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Investment Contours of Venture Capital Funds in India : An Analysis

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Abstract
This paper discusses the investment practices of venture capital firms in general in India and in particular with regard to select venture capital funds along with the profiles and perceptional analysis of select venture capital firms over various aspects of their investment, in terms of selection, due-diligence, monitoring and exit mechanism in a comprehensive manner.

Keywords
Venture Capital, start-up companies, early stage finance, exit route.

I. Introduction
Entrepreneurs who need venture capital financing for their enterprises should have sufficient information to be able to choose a venture capital company or fund suitable for their requirement and have a broad understanding of the procedures required to be followed for obtaining financial assistance at different stages of implementation of their projects. Basically they need to develop a business plan or prototype to get venture finance. The business plan is a document that conveys a company's prospects and growth potential, and thereby sells the business to potential backers. The process is to be managed just as most other business tasks are managed. It requires advances preparation; delegation, refinement, and discipline-, as do most important business functions. Companies are increasingly being called on to provide written business plans. Financial backers, especially venture capitalists and other private investors have long sought business plans before making investment decisions. In addition, organizations and individuals considering long term relationships with companies, large customers, suppliers and distributors are much more inclined to seek written plans. The Business plan process involves gathering accurate and convincing information as well as carefully outlining the plan before writing. Executives should also determine what king of plan they need, ranging from a summary plan (10-15) pages, a full plan (20-40) or an operating plan (more than 40) pages. Once all there consideration has been formulated the plan is ready for final rewriting and presentation. Extensive editing is recommended, along with careful attention to presentation details like to cover and table of contents. The plan should be tailored to the preferences and concerns of its likely readers. Perhaps most important, the plan should be used to guide the company. Thus, it should be reviewed and updated. In project appraisal feasibility of the project is assessed from different angles with stress on production process and marketability, as the lending institutions are backed by security of movable and immovable assets of the borrower and chiefly concerned with the return of the investment with interest. In venture capital financing the venture capitalist has a different approach because of equity participation, risk sharing and involvement in the management of the project. Investment by a venture capitalist in different stages of an enterprise calls for an analysis of factors related to each stage. However, the order of preference followed by venture capitalists in evaluation of business plan is as under:

1) Analysis of Management
2) Analysis of Organization Pattern
3) Analysis of Production Process
4) Financial Analysis and Projections
5) Analysis of Reference Information

II. Objective And Methodology
The main objective of the paper is to analyze the investment practices of select venture capital funds in India. As the study is an explorative one in finding out the investment practices with regard to selection, due-diligence and exit mechanism broadly, ten sample venture capital funds are selected randomly from the list of venture capital funds provided by Indian Venture Capital Association (IVCA). Consequently, on the request of the fund organizers, the names of the funds are mentioned in the study with disguise names that can be seen from table I.

Table 1 : List Of Smaple Venture Capital Funds

S. No	Name of the Company
1	IDC-Venture Capital Limited
2	I D Fund
3	AV Limited
4	AV Capital Trust
5	CB Venture Capital Financial Limited
6	G V Capital Limited
7	ICI Venture Capital
8	KV Capital Limited
9	KITV Fund
10	DL Venture Limited

III. Investment Practices Of Indian Vccs/Vcfs

A. Appraisal of the Individual behind the project
The appraisal of business plan or project proposal is done very carefully and the proposal is judged by evaluating the entrepreneur behind the proposal with reference to experience and background, genius and resourcefulness. Her credentials are verified from different sources, such as bankers, auditors, previous employers, suppliers and potential customers. The technical skills and managerial traits of the entrepreneur are also evaluated through experts. Her commitment to the venture, self-confidence and, drive, initiative and personal responsibility, and capacity to set realistic goals, persevere and solve problems, are all evaluated. Experience in joint ventures, collaborations and high technology production processes as well as the educational and business background of the entrepreneur also come in for consideration. Given such a stringent appraisal of the entrepreneur, only 10 per cent of the proposals are generally cleared at this stage.
For sanctioning venture capital for any project in India under venture capital scheme, the following are the major considerations for funds.

