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A STUDY ON VENTURE CAPITAL FINANCE IN INDIA

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ABSTRACT

This study aims to provide a comprehensive understanding of the variables that impact investment decisions and how they impact innovation and economic development by delving into the details of India's venture capital ecosystem. The initial step of the study's multi-stage development is an exhaustive literature investigation on venture capital in India. Following this, it examines investment patterns across time, preferences within industries, and regional variations. The report also explores the challenges entrepreneurs face when seeking venture capital, drawing attention to the need for legal frameworks and government initiatives to foster an environment conducive to entrepreneurial growth. These examples provide valuable insights into the factors that affect venture capital's success or failure and enrich the academic and practical discussion of venture capital funding. In order to better inform entrepreneurs, investors, and legislators in India, this report provides actionable suggestions for enhancing the country's venture capital ecosystem.

I – INTRODUCTION

Venture capital firms provide more than just financial backing; they also bring a wealth of industry expertise, personal contacts, and information. Angel investors, like those in equity financing, use their own money rather than that of a Venture capital firm or other institutional fund.

An estimated £1.5 billion is invested in the UK each year by angels. Angel investors, in contrast to traditional Venture capital firms, often spend less money but at an earlier stage in a company's growth. Collaboration between angel investors and Venture capital companies, nevertheless, is far from unusual.

A network of angel investors and VCs known as a "innovation eco-system" provides seed money and expert guidance to fledgling businesses.

The right amount of Venture capital to spend depends on a company's current stage of growth. The BVCA outlines the following procedures for Venture capital investments:
Startups may get their ideas off the ground with the help of seed money, which allows them to build a business plan, make prototypes, and conduct more research before releasing their product to the public and beginning mass production.

Businesses are provided with start-up funding so that they may launch their goods and conduct first marketing. While some businesses are still in the planning stages, others have not yet made their product available to the public.

For businesses that have completed product development but are in need of funding to begin commercial manufacturing and sales, there are alternative early stage financing options available.

- They probably aren't earning any money right now.
- Investment money for companies that are nearing the end of their life cycle, when their growth rates are slower compared to when they were just starting out. Although there is no assurance, these companies have a better chance of success now than they had during their initial stages of expansion.
- Capital, often known as "development" or "growth" capital, provided to a running, profitable firm with the express purpose of fostering further expansion and growth.
- Money may be used to fund a variety of related initiatives, such as increasing operational capital, expanding production capacity, developing new products or markets, and so on.

Although they may not be making a profit at the moment, Venture capital will invest in fledgling companies that provide a groundbreaking product or service and have the potential for rapid growth. Venture capital investments are sought after by firms for a variety of reasons. The company's growth, the addition of new employees, enhanced product development, and increased production and sales are just a few of the reasons. Numerous globally recognized companies may trace their early financial support to Venture capital. Companies like Wise, Moonpig, and Skyscanner, headquartered in the UK, and Google, Facebook, and Skype, based in other parts of the globe, all fall into this category since they all received early investment from Venture capital firms.
It is fairly uncommon for Venture capitalists to buy minority interests in businesses, often with other investors.

The multiple fundraising rounds that early-stage enterprises go through are often referred to as Series A, B, C, etc. Existing investors or potential new investors may provide more capital to these rounds. Many new businesses get seed

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funding from angel investors, crowdsourcing, grants, incubators, or even close friends and family before they secure Series A funding

All of these things come together to form what is known as the "innovation eco-system," a web of investors and mentors that assists new and growing companies at different stages of their journey. Typically, investments made by Venture capital companies are held for a period of five to seven years. The next step may be a stock market sale, an acquisition by a multinational corporation, or an investment by a private equity group, among other options. A private equity investment is an equity investment that is not traded on a public exchange, such as the NYSE. Institutional and individual investors typically pool their funds into private equity through limited partnership agreements. These agreements allow investors to spread their bets across various Venture capital projects while keeping their initial investment safe from legal action.

