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The Role of Risk Capital towards Economic Growth

Kannan.J
Associate Professor MBA, Department of Business Administration
Bharath Institute of Higher Education and Research
Selaiyur, Chennai, Tamil Nadu 600 073

ABSTRACT

"Your Idea My Money" is nothing but Venture capital. Investment is necessary for every business activity without investment no business can exist. This we can very well realize when we just think of the position of a person who is innovative ,ambitious ,having new ideas, ready to take risk but left without investment. In order to bridge this gap a helping hand arises by the name Risk Capital. It means long term risk equity finance where the primary reward for its provider is eventual capital gain and not the interest or dividend yield. it is the beginning of financing new and budding enterprises to grow rapidly but also development capital for later stages of business. The RBI defines venture capital as an activity by which an investor supports an entrepreneurial talent with finance and business skills to exploit market opportunities and thus obtain long term market gains. Venture capital firm serves as an intermediary between investors for high return and entrepreneur in scarce of capital. It carries both a loss and the returns. The sources of venture capital are investment companies, wealthy private individuals, banks, pension funds, trusts, corporations and insurance agencies etc. This paper focuses on 1) the need of venture capital to new entrepreneurs 2) the recent trends in providing venture capital 3)the relevance of venture capital towards economic growth.

1. INTRODUCTION

Venture capital is the capital setup by small firm specializing in new technologies with large risk factors but with potential growth for the owner s of shareholders. Venture capital firm serves as an intermediary between investors for high returns and entrepreneur in scarce of capital. It carries both a loss and the returns. The sources of venture capital are investment companies; wealthy private individuals, banks, pension funds Trusts, Corporations, and insurance agencies, etc.

ORIGIN

Venture capital finance was first started by IFCI Which Sponsored the risk capital foundation in 1975 It has been converted as Risk Capital and Technological Finance Corporation ltd in 1988.The government of India have established venture capital funds in 1986 through IDBI to assist entrepreneurs. In 1986, ICICI launched venture capital scheme to strengthen new technocrats.
The Technology Development and Information company of India ltd was set up in 1988. The ICICI with UTI established venture capital funds in 1988 and second of this scheme in 1990. The IDBI set up through the Technology Development Fund in the form of equity, conditional loans and convertible debentures. Among the banks, State Bank of India has launched the SBI capital, Canara Bank launched the Can bank financial services ltd. The grind lays Bank launched the India

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investment fund etc. The other corporate bodies are Gujarat Industrial investment corporation ltd and Andhra Pradesh industrial development corporation. In the private sector, the credit capital finance corporation has been promoting the credit capital venture fund India ltd financed by UTI,ICICI,Asian Development bank and the common wealth development fund.

2. IMPORTANCE OF VENTURE CAPITAL

Venture capital funds are potential investment of growth and sustenance of emerging industries in an economy for innovative products and services to prosper in a competitive market. Venture capitalists strive to provide entrepreneurs with the support they need to create scalable business with sustainable growth. Venture capital can boost the economic growth and contribute to technological in India though the government has undertaken several reforms in the venture capital industry the regulatory environment is still far from comfortable in the industry

Venture capital plays a significant role in fostering industrial development. It helps entrepreneurs to launch new project ideas to develop products with the use of new technology. Venture capital helps in employment generation for educated, skilled workers and also technocrats. It acts as complementary to the entrepreneurs. They advise the promoters on project planning, monitoring, financial management, including working capital and public issue.

3. FEATURES OF VENTURE CAPITAL

1) Venture capital is equity finance for the new companies.
2) it is a long term investment without much disturbance
3) The involvement with the promoters of the business
4) it provides high returns through capital gains at the time of exit
5) small and medium scale enterprises will be boasted up by venture capital investment

4. VENTURE CAPITAL INSTITUTIONS

1) RISK CAPITAL AND TECHNOLOGY FINANCE CORPORATION LTD

It was set up in 1988 by reconstituting the risk capital foundation. It was promoted by IFCI to provide both risk capital and venture capital assistance.

