

The logo of Galgotias University, featuring a stylized 'G' composed of three curved, overlapping bands in shades of yellow, blue, and red.

VENTURE CAPITAL

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LECTURE - 1

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Topics to be covered

- ❖ Introduction
- ❖ Meaning of venture capital
- ❖ Venture capitalists
- ❖ Roles within a venture capital firm
- ❖ Features of venture capital

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INTRODUCTION

CAPITAL

- ✓ Fund employed in any business activity.
- ✓ Most important factor for production.
- ✓ No economic entity can function without capital.
- ✓

VENTURE CAPITAL

Venture capital is significant innovation of 20th century. It is generally consider as synonym of risky capital.

Venture capital is a new financial service, the emergence of which wants towards developing strategies to help a new class of new entrepreneurs to translate their business ideas into realities.

MEANING OF VENTURE CAPITAL

The term venture capital comprises of two words, namely, 'venture' and 'capital'. The term venture literally means a course or proceeding, the outcome of which is uncertain but which is attended by the risk of danger of 'loss'. On the other hand, the term capital refers to the resources to start the enterprise. However, the term venture capital can be understood in two ways.

Venture Capital is "equity support to fund a new concepts that involve a higher risk and at the same time, have a high growth and profit."

"Venture Capital is broadly implies an investment of long term, equity finance in high risk projects with high rewards possibilities."

According to Jame Koloski Morries, " Venture capital is defined as providing seed, startup, and first stage financing and also funding expansion of companies that have already demonstrated their business potential but do not yet have access to the public securities market or to credit-oriented institutional funding sources, Venture Capital also provides management in leveraged buy out financing".

WHO IS A VENTURE CAPITALISTS

A venture capitalist (also known as a VC) is a person or investment firm that makes venture investments, and these venture capitalists are expected to bring managerial and technical expertise as well as capital to their investments. A venture capital fund refers to a pooled investment vehicle (often an LP or LLC) that primarily invests the financial capital of third-party investors in enterprises that are too risky for the standard capital markets or bank loans.

Venture capital is also associated with job creation, the knowledge economy and used as a proxy measure of innovation within an economic sector or geography. The term Venture Capital fund is usually used to denote Mutual funds or Institutional investors. They provide equity finance or risk capital to little known, unregistered, highly risky, young and small private business, specially in technology oriented and knowledge intensive business.

ROLES WITHIN A VENTURE CAPITAL FIRM

1. Venture capital general partners: Also known in this case as "venture capitalists" or "VCs" are the executives in the firm.
2. Limited partners: Investors in venture capital funds are known as limited partners.
3. Venture partners: Venture partners "bring in deals" and receive income only on deals they work on.
4. Entrepreneur in residence: EIRs are experts in a particular domain and perform due diligence on potential deals. EIRs are engaged by VC firms Some EIR's move on to roles such as Chief Technology Officer (CTO) at a portfolio company

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FEATURES OF VENTURE CAPITAL

- 1) **For New Entrant:** Venture Capital investment is generally made in new enterprises that use new technology to produce new products, in expectation of high gains or sometimes, spectacular returns.
- 2) **Continuous Involvement:** Venture capitalists continuously involve themselves with the client's investments, either by providing loans or managerial skills or any other support.

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FEATURES OF VENTURE CAPITAL

- 3) Mode of Investment:** Venture capital is basically an equity financing method, the investment being made in relatively new companies when it is too early to go to the capital market to raise funds. In addition, financing also takes the form of loan finance/ convertible debt to ensure a running yield on the portfolio of the venture capitalists.
- 4) Long-term Capital:** The basic objective of a venture capitalist is to make a capital gain on equity investment at the time of exit, and regular return on debt financing. It is a long-term investment in growth-oriented small/medium firms. It is a long-term capital that is injected to enable the business to grow at a rapid pace, mostly from the start-up stage.

FEATURES OF VENTURE CAPITAL

- 5) Hands-On Approach:** Venture capital institutions take an active part in providing value – added services such as providing business skills, etc., to investee firms. They do not interfere in the management of the firms nor do they acquire a majority / controlling interest in the investee firms. The rationale for the extension of hands-on management is that venture capital investments tend to be highly non-liquid.
- 6) High risk- return Ventures:** Venture capitalists finance high risk-return ventures. Some of the ventures yield very high return in order to compensate for the heavy risks related to the ventures. Venture capitalists usually make huge capital gains at the time of exit.

FEATURES OF VENTURE CAPITAL

- 7) Source of Finance:** Venture capitalists usually finance small and medium- sized firms during the early stages of their development, until they are established and are able to raise finance from the conventional industrial finance market. Many of these firms are new, high technology-oriented companies.
- 8) Liquidity:** Liquidity of venture capital investment depends on the success or otherwise of the new venture or product. Accordingly, there will be higher liquidity where the new ventures are highly successful.

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THANK YOU

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