II – RESEARCH GAP

Considering the ever-changing startup ecosystem and economic environment of India, there are a number of information gaps in the existing literature about the function of Venture capital (VC) in the nation. inquire into the role of Venture money in encouraging innovation in the startup ecosystem in India. Research in this area might look at things like the most heavily funded sectors and technologies, how Venture capital ties into product innovation, and how companies supported by VCs drive technical progress and competitiveness. Disparities in Venture capital funding and startup activity between Indian states and cities should be investigated. Discover which areas are better suited for Venture capital investment by analyzing criteria including regulatory climate, local market dynamics, accessibility to finance, talent and infrastructure.

III – OBJECTIVES OF THE STUDY

- To know about the Venture Capital Finances in India
- To study about how Venture Capital Ecosystem works
- To identify the variables that impact Venture Capital Investment Choices
- To analyze the impact of Venture capital funding on Start-up in India

IV – RESEARCH METHODOLOGY

If the research technique is well-structured, then the study's findings will be credible and valid, and the research process will be transparent. Research must be well-structured and explained for it to be trustworthy and contribute to the field of study, whether it be academic or practical.

Data is gathered from Primary Source and Secondary Source.
Primary Source Data: Primary data consists of information gathered directly from people, such as via surveys and personal observations. The structured questionnaire is used to gather data in this research.

Research Design: Exploratory Design
Sampling Technique: Convenience Sampling
Sampling Procedure: Simple Random Sampling
Sample Size: 198
Tool for Analysis: Chi Square Test

Secondary Source of Data; Researchers can't do without secondary data, which provides a wealth of information that may either complement primary data or serve as the basis for specific studies due to its richness. Assessing the quality, relevance, and applicability of secondary data is essential for researchers to ensure it is suitable for their study aims. Books, journals, websites, etc. are the sources from which the data is collected.

V – LIMITATIONS OF THE STUDY

- The major limitations of the study is time factor
- The data collected for the analysis may or may not provide us accurate results to make decisions
- The data collected from the specific region, it may not influence on another region

VI - LITERATURE REVIEW

A Study on Venture Capital Financing and Growth in India by P. Bikoji abd Dr. Rambabu Gopisetti (Feb 2023): Entrepreneurs looking for Venture capital, which invests in digital startups outside of conventional banks, are in for a world of upheaval. Obtaining seed money has always been a major challenge for new companies. For quite some time, Venture capital has been a go-to for startup funding. Venture capital refers to funding that investment firms provide to emerging companies in the hopes that these companies would be successful in the long run thanks to their innovative business methods. Venture capitalists and funds make money by investing in firms and then selling their shares to those companies. The goal of Venture capital companies is to identify potential new businesses and provide financial support to help them get off the ground and run smoothly. Despite the higher level of risk, Venture capital is rapidly becoming a vital resource for innovative new companies. The phenomena of Venture capital in India may be better understood with the help of this study.

A Paradigm Shift in Indian Venture Capital Industry by Komala G, (Oct2014): The Venture capital industry is undergoing rapid change while it is still in its early stages. Investment in new businesses in India has been growing steadily since the '90s. We can only hope that the future holds even greater opportunities if we encourage entrepreneurs to establish novel legal frameworks and economic arrangements. The aims and purposes of Venture capital in India underwent a shift in 2012. This year is shaping up to continue the trend of record-high Venture capital investment in India that began in 2013. Electronic commerce, healthcare delivery, mobile applications, clean technology, financial inclusion, medical device technology, and information technology are among the areas where investors are keeping an eye on new technologies and

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business models. The performance of the Venture capital business over the last fifteen years is examined in this conceptual paper. The researcher has used secondary data for the analysis. This study just covers situations in India.

