability, size, and growth rates. The results confirm that the selection of private equity is of superior standards.

III. Need of the study:

In India, the mindset of the entrepreneur is shifting from a risk-averse business to an investment-averse business. Investing in new ideas entails high risk. Investing in venture capital is a process of decision-making. Venture capital is also designed to minimize the risk of bad selection. Therefore, it is necessary to identify the usage of venture capital to assess the flow of investment in India. Venture capital will turn out to be a great help for the young entrepreneur.

IV. Scope of the study:

The purpose of this quantitative study is to capture the risk capital investment criteria as well as the growth of the venture capital flow in the country. The focus of the study was on the volume of venture capital and the deals that affect the venture capital in the country. For the purpose of the study, the various sectors were chosen to understand the venture capital investments in India.

Objective of the study:

1. To analyze the expansion of venture capital investments in India,
2. To study the overall state of venture capital funding in India.
3. To study the current sector-specific financing of venture capital in India.

V. Research methodology:

The research paper is based on secondary data from the current year. Data was collected from various sources like risk analysis, SEBI website, research articles and journals, articles related to relevant websites.

Tools of Analysis:

The data collected for the study were logically and meaningfully analyzed to draw conclusions. Statistical tools used in data analysis are percentage, mean, line graphs, analysis of variance, correlation coefficient, least square analysis etc.

Hypothesis

Ho1: There is no significant difference in the value of venture capital funds and foreign venture capital across sectors.

Ho2: There is no statistical association between the value of venture capital and the volume of business.

VI. Data Analysis:

Table - 1

Sector-wise cumulative investment data for SEBI-registered Venture Capital Funds (VCFs) and Foreign Equity Investors (FVCIs).

Particular	September 30,2023(Rs in crore)

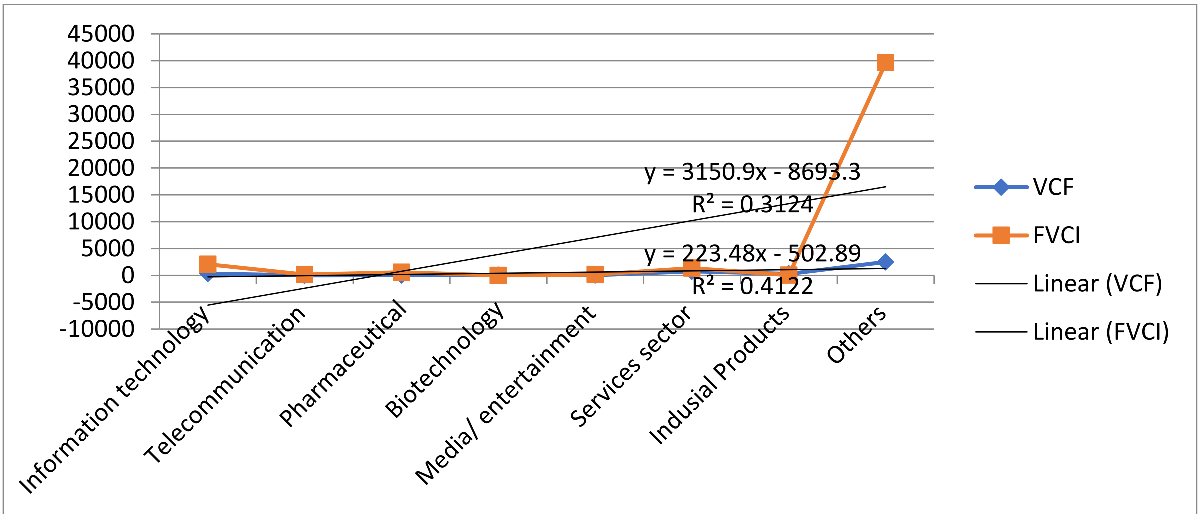
Sector of economy	VCF	%VCF	FVCI	% FVCI	Total
Information technology	364	9.05	2072	4.72	2436
Telecommunication	3	0.07	133	0.303	136
Pharmaceutical	9	0.22	555	1.26	564
Biotechnology	45	1.11	-	-	45
Media/ entertainment	12	0.29	175	0.39	187
Services sector	780	19.39	1326	3.02	2106
Indusial Products	304	7.56	12	0.02	316
Others	2505	62.29	39614	90.26	42119
Total	4021	100	43888	100	47910

Source: SEBI Website

Interpretation: Table 1 shows that the cumulative investments of SEBI-registered VCs and foreign private investors in various sectors are shown in absolute terms and as a percentage of the total investment. The investment of VCF in the economy through information technology is 364 million rubbles, and that of FVCF is 2072 rubbles, and its share of the total contribution is 9,05 % and 4,72 %, respectively. The telecommunications sector invested 3 million and FVCF 133 million, which accounted for 0,07% and 0,03% of the total. Investment in pharmaceuticals is 9 million, and FVCF is 555 million, accounting for 0.22% and 1.26% of the total. In Biotechnology, the investment size is Rs 45 million and the FVCF is Rs 0.00, and its share of the total share is 1.11 % and 0.00%, respectively. Media and entertainment sector investment volume is 12 million, and FVCF is 175 million, and its share is 0.29% and 0.39% of the total. The service sector invests 780 million Rupees and FVCF 1326 million, and its share of the total share is 19.39% and 3.02%, respectively. The investment in the industrial production sector is 304 million, and FVCF is 12 million, and its share in the total is 7,56% and 0,04%, respectively, while VCF 2505 and FVCF 39614 million have shares of 62.29 and 90.26, respectively.

Chart: - 1

Venture Capital Funds (VCFs) and Foreign Equity Investors (FVCIs).



