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INDUSTRY-WISE PERFORMANCE OF THE SELECT VENTURE CAPITAL COMPANIES IN TAMILNADU

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Abstract
In the industrial growth, venture capital industry has made a pivotal contribution, particularly in the growth of high-technology industries. Venture capital plays a key role in the entrepreneurial process by providing equity capital and managerial support for young, rapidly growing, high risk and high-tech private companies with the potential to develop into significant global businesses. As India is poised for technological revolution with the emergence of new breed of entrepreneurs, to make the innovative technology of the entrepreneurs a successful business venture, support in all respects is even more essential. If the industry survived, it would likely set in motion a constructive feedback process that would encourage the emergence of successful new firms, promote investment of more venture capital, and support the growth of other types of expertise associated with the venture capital industry. In this context, the researchers have made an attempt to study the industry-wise investment of the select venture capital companies in Tamilnadu. The study encompasses both primary and secondary data. For collecting the primary data, personal discussions were held with the officials of the select venture capital companies. The secondary data were extracted from the records of the select venture capital companies for a period of five years from 2010-11 to 2014-15. Given such vast potential not only in information technology and software, but also in the field of service industries, biotechnology, telecommunications, media and entertainment, medical and health services and other technology based manufacturing and product development, venture capital industry can play a catalytic role to put India on the world map as a success story. Therefore, the importance of venture capital should be understood and policy actions should be implemented to support its development.

Keywords: Venture Capital, Venture Capitalists, Risk Capital, Private Equity, Sources of Finance, Etc.

Introduction

In a modern economy, knowledge intensive and high-technology industries are expected to be the most critical and strategic industries for the survival and growth of companies, regions, and nations. In the industrial growth, venture capital industry has made a pivotal contribution, particularly in the growth of high-technology industries. Venture capital plays a key role in the entrepreneurial process by providing equity capital and managerial support for young, rapidly growing, high risk and high-tech private companies with the potential to develop into significant global businesses. The result of economic restructuring and the diminishing appeal of developed countries to institutional investors has been a significant increase in venture capital investment in developing countries. Accordingly, venture capital has become an increasingly significant source of financing for new companies, particularly when such companies are operating on the frontier of emerging technologies and markets.

Concept of Venture Capital

Venture capital financing is promising as a new institutional mechanism to inject long-term capital into the small and medium enterprises. Venture capital provides not only the financial resources, but also assistance to enhance the design, development, and performance of portfolio companies. Venture capital refers to independently managed, dedicated pools of capital that focus on equity, or equity-linked investments in privately held, high-growth companies. The venture capital concept thrives on investors' desire to assume higher degree of risk in anticipation of a higher investment returns. According to Cumming and Macintosh, venture capital means "financial intermediaries which receive capital contributions from institutional investors or high net worth individuals across the economic spectrum, and invest the pooled deposits in small, private and mainly high technology businesses or entrepreneurial firms with potentially high growth. According to SEBI regulations, venture capital fund means a fund established in the form of a company or trust, which raises money through loans, donations, issue of securities or units and makes or proposes to make investments in accordance with these regulations. The venture capital funds are classified into four categories: venture capital fund, private equity fund, fund of funds, and social venture fund.

Statement of the Problem

Though the financial institutions have done commendable work, they do not come up to the benefit of risky ventures when new entrepreneurs undertake them. They contend to give debt finance, mostly in the form of term loan to the promoters and their functioning has been more akin to that of commercial banks. The financial institutions have devised schemes such as seed capital scheme, risk capital fund, etc. to help new entrepreneurs. However, to evaluate the projects and extend financial

assistance, they follow the criteria such as safety, security, liquidity and profitability and not potentiality. Moreover, the capital market with its conventional financial instruments/schemes does not come much to the benefit or risky venture. As India is poised for technological revolution with the emergence of new breed of entrepreneurs, to make the innovative technology of the entrepreneurs a successful business venture, support in all respects is even more essential. This has necessitated the setting up of venture capital companies in India. The success rate, profitability, stability, liquidity of existing venture capital companies make other investors invest in newly started company in the name of venture capital. At the same time, the performance of venture capital companies are determined by various factors, such as feasibility of project, talent and experience of the entrepreneurs, marketability of successively innovative product, financial instruments used by the investing company, exit mechanism, etc. If the industry survived, it would likely set in motion a constructive feedback process that would encourage the emergence of successful new firms, promote investment of more venture capital, and support the growth of other types of expertise associated with the venture capital industry. In this context, the researchers have made an attempt to study the industry-wise investment of the select venture capital companies in Tamilnadu.