Venture Capital and Private Equity in India; An analysis of Investments and Exists by Thillai Annamalai and Ashish Deshmukh, (Mar 2011): Venture capital and private equity (VCPE) in India has grown at an exponential rate in the last several years. The Indian industry was the fastest-growing globally between 2004 and 2008, propelling the country to the position of third-most-invested-in globally. However, the academic community has not conducted a great deal of research on the VCPE market in India. To fill a gap in the literature, this paper will focus on recent trends in the Indian VCPE industry. Plan, method, and approach Most studies on VCPE transactions have either focused on investing, monitoring, or leaving, rather than covering the whole investment lifetime. An exhaustive examination of the investment life cycle, from the inception of the VCPE fund's investment until its withdrawal, is the basis of this study. The research included 1,503 businesses that were a part of 1,912 VCPE deals that happened between 2004 and 2008. Findings Near the end of the financing process, most VCPE investments were made, sometimes years after the investee company had already been formed.

Venture Capital Financing in India – A Financial performance evolution study of selected Companies by Prof. Farook Shaikh, (2014): Venture capital is a kind of financial intermediary that may help entrepreneurs get the money they need for new tech-based ideas for expanding, improving, modernizing, or upgrading their businesses. Venture money, which may be in the form of a plain old loan or an equity investment (or perhaps both) in an untested idea, is something that an entrepreneur with the right set of skills and experience might potentially attract. Entrepreneurship may be a path for small and medium-sized enterprises. Using Venture capitalists, investors may spread their money around and put it into a range of companies or even a portfolio. Because of the high level of risk they are prepared to take on, Venture capitalists closely monitor their clients' business models and provide advice on how to improve profitability and ROI.

Analysis of Venture Capital Funding in India by Dimple Khosla, (Jan 2015): One of the most significant trends in the field of entrepreneurship is the exponential growth of Venture capital in the last ten years. It has had far-reaching effects on economies throughout the world, including the development of jobs, novel products and services, increased competitiveness, and a heightened sense of entrepreneurialism. By disseminating and creating the fundamental principles that initiate and sustain economic revival, it has been an impetus behind entrepreneurship. Many different things are done to help the businesses that Venture investors back. A few examples of these methods include: establishing connections, offering legal advice, developing financial systems, marketing strategies, exchanging business viewpoints, fostering an entrepreneurial environment, assisting with long-term planning and strategy, incentivizing cooperation for the long haul, facilitating co-investment, and securing working capital facilities from banks. The lack of support for innovative projects has meant that India's level of development has been all over the map. If India wants to reap the benefits of economic reforms and become more competitive, VC must finally have its crucial role acknowledged.

A Study on Venture Capital Financing for Micro Small & Medium Enterprises (MSME) in India by Prof. B. Vijaya Lakshmi, Dr. K.Tirumalaiah, (Aug 2015): Companies not listed on a stock exchange are the primary recipients of Venture capital (VC) funds. The majority of VC money comes from equity financing, which may be used to buy shares directly or indirectly via mezzanine financing. Three to five years is the usual time frame for a Venture capital investment. A Venture capitalist's dual role as an investor and counselor is to facilitate a company's expansion by means of financial support and the investor's knowledge and experience. Venture capital investments are based on shareholder agreements between investors and their respective companies. The agreement details the fundamentals of the share price from start to finish.

VII – DATA ANALYSIS & INTERPRETATION

Hypothesis – 1
H0: There is No Impact of Age on current level of Knowledge about the Venture Capital Finance
H1: There is a Impact of Age on current level of Knowledge about the Venture Capital Finance

Observed Values

Age / Current Knowledge	VMH	H	M	L	VML	RT
Below 24yrs	17	17	7	8	2	51
25 – 34yrs	21	32	7	1	2	63
35 – 44yrs	12	18	6	2	1	39
45 – 54yrs	4	6	4	1	1	16
Above 55yrs	2	3	3	1	0	9
Column Total	56	76	27	13	6	178

VMH – Very Much High, H – High, M – Medium, L – Low, VML – Very Much Low

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Expected Values

Age / Current Knowledge	VMH	H	M	L	VML	RT
Below 24yrs	16	22	8	4	2	51
25 – 34yrs	20	27	10	5	2	63
35 – 44yrs	12	17	6	3	1	39
45 – 54yrs	5	7	2	1	1	16
Above 55yrs	3	4	1	1	0	9
Column Total	56	76	27	13	6	178