- New entrepreneur
- New technology
- Established technology by first generation entrepreneur

or entirely new project.

B. Screening Committee
Different practices are followed in evaluating the business plan by venture capital funds in India. It is due to the situation, some VCCs/VCFs engage experts, others set up screening committees to scrutinize the proposal in terms of cost, technology, markets, etc. Hence, all most all the funds commonly focus on the following issues in their evaluation process.

1. Focus on Techno-economic Aspects
Every project is subjected to an expert techno-economic evaluation. Project cost and means of finance is also closely evaluated with reference to sources of finance. Profitability estimated is studied with reference to market projections. The involvement of VCF is determined in the light of funds requirements, availability of exit route, etc.

2. Risk Analysis
This is an important element of the appraisal. The basic risks involved in a project are identified as market risk, product risk, technology risk and entrepreneurial risk. Market risk may arise due to poor response form buyers, unexpected competition, lack of adequate support from business channels, etc. Product risk would arise if the new technology involved in the production process, or the product itself, were to fail. Technological risk generally arises when an entirely new and untried technology is used. Finally, entrepreneurial risk may arise due to the entrepreneur's lack of managerial skill, experience and business expertise.

3. Exit Routes
The two main routes of disinvestments followed by venture capitalists in India are: sale in stock markets comprising regional stock exchanges, OTCEI and National Stock Exchange (NSE), and buy-back arrangement with promoters and their close relations.

IV. Methods of Financing
Venture capital or risk finance should generally be in equity or quasi-equity form like convertible loan instruments. In India, however, venture finance is made available in the form of equity as well as debt. The following forms are used by VCCs/VCFs in India.

1. Equity
The venture capitalist provides venture capital in the form of equity for the project and acts as 'co-owner' with the entrepreneur, sharing profits and loss in the venture. The equity is generally less than the promoter's contribution (generally not exceeding 49 per cent of the total capital) so that the promoter can retain effective control and majority ownership of the enterprise.

2. Conditional Loans
A conditional loan is not repayable like a conventional loan and does not carry interest. The repayment of conditional loan is linked to the sales or turnover of the company in the form of royalty. The rate of royalty, which is decided on case-to-case basis, can range between 2 and 15 per cent of sales, and is usually collected from the third to fifth year after establishment of the project. The rates of royalty and the schedule of royalty payment are decided keeping in view the gestation period and the repayment capacity of the project. In the case of projects, which the promoters anticipate will yield high turnovers, they readily opt for a high rate of interest (20% per annum) once the project becomes financially sound, instead of paying royalty on sales. For a project that does not succeed commercially, some venture capital funds as RCTC recover only half of the loan amount.

3. Conventional Loans
Some VCCs/VCFs like RCTC also provide conventional loans to entrepreneurs for a long period of 10-12 years.

4. Income Notes
Income note is a hybrid security combining the features of both conventional loan and conditional loan. On this security, a floor rate of interest (say 8 per cent) and a royalty on sales of the company are charged. But the floor interest rate is much lower than for the conventional loan and the rate of royalty is also less. Funds are made available in the form of unsecured loan at 9 per cent per year during the development phase and 18.5 per cent per year after development. In addition to interest charges, royalty on sales may also be charged.

5. Other Financial Instruments
There are some other innovative financial instruments being used by some VCFs in India. They are like partially convertible debentures offer flexibility in structuring the deals to both venture capitalists and the enterprises. The instruments have two parts: one is converted into equity and the other remains as loan. This keeps the equity of the company within manageable limits.

Cumulative convertible preference (CCP) shares can help to adjust risk portfolio. CCP are deemed as equity and therefore assure a large equity base for borrowings. CCP shareholders are not entitled to voting. These enables the management tot remains in full control of the company. However, under section 87(2)(a) of the Companies Act, 1956, they have a right to vote on resolutions that directly affect their rights or if the dividend has not been paid for an aggregate period of not less than two years preceding the date of meeting.