Source: compliance of author

ANOVA Table						
Source of Variation	SS	d.f	MS	F	P-value	F crit
Between Groups	748971949.9	7	106995992.85	1.239884	0.381673	3.500464
Within Groups	690361067.5	8	86295133.44			
Total	1439333017	15				

Source: compliance of author

Interpretation: Based on the data in Table 1.1 above, it can be shown that the P-value is 0.381673 and the F-critical value for the volume and venture capital deals of the various industries is 3.500464. The study shows that, at a 5% significance level, the p-value is greater than 0.05 and that the number of venture capital and deal capital funds invested in various sectors does not significantly differ from one another.

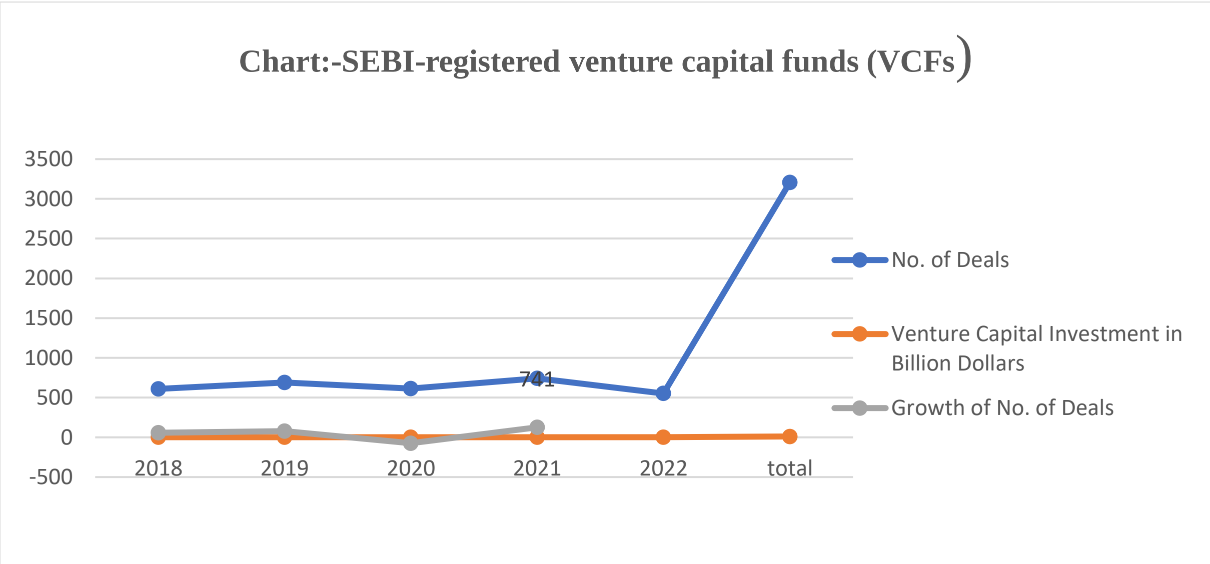
Table: -2

The quantity of transactions and investment information for SEBI-registered venture capital funds (VCFs)

Year	No. of Deals	% No. of Deals	Venture Capital Investment in Billion Dollars	% of Venture Capital Investment in Billion Dollars	Growth of No. of Deals	Growth of Venture capital investment
2018	610	19%	2	18%	59	0.5
2019	689	21%	2.5	23%	79	0.5
2020	615	19%	1.9	17%	-74	-0.6
2021	741	23%	3.1	28%	126	1.2
2022	551	17%	1.5	14%	-	-
Total	3206	100%	11	100%		

Source: SEBI Website

Interpretation: The data shown in Table 2 above indicates that there were 551 venture capital deals in 2021 compared to 741 in 2021. The value of venture capital deals climbed from $1.5 in 2017 to $3.1 in 2021 during the same time period. The following is the correlation analysis between deal value ($mn) and volume of no. of deals. The number of trades climbed from 59 to 126 throughout the chosen time, and in 2020, it is negative. The venture capital investment growth throughout the chosen time is between 0.5 and 1.2, and it is negative in 2021.



Relationship between Venture capital value and No of Deal

	VCF	FVCI
VCF	1	
FVCI	0.958143	1

Interpretation: Based on the data in Table 2.1 above, it can be shown that, at the 5% significant level, there is a significant association between the number of transactions and deal value, with a strong and positive correlation of r = 0.958143. This suggests that the person correlation was employed to test the hypothesis. As a result, during the study period, there was a positive correlation between the number of trades and their value. Charts 1 and 2 display the venture capital investment and number of deals trend lines. The trend equation indicates that the fitted trend line is highly affecting venture capital investment in billions of dollars (y = 0.31x+1.27 and R2 =0.6322 (63.22%), and y = 38.5x+525.7 and R2 =0.6725 (67.25%)).

VII. Conclusion and Suggestions:

Venture capital in India has grown significantly and prepared entrepreneurial ventures to explore untapped opportunities. Backed by venture capital, Entrepreneurial Ventures has set a new benchmark for future entrepreneurs. India is one of the countries that has become a global startup hub. Capital investments are based on development and a desire to share commercial rights. What is clear is that they are looking to increase the number of venture capital deals and investments. The results show and conclude that venture capital is necessary in the industry. Capital investments have high risk and high return. Capital investments Favour practical companies. The goal of a private equity investor is to get a good return with a reasonable investment choice. The survey shows that the IT sector and the pharmaceutical industry are the most important venture capital investments. Capital investments support business growth. It was found to be highly concentrated in some areas. The government should encourage and tax venture capital investments in key sectors such as agriculture, construction, and transport to support the country and economic growth. The government should consider this part of business development and inform young potential entrepreneurs. The monitoring policy of the government and venture capital investors would support business security. Venture capital in India has grown significantly and prepared entrepreneurial ventures to explore untapped opportunities. The vigorous policy of the government and venture capital investors would support business security.

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