Expected Values = $\frac{CT \times RT}{GT}$

CT = Column Total
RT = Row Total
GT = Grand Total

Chi-Square Value

Chi – Square Test = $\frac{\sum (O\,V - E\,V)^2}{E\,V}$

O V = Observed Values
E V = Expected Values

Degree of Freedom=(R-1)(C-1)=(5-1)(5-1) =4 x 4 =16
Level of Significance at 5% i.e., 0.05

Tabular Value is 26.296
Chi square Value is 17.718

Interpretation

From the above data we can state that, Calculated Chi Square value is less than the Tabular Value (i.e., 17.718 < 26.296). So, we accept the Null Hypothesis i.e.,. There is No Impact of Age on current level of Knowledge about the Venture Capital Finance and Reject the Alternative Hypothesis

Hypothesis – II
H0: There is No Impact of Gender on current level of Knowledge about the Venture Capital Finance
H1: There is a Impact of Gender on current level of Knowledge about the Venture Capital Finance

Observed Values

Gender / Current Knowledge	VMH	H	M	L	VML	RT
Male	49	49	19	10	5	132
Female	7	27	8	3	1	46
Column Total	56	76	27	13	6	178

Expected Values

Gender / Current Knowledge	VMH	H	M	L	VML	RT
Male	41.53	56.36	20.02	9.64	4.45	132
Female	14.47	19.64	6.98	3.36	1.55	46
Column Total	56	76	27	13	6	178

VMH – Very Much High, H – High, M – Medium, L – Low, VML – Very Much Low

Expected Values = $\frac{CT \times RT}{GT}$

CT = Column Total
RT = Row Total
GT = Grand Total

Chi-Square Value

Age / Current Knowledge	VMH	H	M	L	VML	RT
Below 24yrs	0.063	1.136	0.125	4.000	0.000	5.324
25 – 34yrs	0.050	0.926	0.900	3.200	0.000	5.076
35 – 44yrs	0.000	0.059	0.000	0.333	0.000	0.392
45 – 54yrs	0.200	0.143	2.000	0.000	0.000	2.343
Above 55yrs	0.333	0.250	4.000	0.000	0.000	4.583
Chi-Square Value						17.718

Gender / Current Knowledge	VMH	H	M	L	VML	RT
Male	1.344	0.961	0.052	0.013	0.068	2.439
Female	3.858	2.758	0.150	0.038	0.195	6.999
Chi-Square Value						9.438

Chi – Square Test = $\frac{\sum (O\,V - E\,V)^2}{E\,V}$

O V = Observed Values
E V = Expected Values
Degree of Freedom=(R-1)(C-1)=(2-1)(5-1) =1 x 4 =4
Level of Significance at 5% i.e., 0.05
Tabular Value is 9.488
Chi square Value is 9.438

Interpretation

From the above data we can state that, Calculated Chi Square value is less than the Tabular Value (i.e., 9.438 < 9.488). So, we accept the Null Hypothesis i.e., There is No Impact of Gender on current level of Knowledge about the Venture Capital Finance and Reject the Alternative Hypothesis

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Hypothesis – III
H0: There is No Impact of Educational Qualification on current level of Knowledge about the Venture Capital Finance
H1: There is a Impact of Educational Qualification on current level of Knowledge about the Venture Capital Finance

Observed Values

Educational Qualification / Current Knowledge	VMH	H	M	L	VML	RT
SSC	1	1	1	0	0	3
10+2	7	3	1	2	1	14
Degree	19	26	14	8	1	68
PG	29	46	11	3	4	93
Column Total	56	76	27	13	6	178