However these instruments have not found favour with VCCs/VCFs in India unlike the USA and the UK where venture capitalists use a wide variety of financial instruments: deferred shares (where ordinary share rights are deferred for a certain number of years); convertible loan stock (which is unsecured long-term loan convertible into ordinary shares (with voting rights but without a commitment towards dividends); preferred ordinary shares (with voting rights and a modest fixed dividend right and a right to share in profits) and so on. There are, however, instances where Indian VCCs/VCFs have provided hire-purchase finance, lease finance and even overdraft finance in selected cases.

V. Size of Investment
It is found through the data analysis of select VCFs that:

1. All the VCCs/VCFs follow government guidelines and do not make investments in projects that cost more than Rs.10 crore.
2. Investment is made through equity as well as debt instruments. The total is made in appropriate proportion of equity and debt with reference to following norms.
3. VCCs/VCFs cited only the minimum and maximum limits and were skeptical about preferred size of investments, as the same would depend on the merit and requirement of the projects.

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VI. Monitoring the Projects- Practices of Indian Venture Capital Funds

For effective utilization of the funds invested in the ventures, the VCCs/VCFs carry out close monitoring through various devices, i.e. calling for periodical reports, appointing nominee director on the Boards of the assisted companies, carrying out periodical inspections and at times appointing their own management personnel. Three styles of monitoring are in use, in consonance with foreign venture capital funds in India, they are:

A. Hands-on Style

Hands-on style suggests supportive and direct involvement of VCCs/VCFs in the assisted firm through representation on the assisted firm's Board and regularly advising the entrepreneur on matters of technology, marketing and general management. The former will make an active contribution to the strategies, policies and practices of the entrepreneur's firm rather than being essentially a financial watchdog. Indian VCCs/VCFs generally, do not involve themselves on a hands-on basis in the projects. They do have representation on the Board but do not interfere in management.

B. Hands-Off Style

Hands-Off Style or passive style is suggestive of occasional assessment of the assisted firm's management and their performances with no direct management assistance being provided. The VCF would receive periodical post-investment information from the entrepreneur. Indian VCCs/VCFs generally follow this practice.

C. Intermediate Style

This is an intermediate style between hands-on and hands-off styles. VCCs/VCFs are entitled to obtain on regular basis information about the assisted projects. VCCs/VCFs are also entitled to be consulted on key decisions such as major capital expenditure, acquisitions and board appointments. In India, VCCs/VCFs have their own style of monitoring that is based on the practices followed by banks and financial institutions.

VII. Indian Practice Compared

One common feature with regard to the investment evaluation criteria of VCFs in the USA, Japan, Singapore and India is that all of them focus their top attention to the entrepreneur's personality and experience. However, in terms of the specific traits of the entrepreneurs' personality and experience, the Indian practice differs significantly from that in the USA, Singapore and Japan. Fore example, amongst the five criteria most frequently rated as essential ion the USA, Singapore and Japan, the entrepreneur's characteristics include sustained intense efforts, familiarity with target market and ability to evaluate and handle risk well. None of these traits appears in the top five criteria in India. In India, the characteristic of the entrepreneur in the top five criteria include integrity, urge to grow, commercial orientation, long-term vision and well-thought out strategy to remain ahead of the competition.

The differences may be explained in terms of economic environment, entrepreneurial development, and financing mechanism. The USA, Singapore and Japan are more economically developed and open economies they use advanced and new technologies and have a highly competitive business environment. Five most frequently rated essential criteria in the U.S.A, Singapore, Japan and India are shown in table 2.

Table 2 : Five Most Frequently Rated Essential Criteria in the U.S.A, Singapore, Japan and India

	Ranks			
	U.S.A	Singapore	Japan	India
Sustained intense efforts	1	1	2	--
Familiar with target market	2	2	1	--
Evaluates and reacts to risk	3	3	3	--
Demonstrated leadership	4	2	--	--
At least 10 times return in 5-10 years	4	5	--	--
High market growth rate				
Creation of a new market	--	2	4	5
Liquid investment	--	--	5	--
Integrity	--	--	5	--
Managerial skills of venture team	--	--	--	1
Functioning prototype	--	--	--	2
Urge to grow				
Long-term vision	--	--	--	--
Commercial orientation	--	--	--	3
	--	--	--	4
	--	--	--	5

