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VENTURE CAPITAL BOOMS IN INDIA

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Abstract

A new private company that does not wish to raise funds from public markets may look to venture capital. Venture capital is offered to any business by those prepared to invest in risky ideas with a promising future possibility. Such funds are referred to as venture capital funds. Venture money is vital in the startup ecosystem because it provides the capital that emerging companies require growing and scaling. Many businesses would be unable to hire workers, develop products, and sell themselves to clients if they did not have access to venture funding. The paper discusses about the concept of venture capital, current status, stages of financing and how venture capital firms take returns.

Keywords: Venture capital, current status, stages of financing

Introduction

The year 2022 has been wonderful for Indian startup companies, who have raised more than $20.82 billion in capital. The number of deals climbed from 948 to 1129 in the first eight months despite the European war and the constant rise in inflation experienced globally. Venture capital financing is embracing an investor's confidence, money, and skills in exchange for funding prospective growth with the expectation that financial reward will follow when the business succeeds. In India, venture capital financing is not just about the money; it's also about promoting new ventures, technologies, and ideas that have a real-world impact and address pressing problems.

The game now goes by a different name. Indian venture capitalists are currently playing a game of high risk and big profit rather than seeking for safe bets. The majority of VCs in India today are searching for a smaller company who will provide them with significant earnings and development. However, investing in a startup carries a significant risk because they haven't yet demonstrated their worth and are more reliant on market conditions than an established company.

Meaning of Venture Capital

A type of private institutional investment called venture capital involves funding start-up businesses with a short operating history but significant growth and value-creation potential. VC investments are typically made against stock holdings in a firm and are therefore high-risk, high-reward investments. When evaluating startups for investment, venture capitalists typically look for some form of validation and/or novel products or services. One of the key features of venture capital investing is that it frequently involves mentoring and company strategy development in addition to actual investment.

Private investment vehicles called venture capital pool money from HNIs, financial institutions, insurance companies, and pension funds. Specialized investing firms run and manage these money pools. A VC firm operates in line with its predefined investment thesis or strategy, which summarises the numerous aspects they take into account prior to investing in a company. Investors in VC firms make investments after taking into account numerous tactics and aspects that are outlined in the firm's thesis.

Venture Capital firms in India are regulated by SEBI (AIF) Regulations 2012 and are classified as Alternative Investment Funds. Like other forms of funding, venture capital financing also operates. A company with growth potential presents its plans with venture capital firms. According to its investment thesis, the firm checks and evaluates numerous components of the business. The VC firm constructs a contract and considers investing if the company meets the thesis.

Stages of VC Financing:

Pitch: The startups provide the VC firm their pitch or business strategy (s). Startups should conduct due diligence to confirm that the objectives and tactics of the VC are compatible with their company and sector. Investors can now choose to approve, reject, or request further information about the company.

Deep dive: This stage is typically reached if the venture capitalist (VC) thinks favourably of the startup pitch. The investment company may go in-depth with the companies it deems attractive or investable.

Negotiation: A VC firm would structure a contract and share the term sheet/memorandum with the startup if and when they decided to invest in a company. This document includes information about the Terms & Conditions, the amount of the investment, and the business's value.

Due diligence: The VC companies do a thorough due diligence investigation after accepting the term sheet to verify the deal's accuracy and validity and to ensure good governance.

Definitive documentation: The VC company prepares and distributes final documents following successful and thorough due diligence. This is the last step before the business receives an investment, subject to any precedent or follow-up conditions that may be established during the due-diligence process.

Stages of Venture Capital investing:

During the venture capital process, startups have to go through multiple stages or rounds of financing, starting with:

Seed Round: This happens in the early stages when an entrepreneur has a business plan and needs funding for research and development. Angel investors are more involved in this round

Early Stage Round: The first round of finance, often known as Series A funding, can be raised once the business plan is complete and scalable. They can then pursue series B and C.

Late Stage: The Company can raise additional funds later to create ideal market circumstances for its earlier investors as it develops and is ready for an IPO or an M&A.

A VC firm often takes part in all important investment rounds in order to get more stock shares and raise the credibility of a fledgling company. Businesses benefit because it lessens risk and dispersion of work.

In addition to other industries like D2C, India will witness significant investment in blockchain, Web 3.0, robots, and the Internet of Things (IoT) in 2022. Early-stage venture capital investments in India (up to Series A rounds) increased by over 28% to $1.50 billion from $1.17 billion a year earlier, according to a recent Tracxnreport.

How do Venture Capital funds make money?

Venture Capital firms are specialized pooling Vehicles pooling in money from sophisticated investors and investing typically in early stage businesses with high growth potentials and innovation at their center.

In exchange for a percentage of the profits earned by the company as a result of its investment procedures, venture funds pool money from their investors or limited partners. Venture capital firms only profit once a startup has a successful exit from the market. When making an investment, a typical VC firm assesses the startup's growth in order to plan a profitable exit and maximise returns. They typically specify a price at which they will sell, either at a loss or a profit.

IPO

A public offering in which shares of a firm are sold to institutional investors and typically also to retail investors is known as an initial public offering (IPO) or stock launch. Usually, one or more investment banks underwrite it and make arrangements for the shares to be listed on one or more stock exchanges. To ensure they receive the best potential return, investors wait for the most advantageous time to launch an IPO.

Secondary Market

A secondary market strategy is one in which a venture capitalist sells their stake to a third party, typically other venture capitalists, in a secondary market (where investors buy securities or assets from other investors). The key point here is that if the venture investor is eager to exit or take returns, the third party would acquire the shares at a reduced cost.

Share Repurchase

In this tactic, the company's founders purchase the shares back from venture capital firms. While it facilitates the investor's speedy exit from a company, it also benefits the company by raising earnings per share.

Acquisition

When a business acquires anything from you, it makes an acquisition, in which case you relinquish ownership. In this situation, the acquiring business issues a tender offer to all shareholders in order to buy their shares, frequently in cash at a higher price than what the investors paid.

Conclusion

An alternative to traditional financing is venture capital. It enables rising growth enterprises to get funding to launch a company, expand their product line, boost capabilities, sharpen talents, have commercial scalability, and have access to domestic and international markets. Some of the most well-known companies to have received venture financing during its early stages include Apple, Microsoft, and Google. Many Indian companies like Myntra, BookMyShow, BabyOYE, Freshdesk, Flipkart have established their business through venture capital funds.

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