

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 - 4

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Topics to be covered

- ❖ Advantages of venture capital
- ❖ Disadvantages of venture capital
- ❖ Guidelines for venture capital funding

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ADVANTAGES OF VENTURE CAPITAL FUNDING

Venture capital is popular in different parts of the country as it plays a significant role in fostering industrial development by exploiting vast and untapped potentialities.

The advantages of securing a VC are:

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ADVANTAGES OF VENTURE CAPITAL FUNDING

- Even in the situation when entrepreneur having a good project idea but no previous entrepreneurial track record to leverage the firm, handles customers and bankers, venture capital can help the entrepreneurs in successful launch of their projects.
- Rapid growth of technology across the globe has led to the growth of technology in India but indigenous technology has been slack due to unwillingness of the people to take entrepreneurial risks.
- Venture capital has gained importance as it solves the sickness of a company.

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ADVANTAGES OF VENTURE CAPITAL FUNDING

- As the venture capitalists are ready to lend their expertise and standing to the entrepreneur, the local groups and multinational companies can easily enter into joint ventures.
- Venture capitalists are also helpful to a large number of smaller units under which they are able to upgrade their technology to meet the demands of the major industrial units.
- Venture capitalists are also playing a significant role in tapping the potentiality of service sector. Thus, venture capital is booming to exploit the potential of Indian economy.

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DISADVANTAGES OF VENTURE CAPITAL FUNDING

The disadvantages of venture capital are as follows:

- Securing a deal with a VC can be a long and complex process.
- Person will be required to draw up a detailed business plan, including financial projections for which the entrepreneur may need professional help. Support from his local business link may be available for this.

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DISADVANTAGES OF VENTURE CAPITAL FUNDING

- If he gets through the deal negotiation stage, he will have to pay legal and accounting fees whether or not he becomes successful in securing funds.
- Since the venture capitalist is taking the risk, the management control may get out of the entrepreneur.
- He will also be forced to partner the benefits, such as the profit he got from the business, with the venture capitalist.

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GUIDELINES FOR VENTURE CAPITAL COMPANIES

The Government of India has issued the following guidelines for various venture capital operating in the country.

- ❖ The financial institutions, Stat Bank of India, scheduled banks and foreign banks are eligible to establish venture capital companies or funds subject to the approval as may be required from the Reserve Bank of India.
- ❖ The venture capital funds have a minimum size of Rs. 10 crore and a debt equity ratio of 1:1:5. If they desire to raise funds from the public, promoters will be required to contribute minimum of 40% of the capital.
- ❖ The guidelines also provide for NRI investment up to 74% on a non-reportable basis.
- ❖ The venture capital funds should be independent of the parent organization.

GUIDELINES FOR VENTURE CAPITAL COMPANIES

- ❖ The venture capital funds will be managed by professionals and can be set-up as joint ventures even with non-institutional promoters.
- ❖ The venture capital funds will not be allowed to undertake activities such as trading, broking and money market operations but they will be allowed to invest in leasing to the extent of 15% of the total funds deployed. The investment on revival of sick units will be treated as a part of venture capital activity.
- ❖ A person holding a position of being a full time chairman, chief executive, or managing director of a company will not be allowed to hold the same position simultaneously in the venture capital fund/ company.
- ❖ The venture capital assistance should be extended to the promoters who are new, and are professionally or technically qualified with inadequate resources.

GUIDELINES FOR VENTURE CAPITAL COMPANIES

Of course, these are just some of the pros and cons associated with obtaining venture capital financing, and not every venture capital fund or firm is the same. As an entrepreneur seeking financing, it is crucial to always do your homework regarding the venture capital that you are considering working with and interview them just as much as they are interviewing you.

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THANK YOU

References:

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Machiraju, 'Indian Financial System', Vikas Publishing House, 2nd Edition.

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