Source: Venture Capital – Indian Experience, I.M. Panday and Venture Capital – Concepts and Applications - T. Satyanarayana Chary,

However, for a highly profitable operation of business, an entrepreneur needs to have a clear market focus, hard work and risk-handling ability. Further, a long history of sound business practices and entrepreneurial development in a free environment in these countries has provided the entrepreneurs with a sense of commercial orientation, commitment and integrity in their operations. In developing countries such as India, the entrepreneurial attitudes are not fully developed. They also lack sound business practices. Also, because of the governmental control over business, entrepreneurs in developing countries perhaps have not been able to develop a commercial orientation and commitment towards their enterprises. Since, they have also not operated in a real competitive environment, a number of them may lack in the skill to develop appropriate strategies to face competition. The general lack of integrity or commitment and commercial orientation in entrepreneurs in developing countries may also be attributed to the methods of financing small and medium-size enterprises. In developed countries, the capital markets allocate funds on the basis of profitability and risk of the firms. Therefore, there is a motivation to perform. In developed countries, the capital markets allocate funds on the basis of profitability and risk of the firms. Therefore, there is a motivation to perform. In developed countries the capital markets are not yet fully developed. The small-and medium-size enterprises are provided concessional funds and capital subsidies by the development banks and other governmental institutions. Because of low accountability and inadequacy of the monitoring mechanisms, the enterprises have a tendency to default. The easy and cheap money has tended to make a number of entrepreneurs complacent and negligent. The stakes of venture capitalists are high as they finance risky ventures. It seems that the Indian venture capitalists would not like to finance entrepreneurs with low motivation and commitment; and are, therefore, careful in choosing the entrepreneurs for venture capital financing. They would like the entrepreneurs to realize that the venture capital is not yet another source of financing. They would like them to have integrity, clarity of vision, a good business sense, commitment to growth and a well-articulated strategy to compete for the success of their enterprises. Perhaps these attributes are taken for granted in developed countries like the U.S.A.

In terms of self-image, venture capitalists describe themselves differently in these four countries. In India, all venture capitalists have classified themselves either as purposeful risk managers or parachutists, or both, none of them have described themselves as determined eclectics. In the USA, venture capitalists are reasonably distributed among all these categories. The difference in self-image of venture capitalists in the four countries may be a reflection of the extent of venture capital development, and entrepreneurial activities and attitudes. Venture capital is well developed in the USA and one may, therefore, find a representative mix of all types of venture capitalists. The Japanese have an image of entrepreneurial aggressiveness; venture capitalists in Japan, therefore, would like to maintain their self-image of taking risk and considering all proposals with minimum criteria. Venture capital activities have started recently in Singapore and India. VCFs of these countries are therefore, cautious in considering all proposals. They apply a number of criteria to evaluate the proposals.

The venture capital industry is by nature not purely financial institution. Its major task includes monitoring, strategizing and helping in creation of shareholders wealth rather than just dolling out money. India realized its importance especially to accelerate further pace of dot.com boom since internet start-ups are heavily dependent on such funding. Thus reforming the rules is crucial to clear up the regulatory lumps hindering venture capital from thriving. Chandrasekhar committee (August, 1999) set up by SEBI, recommended harmonization of regulatory system, granting 'pass through status' allowing venture capital fund status to FIIs, exit option, and angle investor and creation of congenial environment fostering the growth of venture capital.

During last decade, 700 odd software companies were established in India and the number is increasing at a higher rate with the help of venture capital. Nasscom survey revealed that Indian IT sector received US $320 million in 1999 and that would be increased to $ 3 billion in next two years. Further streamlining the regulatory environment may accelerate the pace of cash inflow. The finance Act 1999, 2000 in true sense, made an effort in this regard. However, immediate correction of anomalies and incorporation of remedial measures in the existing rules are required to enable the financial institutions and government to collaborate in a programme to create friendly environment that may give fillip to the growth of venture capital in India.

VIII. Analysis, Discussion and Findings

A. Type of Organization

Venture capital funds in general emerge themselves as either listed, unlisted, trust or in any other form as accepted by the law relating to venture capital finance. Data collected with regard to same is processed, analysed and presented through table 3.

