RAMA UNIVERSITY

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FACULTY OF AGRICULTURAL SCIENCES & ALLIED INDUSTRIES

Venture Capital Financing- Concept, Purpose & Schemes

1.Venture Capital Institutions

Concept of Venture Capital

Venture capital is a form of equity financing designed specially for funding high risk and high reward projects. It not only plays an important role in financing hi-technology projects, but also helps to turn research and development projects into commercial production. Venture capital, besides financing the technology, is also involved in fostering the growth and development of enterprises. In the western countries much of this capital is put behind establishing technology and expanding business or is used to help the evolution of new management teams.

Venture Funds in India

The venture fund or venture capital scheme is of recent origin in India. The following are some of the institutions which have established venture funds in India:

(1) Risk Capital Foundation of IFCI

The first venture fund in the name of Risk Capital Foundation was sponsored by the Industrial Finance Corporation of India (IFCI) in March, 1975. It was re-constituted as _Risk Capital and Technology Finance Corporation Limited (RCTC) in January, 1988. At present RCTC operates three schemes, viz., Risk Capital Scheme, Technology Finance and Development Scheme and Venture Capital Unit Scheme. Under the first two schemes, the Corporation provides supplementary assistance to new entrepreneurs particularly technologists and professionals for promoting medium-size industrial projects both in the form of rupee loans and direct subscription to their share capital. While under the Venture Capital Scheme the venture capital fund of Rs. 30 crores (Rs. 20 crores from *IFCI* and Rs. 10 crores from the World Bank) was set up in July, 1991. The aim of the scheme is to provide venture capital for potentially highly profitable ventures involving innovative products/technology/service aimed at futuristic or new markets.

(2) Venture Fund of IDBI

The Industrial Development Bank of India (IDBn also started venture capital scheme in 1986.

(3) Venture Capital Fund of SIDBI

The Small Industries Development Bank of India *(SIDBI)* has also set up a venture capital fund with an initial corpus of Rs.10 crores during the year 1992-93. The fund is exclusively meant for providing financial assistance for innovative ventures in small-scale sector.

(4) Venture Capital Fund of Technology Development and Infrastructure Corporation of India (TDICI)

The corporation has been set up by Industrial Credit Investment Corporation of India *(ICICI)* for providing technology information and financing commercial research and development schemes. It also manages the venture capital fund of Rs. 30 crores which *ICICI* had established along with in 1988.

(5) Other Venture Capital Funds

Besides the public financial institutions *(IDBI, IFCI, ICICI* and *SIDBI),* as discussed above, certian banks, viz., State Bank of India, Canada Bank and Grindlays Bank have also set up venture capital funds. The State Bank of India has set up the venture capital fund through its subsidiary *SBI* Capital Markets Limited. Canara Bank has also set up a venture capital fund through its subsidiary Canbank Financial Services Limited. Grindlays Bank has also launched India Investment Fund. The funds are raised from *NRIs* abroad. It is going to provide venture finance to suitable projects out of this fund. In the private sector, the Credit Capital Corportation has set up the Credit Capital Venture Fund India Ltd. The Corporation intends to involve multinational bodies like Asian Development Bank and Commonwealth Fund in its financing.

Guidelines for Venture Capital Fund Companies

The Government of India announced on November 25, 1989 certain guidelines regarding establishment and functioning of Venture Capital Funds Companies. These guidelines were found to be restrictive and were repealed on 25-7-1995. The new guidelines for functioning of Venture Capital Fund in the country were announced by SEBI on 4th December, 1996. The basic features regulating Venture Capital Fund can be summarised as follows

1. **Meaning.** *VCF* means a fund established in the form of a company or trust which raises money through loans, donations, issue of securities, or units, as the case may be, and makes or proposes to make investments in accordance with these regulations.

2. **Registration with *SEBI.*** Any company or trust proposing to carry on any activity as venture capital fund has to apply to SEBI for grant of a certificate. The existing venture capital funds were also required to make such application.

3. **Eligibility Criteria.** The eligibility criteria for the grant of certificate requires fulfilling of the following conditions:

(a) If the application is made by a company:

(1) Memorandum of association has the main objective as carrying on of

the activity of a venture capital fund.

(ii) It is prohibited by its memorandum and articles of association from making an invitation to the public to subscribe to its securities.

(iii) Its director or principal officer employee is not involved in any litigation connected with the securities market which may .have an adverse bearing on the business of the applicant.

(iv) Its director, principal officer or employee has not at any time been convicted of any offence involving moral turpitude or any economic offence.

(b) If the application is made by a trust:

(i) The instrument of trust is in the form of a deed and is duly registered.

(ii) The main objective of the trust is to carry on the activity of a venture capital fund.

(iii) The directors of its trustee company, if any, or any trustee is not involved in any litigation connected with the securities market which may have an adverse bearing on the business of the applicant.

(iv) The directors of its trustee company, if any, or any trustee has not at any time been convicted of any offence involving moral turpitude or of any economic offence.

(c) The company or trust has not been refused a certificate by *SEBI* or its certificate should not have been cancelled or suspended as per the regulations framed for the purpose.

4. **Grant of certificate.** If *SEBI* is satisfied that the applicant is eligible for grant of certificate, it will on receipt of requisite fee from the applicant grant such certificate. Any applicant whose application has been rejected shall not carry on any activity as a venture capital fund.

5. **Investment.** A venture capital fund may raise money from any investor whether Indian or non-resident Indian. However the minimum investment from the concerned investor should not be less than Rs. 5 lakhs.

6. **Restrictions on Investment.** All investments made or to be made by a venture capital fund shall be subject to the following restrictions:

(a) The venture capital fund shall not invest in the equity shares of the company or institutions providing financial services.

(b) At least 80% of funds raised by a venture capital fund shall be invested in:

(1) the equity shares or equity related securities issued by a company whose securities are not listed on any recognised stock exchange;

(ii) the equity shares or equity related securities of a financially weak company or a sick industrial company, where securities may or may not be listed on the recognised stock exchnage; and

(iii) providing financial assistance in any other manner to companies in whose equity shares the venture capital fund has invested under clauses *(b) (1)* and (b) (ii) above.

1. Prohibition on listing. No venture capital fund is entitled to get its securities or units, as the case may be, listed on any recognised stock exchange till the expiry of three years from the date of issuance of securities or units, as the case may be, by the venture capital fund.