Objectives of the Study

The following are the objectives of the present study:

1. To study the industry-wise investment of the select venture capital companies in Tamilnadu.
2. To suggest suitable measures to improve the performance of the select venture capital companies based on the findings of the study.

Testing of Hypotheses

The study is based on the formulation of the following null hypotheses. The validity of them was tested with the help of appropriate analysis.

Ho_5: There is no significant relationship in industry-wise investment over the years.

Ho_6: There is no significant relationship among the investments in various industries.

Methodology

The study is analytical in nature with a focus on examining the industry-wise investment of the select venture capital companies in Tamilnadu. The study is restricted to 10 top performing venture capital companies, which are heavily invested in ten districts of Tamilnadu such as Chennai, Coimbatore, Erode, Karur, Madurai, Namakkal, Thoothukudi, Tirupur, Trichy and Vellore. Further, the study is confined to only investment performance of the select venture capital companies. The study encompasses both primary and secondary data. For collecting the primary data, personal discussions were held with the officials of the select venture capital companies. The secondary data were extracted from the records of the select venture capital companies for a period of five years from 2010-11 to 2014-15. The period is considered sufficient to reveal the fluctuations. Literature relating to the study was gathered from published reports, journals, magazines, books, etc. The collected data were analyzed and interpreted as intelligibly as possible to highlight the divergent activities related to the performance of the select venture capital companies. The data were analyzed with the help of different statistical techniques such as analysis of two-way variance, co-efficient of variation and growth rates.

Findings

1. IL & FS Venture Corporation Limited invested more funds in computer hardware and software industry. Further, there exists stability in the investment of biotechnology industry. Computer hardware and software industry registered highest annual growth rate (1.03), followed by chemical industry. Chemical industry registered highest linear annual growth rate (0.14) and compound annual growth rate (0.13). The linear annual and compound annual growth rates of biotechnology, computer hardware and software, energy, food, industrial products, leather, medical, telecommunications and textile industries showed negative linear annual and compound annual growth rates in the IL & FS Venture Corporation Limited.

2. Canbank Venture Capital Fund Limited invested more funds in computer hardware and software industry. Thus, consistency is found in the investment of food industry. Industrial products industry registered highest annual growth rate (5.58), linear annual growth rate (4.29) and compound annual growth rate (4.13), followed by telecommunications industry in the Canbank Venture Capital Fund. Energy industry registered highest negative annual growth rate (3.21), linear annual growth rate (10.11) and compound annual growth rate (9.76), followed by leather industry.

3. IDBI Venture Capital Fund invested more funds in computer hardware and software industry. Moreover, stability is found in the investment of computer hardware and software industry. Energy industry registered highest annual growth rate (14.78), linear annual growth rate (13.53) and compound annual growth rate (14.63 in the IDBI Venture Capital

Fund. Medical industry registered highest negative annual growth rate (5.15), linear annual growth rate (7.93) and compound annual growth rate (7.50), followed by chemical industry.

4. Draper International (India) Private Limited invested more funds in computer hardware and software industry. Furthermore, there exists steadiness in the investment of textile industry. Energy industry registered highest annual growth rate (4.83), linear annual growth rate (4.73) and compound annual growth rate (4.81), followed by leather industry in the Draper International (India) Private Limited. Chemical industry registered highest negative annual growth rate (6.94), linear annual growth rate (6.88) and compound annual growth rate (6.69).

5. SIDBI Venture Capital Limited invested more funds in computer hardware and software industry. Besides, there exists stability in the investment of computer hardware and software industry. Textile industry registered highest annual growth rate (2.84), followed by industrial products industry (2.67) and computer hardware and software industry (2.51). Food industry registered highest linear annual growth rate (2.99) and compound annual growth rate (2.91) in the SIDBI Venture Capital Limited. On the other hand, chemical industry registered highest negative annual growth rate (6.29), linear annual growth rate (6.68) and compound annual growth rate (6.23).

6. TDCI Limited invested more funds in computer hardware and software industry. Further, there is consistency in the investment of biotechnology industry. Textile industry registered highest annual growth rate (2.53), followed by computer hardware and software industry. Telecommunications industry registered highest negative annual growth rate (2.09) in the TDCI Limited. Likewise, leather industry registered highest negative linear annual growth rate (3.37) and compound annual growth rate (3.33).