2) TECHNOLOGY DEVELOPMENT AND INFORMATION COMPANY OF INDIA LTD

The TDICI has been promoted jointly by ICICI and UTI. It provides financial support to small and medium enterprises.

3) GUJARAT VENTURE FINANCE LTD.

It provides finance for innovations in technology, energy conservation and commercialization of technology.

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4) ANDHRAPRADESH INDUSTRIAL DEVELOPMENT CORPORATION VENTURE CAPITAL

It focuses on technological innovations for quality up gradation, energy savings, and adaptation of imported technologies.

5) CANARA BANK VENTURE CAPITAL FUND

Canara bank venture capital fund has been promoted by the camera bank. It was set up in 1989. It focuses on the commercial exploitation of new technologies and technological up gradation.

6) GRIND LAYS BANK

It provides finance by way of equity or convertible debentures.

7) **CREDIT CAPITAL VENTURE FUND LTD**.

It provides finance to high growth ventures such as information technology projects.

TYPES OF VENTURE CAPITAL

1) ALL INDIA DFI'S SPONSORED VENTURE CAPITAL FUNDS

Development financial institution at all India level promoted venture capital funds such as technology development and information company of India ltd by ICICI,risk capital and technology finance corporation ltd by IFCI and risk capital

2) SFCS SPONSORED VCFS

These VCFs are promoted by state level developmental financial institutions such as Gujarat venture capital limited by GIIC and Andhra Pradesh venture capital limited by AndhraPradesh state financial corporation.

3) BANKS SPONSORED VCFS

These are promoted by the public sector banks such as canfina and SBI caps

4) PRIVATE VENTURE CAPITAL FUNDS

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Private venture capital funds are promoted by foreign banks, private sector companies and financial institutions such as Indus venture capital fund, credit capital venture fund and grind laysIndia development fund

5. GUIDELINES FOR PROVIDING VENTURE CAPITAL

The venture capital companies have been given certain guidelines for providing venture capital. Accordingly, the venture capital companies must obtain a detailed report from the borrowing company. The report should contain the following details:-

1) History of the borrowing company
2) Facilities available for the borrowing company
3) Description of the products manufactured by the company
4) Market trend of the products
5) Cash flow position of the concern
6) Operating profit
7) Biographical sketches of its key personnel.

6. VENTURE CAPITAL INVESTMENT FIRMS IN INDIA

Sequoia capital India
Venture east
Intel capital
Helion venture partners
DFJ India
Nexus India capital
NEA Indo us ventures
IDG India ventures
Kleinerperkins
Norwest venture partners
Canaan partners, Inventus capital partner

7. ROLE OF VENTURE CAPITAL TOWARDS ECONOMIC GROWTH

Venture capital firms broadens their interest areas beyond information's technology companies like health care and life sciences, financial services and Food and Beverages etc.
Venture capital firms invested $420 million across 69 investments.

It can walk the talk in terms of “adding value beyond the money”. India's economic growth rate accelerated to 9.2% in 2011 from 8.4% in 2010 on the back of a strong performance by the manufacturing and services sectors. This justifies to a great extend the ease in funds raised venture capital. Venture capital gave a positive assessment of current conditions both in terms of the overall business climate for fund raising specifically.

8. SEBI AND VENTURE CAPITAL

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The SEBI announced the regulations for venture capital funds in 1996, the primary aim of protecting the interest of investors and providing flexibility to fund managers to make suitable investment decisions. It stipulate the registration of the organization with SEBI and grant of certificate for commencement of Rs. 5 crore and also it could invest up to 40 percent of the paid up capital of investee company or up to 20 percent of the corpus of the fund should be invested in unlisted shares of the venture capital assisted companies. A venture capital fund cannot to carry out other financial services. Venture capitalist can invest the 20 percent of the venture capital fund in any listed company's securities or in non equity securities besides loans and inter corporate deposits.

9. CONCLUSION

It is of no doubt that India is the attractive place to invest for the investors within and abroad. The venture capital plays a dominant role to do more business and to develop our economy. The government of India should also make certain rules liberal for the young new entrepreneurs to come.

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