Table 3 : TYPE OF ORGANIZATION

Particulars	No. of Firms	Percentage
Listed Company	9	90
Unlisted Company	--	--
Trust	1	10
Others	--	--
Total	10	100

Source: Primary Data

It is evident from table 3 that the form of select venture capital funds in terms of various aspects as mentioned above. Near about 90 percent of sample funds are listed companies, whereas, the rest of the companies are found as trust based funds only. Hence, all most all funds are listed companies only.

B. Registration status of VCCs

The venture capital funds should register as PDF, IIF, BITS or SEBI recognized funds. Table 4 presents the data pertaining to the same in an analytical way.

Table 4 : REGISTRATION STATUS OF VCCS

Type of Funds	Founders No.	Percentage
PDF	--	--
IIF	--	--
BITS	--	--
SEBI	10	100
Total	10	100

Source: Primary Data

It is evident from table 4 that all most all the sample venture capital funds/companies are registered with SEBI, which is the regulator for Venture capital Funds.

C. Memberships in IVCA

In India venture capital funds have their own association in the name of Indian venture capital association. All most all the venture capital funds join with IVCA as a member. Data with regard to the same is presented through table 5.

Table 5 : Membership in IVCA

Status	No. of Firma	Percentage
Yes	10	100
No	--	--
Total	10	100

Source: Primary Data

It is evident from the table 5 that all the respondent venture capital funds/companies are registered with IVCA as members.

D. Geographic preferences for investment

Venture capital funds, in general, will have their own geographical preferences as far as their financial encompassment is concerned. Data with regard to the same is collected from sample funds and presented through table 6.

Table 6 : Geographic preference for investment

Status	No. of Companies	Percentage
a. South India	3	30
b. North India	--	--
c. South West	--	--
d. South East	--	--
e. All	7	70
Total	10	100

Source: Primary Data

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It can be realized from table 6 that the geographic preference of select venture capital funds. Out of 10 companies, near about 7 companies are having the entire India as their market. Whereas, only 30 percent of companies have limited their operations to south India itself. Hence, it can be inferred that most of the companies or funds in India are extending their venture capital operations throught the India.

E. industry preference

Venture capital funds/companies generally focuses on specific industries, because the funds will follow the trend and try to skim the cream. Data collected in this regard is analysed and presented through table 7.

Table 7 : Industry Preference

S. No	Name of the VCC/VCF	IT & ITEs	Bio-tech	Pharma	Logistics	Consumer related	Electronics	Tele Communications	Micro Finance	All-PanIndia
1	IDC-Venture Capital Limited									*
2	I D Fund									*
3	A V Limited								*	
4	A VCapital Trust									*
5	CB Venture Capital Financial Limited									*
6	G V Capital Limited									*
7	ICI Venture Capital									*
8	KV Capital Limited	*								
9	KITV Fund,	*								
10	DL Venture Limited									*
	Total	2							1	7

Source: Primary Data

It is very clear from table 7 that the industry preference and focus of select venture capital funds. Except three funds, all most all other funds are having a greater scope of extension of their operations to all industries. Whereas, KV capital Limited and decided to finance only the IT & ITES and AV decided to nurture only Micro Finance Institutes as they are sectoral venture capital funds.

F. Valuation method of project

Venture Capital funds do follow various method for evaluation of projects namely capital budgeting , sensitivity analysis, business plan analysis revenue and multiplier method as well as Chicagao and market analysis methods for better selection of ventures to nurture. Data collected in this regard analysed and presented through table 8.

Table 8 : Valuation Method of Project

Method	No. of Companies	Percentage
Capital Budgeting and Sensitivity Analysis	02	20
First Chicago Method	01	10
Business Plan Analysis	02	20
Multiplier Method	02	20
Revenue Model	02	20
Market Analysis and Technology Indicating Trends	01	10
Total	10	100

Source: Primary Data

It is very clear from the table 8 that the venture capital funds aggressively follow and consider as focusable the capital budgeting and sensitivity analysis , business plan analysis multiplier method and revenue model for a thorough analysis of proposed projects for selection.