7. APIDC Venture Capital Limited invested more funds in computer hardware and software industry. Moreover, there exists stability in the investment of medical industry. Food industry registered highest annual growth rate (6.63), followed by leather industry (3.50) and chemical industry (2.71). Leather industry registered highest linear annual growth rate (2.15) and compound annual growth rate (2.35) in the APIDC Venture Capital Limited. Conversely, textile industry registered highest negative annual growth rate (1.87), linear annual growth rate (4.11) and compound annual growth rate (4.00).

8. Industrial Venture Capital Limited invested more funds in computer hardware and software industry. Further, there is consistency in the investment of energy industry. Bio-technology industry registered highest annual growth rate (6.10), followed by food industry (5.06) and chemical industry (4.22) in the Industrial Venture Capital Limited. Medial industry registered highest negative linear annual growth rate (4.36) and compound annual growth rate (4.43), followed by leather industry.

9. ICICI Venture Funds Management Company Limited invested more funds in computer hardware and software industry. Moreover, there exists stability in the investment of leather industry. Food industry registered highest annual growth rate (8.73), followed by computer hardware & software industry (8.07) and telecommunications industry (3.35). Computer hardware and software industry registered highest linear annual growth rate (8.21) and compound annual growth rate (8.31), followed by telecommunications industry in the ICICI Venture Funds Management Company Limited. Medical industry registered highest annual growth rate (0.99), linear annual growth rate (1.48) and compound annual growth rate (1.37).

10. IFCI Venture Capital Funds Limited invested more funds in computer hardware and software industry. Besides, consistency is found in the investment of computer hardware and software industry. Food industry registered highest annual growth rate (5.93), linear annual growth rate (5.46) and compound annual growth rate (5.32). Energy industry registered highest negative annual growth rate (1.80), linear annual growth rate (8.30) and compound annual growth rate (10.45) in the IFCI Venture Capital Funds Limited.

11. In regards to industry-wise investment, IL & FS Venture Corporation Limited, Canbank Venture Capital Fund Limited, IDBI Venture Capital Fund, SIDBI Venture Capital Limited and Draper International (India) Private Limited stand at the first, second, third, fourth and fifth places in that order. IFCI Venture Capital Funds Limited and TDCI Limited stand at the ninth and tenth places respectively. It implies that these two companies have lowest investment in various industries during the study period.

Suggestions

1. Venture capital investments are highly confined to few selected sectors only in the study area such as information technology, information technology enabled services, biotechnology, energy, engineering, construction, etc.. There remain so many other sectors which provide ample opportunities for investments. Hence, the select venture capital companies should look at these sectors for providing finance.

2. For the better growth of venture capital industry, a host of regulatory changes are needed to remove ambiguities about their treatment under Indian securities and tax laws. Tax simplifications and liberalization of legal financial restrictions such as prohibition of pension funds from venture capital should be done for the mobilization of funds. To ensure total realization of the intended benefit of the tax incentive package, government should think through the possibility of widening the scope of beneficiaries to include key stakeholders such as investors and investee firms.

3. The select venture capital companies are supposed to structure their investment deals in a manner that entrepreneurs will see the values in selling their business when harvesting time is due. This could be done by ensuring that personal benefits to the entrepreneurs are pushed to the tail end of the investment process. It will act as tonic for them to sell and it will help ease the exit pressure on venture capital companies.

4. The select venture capital companies should use their network with multinational investors to bring on board strategic buyers and they must be part of the later stages of the investment process. This would facilitate them with a natural and successful exit.

5. The select venture capital companies in association with government agencies could set up centers for the training of generic professionals who have the interest of working in venture capital companies. It will facilitate the venture capital companies to save the time and cost of training raw talents. Further, it will win public interest to the activities of venture capital companies.

6. The select venture capital companies should attach greater importance to the marketing and human resource efforts. The value added services provided towards marketing and human resources such as introduction to potential service providers, assist with marketing plans, resolve remuneration issues and offer value-added services that are to be specifically geared to the needs of potential entrepreneurs and go beyond.

Conclusion

An active and flourishing venture capital industry is beneficial to every economy. It encourages the entrepreneurs to start and develop their own businesses and to help them grow into large companies. It boosts the national economy, creates new jobs and increases economic dynamism in the markets. The Indian venture capital industry plays an important role in promoting a more innovative economy by providing the investment and resources needed for high potential risky business to grow. Given such vast potential not only in information technology and software, but also in the field of service industries, biotechnology, telecommunications, media and entertainment, medical and health services and other technology based manufacturing and product development, venture capital industry can play a catalytic role to put India on the world map as a success story. Therefore, the importance of venture capital should be understood and policy actions should be implemented to support its development. Besides, the select venture capital companies should take appropriate measures to improve their performance.

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