Expected Values

Educational Qualification / Current Knowledge	VMH	H	M	L	VML	RT
SSC	0.94	1.28	0.46	0.22	0.10	3
10+2	4.40	5.98	2.12	1.02	0.47	14
Degree	21.39	29.03	10.31	4.97	2.29	68
PG	29.26	39.71	14.11	6.79	3.13	93
Column Total	56	76	27	13	6	178

VMH – Very Much High, H – High, M – Medium, L – Low, VML – Very Much Low

Expected Values = $\frac{CT \times RT}{GT}$

CT = Column Total
RT = Row Total
GT = Grand Total

Chi-Square Value

Educational Qualification / Current Knowledge	VMH	H	M	L	VML	RT
SSC	0.003	0.062	0.653	0.219	0.101	1.038
10+2	1.529	1.483	0.594	0.935	0.591	5.133
Degree	0.268	0.317	1.317	1.853	0.728	4.483
PG	0.002	0.997	0.684	2.117	0.239	4.040
Chi-Square Value						14.693

Chi – Square Test = $\frac{\sum (O\,V - E\,V)^2}{E\,V}$

O V = Observed Values
E V = Expected Values

Degree of Freedom=(R-1)(C-1)=(4-1)(5-1) =3 x 4 = 12
Level of Significance at 5% i.e., 0.05
Tabular Value is 21.026
Chi square Value is 14.693

Interpretation

From the above data we can state that, Calculated Chi Square value is less than the Tabular Value (i.e., 14.693 < 21.026). So, we accept the Null Hypothesis i.e.,. There is No Impact of Educational Qualification on current level of Knowledge about the Venture Capital Finance and Reject the Alternative Hypothesis

VIII - FINDINGS

- Most of the respondents consider High Return on their investment as a motivational factor to invest into Venture Capital.
- According to the study, Venture capital is mostly directed towards the pharmaceutical and information technology (IT) industries.
- It is found in the study that respondents prefer Early and Seed stage for Venture capitalist to fund the business.
- According to the study, Potential Investors consider Team Expertise and Financial projects are the criteria for investing in India for Venture capital.
- According to the perspective, development of the start-ups ecosystem from a Venture capital is Positive.
- First Chi Square value is less than the Tabular Value (i.e., 17.718 < 26.296). So, we accept the Null Hypothesis i.e.,. There is No Impact of Age on current level of Knowledge about the Venture Capital Finance and Reject the Alternative Hypothesis
- Second Chi Square value is less than the Tabular Value (i.e., 9.438 < 9.488). So, we accept the Null Hypothesis i.e.,. There is No Impact of Gender on current level of Knowledge about the Venture Capital Finance and Reject the Alternative Hypothesis
- Third Chi Square value is less than the Tabular Value (i.e., 14.693 < 21.026). So, we accept the Null Hypothesis i.e.,. There is No Impact of Educational Qualification on current level of Knowledge about the Venture Capital Finance and Reject the Alternative Hypothesis

IX – SUGGESTIONS

- Permit or strongly encourage insurance and pension funds to engage in Venture capital.
- Motivate the business community to become involved.
- Make it more appealing for international investors to fund Venture capital businesses in India.
- India's Venture capital industry has grown at an unprecedented rate, opening up exciting new possibilities for ambitious startups to test the waters and even strike gold.
- Investing in startups via Venture capital is a great way to support entrepreneurial growth. We find that it's localized to a small number of places. The government should eliminate taxes on Venture capital investments in

critical sectors like as agriculture, construction, and transportation to encourage investment and boost national growth.

- The government should think about how to encourage young people to think like entrepreneurs and how to make them more aware of the importance of starting their own businesses.

X – CONCLUSION

A comprehensive assessment of this dynamic and significant component of the economy has been provided by the study on Venture capital. Findings from studies on the Venture capital landscape, startup stories, and investment needs have yielded many significant conclusions. By studying the Venture capital investment landscape, we were able to find several investor criteria and methods. Various factors, including risk management and investor preferences in certain industries, go into the lengthy process by which Venture capitalists choose and back promising new companies. Results showed that due diligence processes are important and that investment needs evolve over time in response to market changes.

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