G. Structuring the deal

After selection to make the selected proposal as a good deal the venture capital funds apply various deal structuring methods, namely Business or Prototype, Risk and Return analysis, social cost benefit analysis, etc. Data has been demonstrated through table 9 with rigorous analysis.

Table 9 : Structuring the Deal

Method	No. of Companies	Percentage
Business Proposal or Prototype Analysis	01	9
Risk and Return Analysis	09	82
Social Cost Benefit Analysis	01	9
Total	11	100

It is very vivid from table 9 that the sample venture capital organizations highly used risk and return analysis as a best tool form them to structure the deal in an efficient manner. Besides, few of other funds followed by giving due preference the business proposal or prototype analysis and social cost benefit analysis as the best tools for the same. Hence, it can be inferred that the risk and return analysis is a must for any fund to find the intricacies of the proposals reached them looking for venture financing.

H. Stages of due-diligence for investment

Venture capital funds do follow due-diligence for good investment decisions at various stages. Table 10 shows that the preference of various select venture capital funds in their due-diligence process.

Table 10 : Stages of Due-Diligence for investment

Status	No. of Companies	Percentage
Screening Stage	02	20
Business	--	--
Legal	--	--
All stages	08	80
Total	10	100

It is evident from table 10 that most of the venture capital funds are employing the due-diligence not only at screening stage but also at business and legal level also. This is for their safety and efficiency in decision making.

I. Documents used in analysis

It is very common in the project analysis of venture capital financing that use of many types of documents in the process. Tables 11, 12 and 13 present the details of various documents being used by select venture capital funds in their day to day operations for selection of various business proposals.

Table 11 : Corporate Documents

Status	No. of Companies
(A) Articles of Incorporation	10
(B) Bylaws and operating agreements	10
(C) Shareholder agreements	10
(D) Minutes of Board of Directors and Shareholder Meetings	10
(E) All documents furnished to shareholders and directors	10
(F) Certificates from all states and jurisdictions where the company does business	10

Table 12 : Previous Securities Issuance

Status	No. of Companies
(A) Copies of stock certificates, warrants and option agreements	10
(B) Complete Stockholder contact information	10
(C) Number of outstanding shares, dates of issuance, and percent ownership	10 10
(D) All outstanding preferred stock, including covenants	10
(E) All outstanding options, warrants or convertible securities	10
(F) Employee stock benefit programs; stock options, stock purchases or others	10

Table 13 : Financial Information

Status	No. of Companies
(A) Audited financial statements since inception	10
(B) Income statements, balance sheets, cash flow statements	10
(C) Records of all changes in equity position	08
(D) Accounting methods and practices	10
(E) Company prepared monthly or quarterly statements	10
(F) A three year budget and financial projections	08
(G) A complete and current business plan	10
(H) Accounts receivable aging and accounts payable aging	08
(I) Product or service pricing plans and policies	10
(J) Revenue and gross margins by product or service	08
(K) Extraordinary income or expense details	10
(L) Explanation of any material write-downs or write-offs	08
(M)A summary of all bad debt experiences	10
(N) Details of any outstanding contingent liabilities	08
(O) Accountant report on the company's financial condition	10

It is very vivid from tables 11,12 and 13 that the venture capital funds prefer to use broadly three types of documents namely corporate documents, previous securities issuance and financial information. It can be seen from the tables that all most all the companies' use all the types of the documents as listed in the tables expect few funds as mentioned above. It is very clear that the as venture capital funds do a rigorous analysis they use to the possible extent all information.

J. Methods of valuation for financing

In general the venture capital firms or funds follow different methods of valuation methods for financing, even for that matter managing the venture capital undertakings till the success. Data pertaining to the issue is analyzed and presented through table 14.

Table 14 : Methods of Valuation for Financing

Method	No. of Companies	Percentage
Hands-on method	01	10
Hands- off method	--	--
Intermediate Style	08	80
Opinion based on your individual experiences	01	10
Total	10	100

Source: Primary Data

It can be realized from table 14 that the methods of valuation for financing and management of undertakings by select venture capital funds. About 80 percent of venture capital funds preferred the intermediate style, which is a moderate one of both hands on method and hands-off methods. A few and very insignificant per cent of fuds are found as practitioners of Hands on and off methods for valuation and management of ventures.

