NAME OF SCHOLAR: **SHASHI GUPTA**
NAME OF SUPERVISOR: **DR. NASEEB AHMAD**
DEPARTMENT: **COMMERCE AND BUSINESS STUDIES**
TITLE OF THE THESIS: **AN ANALYSIS OF INVESTMENT PROCESS OF VENTURE CAPITAL FIRMS**

ABSTRACT

The objectives of the study were to study the general scenario of VC financing in India, to examine the evaluation criteria and investment process of selected venture capital firms and to diagnose the problems associated with VC financing process and to suggest the measures for the growth of venture capital financing in India. .

Analysis of the data reveals that the political environment particularly arising out of instability of government is seen as the most important barrier by the VC firms. It was observed in the study that perceptual differences between Venture capital firms and entrepreneurs and the lack of transparency are the two important barriers in successful operation and development of VC financing in India. The top three sectors, which are attractive to VCs, were found to be media and entertainment, Education and consultancy and IT & IT enabled services. Regarding instrument of financing majority of the VCs preferred pure equity and equity linked instruments. It has been found that VCs prefer IPO as the most preferred exit route and a time span of 3 – 5 years reported as the preferred period for exit. Most of the VCs were found to be reluctant to sign the non-disclosure agreement.The VC firms follow a rigorous process to select and finance a venture. The study reveals that on an average 16-20 weeks is being the time lag in appraising a project, while no more than 3-5% of the proposals finally get funded by the VC firms for the rest of the proposals do not meet all the criteria that the VCs use for evaluating a proposal. Interestingly it has been found that the most preferred mode of selecting an entrepreneur by the VC firm was the direct contact by the entrepreneurs. The present study found that topmost preference of the VC goes for established entrepreneurs particularly those that are in family businesses. Monitoring, being an important aspect of VC financing process, it is not at all surprising that all VC firms require a seat on the board of directors of the investee firm as the most preferred monitoring method. And they also require periodic feedback reports and financial statements from the investee firms.The analysis clearly shows that the VCs do not consider the form of Organisation, promoter's contribution in equity, availability of co investors, risk diversification of their portfolio and track record/ past performance of the entrepreneur as important decisive criteria at early stage investments. The most important criteria in early stage investments are management quality in terms of the qualification & experience of the

promoters, market opportunities, and openness of the entrepreneurs in terms of complete transparency about the various issues. In order to arrive at their assessment on the above decision criteria the VCs make use of variety of information, amongst which, due diligence report and audited financial statement are considered to be of paramount significance. From the foregoing discussion and analysis of data, it is obvious that venture capital financing has the potential to play a very significant role in promoting and nurturing entrepreneurship amongst the professionally and technically qualified entrepreneurs. In order to realise the full potential of the VC financing, the following suggestions has been recommended.

1. Multiplicity of regulatory agencies which were proceed to be one of the deterrent in the growth and development of VC financing in India.
2. It is suggested that seed capital be created with SEBI for exclusively organizing seminar, investor need, networking and mentoring sessions.
3. The SEBI and IVCA may create VC consortia for sectors which are not very sought after and should take support of government for tax incentives in these sectors.
4. It appears that contrary to the fundamental principle, the VC financing in India have been more cautious in its approach as the financing at seed/startup stage is not generally favoured.
5. It is suggested that VC firms need to adapt mechanism and procedures whereby the proposals could be evaluated and funded within a reasonable time frame of 6 weeks.
6. Selection rate in assessing VC funding is extremely low i.e. less than 5% by majority of VC firms. There may be variety of reasons for such a abysmal low rate. It is suggested that SEBI, IVCA should organize training programme for investor and investee.
7. It has been found that VC firms preferred established entrepreneurs. It is suggested that innovative ventures by first generation (without work experience) may also be considered favorably with appropriate policy initiative of public private participation.
8. The entrepreneurs need to build a strong team of professional managers and adopts methods, procedures, and robust systems accordingly the training of investees and handholding by VC should be encouraged.
9. The government of India initiative of skill development and National Skill Development Corporation (NSDC) and other institutions established to promote entrepreneurship may collaborate and establish a seed fund to finance the startups which are socially relevant.