K. Exit route

In venture capital type of business or finance, the important issue is exit route through which the funds can divest their investment from undertakings. Data with regard to same issue is collected and analysed through table 15.

Table 15 : Exit Route

Status	No. of Companies	Percentage
Equity Disinvestment	07	64
Direct Redemption	04	36
Other methods	--	--
Total	11	100

It is very clear from the table 15 that most of the venture capital funds are found to use equity divestment is an ultimate vehicle of exit route to withdraw their investment from undertakings. Hence, few of the select funds also found with direct redemption as an alternative for exit mechanism. However, the divestment method is being followed by well known funds, whereas the new and young funds are following the direct method.

IX. Conclusion and Suggesitions

Venture capital emerged as a unique financial instrument in 19th century to promote new and innovative business proposals put forth by the first generation and technocrat entrepreneurs in a big way. In fact, it is the outright solution for any country and means of finance in turning the creative ideas and abilities of the entrepreneurs into very fruitful and viable commercials aspects. Not only that, even venture capital can promise in a greater way the development of our country through promoting the entrepreneurs in a gigantic way as a driver and vehicle of entrepreneurship devolvement of the country. So, the practices of VC are not same and one country to country particularly in analyzing, selection, scrutinizing, nurturing, managing, even in due-diligence and finally exit mechanism.

It is found through the study that venture capitalists in India use capital budgeting and sensitivity analysis in selection of projects and in the case of nurturing the project they opt for their own style, conveniently termed ‘reactive’, where the investee company provides feedback formation about utilization of funds, progress of the implementation of the project, etc. Also, venture capitalists reserve certain rights like a seat on the Board of the company, calling for special report about the project and the right to be consulted on strategic and management matters

Venture capitalists in India either plan to ‘exit’ after the success of the venture, i.e. commencement of business, or may not seek exit in anticipation of further price increase. It is found that near about 90 percent of sample funds put on practice the direct equity divestment as exit mechanism are listed companies, whereas, the rest of the companies are found as trust based funds only.

Among all the funds, GV capital fund has extended its finance to many undertakings, followed by AV fund, IDC venture capital Limited, CB venture capital limited, KITV, ID Fund, ICII venture, KV Capital Limited and DL. Hence, it is very vivid that the state industrial development corporations sponspered venture capital funds like IDC venture capital limited and GV capital limited are ahead in venture financing. On the other hand, except three funds, all most all the ten funds are having a greater scope of extension of their operations to all industries. Whereas, KV capital Limited and KITV decided to finance only the IT & ITES and AV decided to nurture only Micro Finance Institutes as they are sectoral venture capital funds.

Analysis of data reveled that most of the funds, except ID Fund, have invested their money only in India and the high number of investments are made at seed stage followed by LBO/MBO, Expansion, Early and Turnaround stages. Another interesting observation of Indian venture capital funds is that the venture capital funds aggressively follow and consider as focusable the capital budgeting and sensitivity analysis, business plan analysis multiplier method and revenue model for a thorough analysis of proposed projects for selection. Besides, those venture capital organizations highly used risk and return analysis as a best tool for them to structure the deal in an efficient manner. As far as due-diligence is concerned, most of the venture capital funds are employing the due-diligence not only at screening stage but also at business and legal level also for their safety and efficiency in decision making.

But, alas the venture capital industry of India, still at nascent stage and not able to assume the higher level of venture some, for that matter, not able to scale up-the activity. It is due to so many varieties of problems, which spans over regulation, deal size, role play, culture of entrepreneurs and what not? So there is a need to the government and the regulator of venture capital funds including the various fund operators in the country to create a conducive environment to venture capital industry to get the hold of the take-off.

Hence, VC can fuel the economy for the further growth by nurturing the industry on the lines of creativity and innovations in a colossal manner for the benefit of the country itself. But, the country needs to work on the ground realities” and highlight a couple of “best practices” that may help VCCs to invest more effectively in India and make Indian venture capital market very potential and vibrant

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