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VENTURE CAPITAL FINANCING: ISSUES AND CHALLENGES IN INDIA

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ABSTRACT: In an emerging economy like India, we see the rise of fast-growing companies that can be significant but lack the financial resources to do so. So, venture capital is a life-saving concept that provides professionals with money to invest in these companies. Funds can be raised through loans, issuing securities or donations. It is still in its infancy in India and there is a lot of pressure on the global competition and technology front. With venture capital, the venture capital company provides financing to the start-up company in exchange for the capital in the start-up. This is most common in growing technology industries such as biotechnology and software. A person who makes venture capital investments is a venture capital investor and usually works for a venture capital firm. A firm typically has one or more investment portfolios owned by limited partnerships. The private equity investor is often a general partner in the portfolio, and individual investors or other institutions, especially university endowments and pension funds, are limited partnerships. This paper seeks to identify the problems and challenges of venture capital financing in India and the resulting opportunities.

Keywords: Equity financing, securities, challenges.

I.INTRODUCTION

Venture capital financing is defined by the Securities Exchange Board of India (SEBI) as a trust fund that can be funded by selling securities, borrowing money, or soliciting donations. Reserves raised through these assets are utilized for profoundly beneficial and potential undertakings that work at a higher gamble or misfortune. The individual who collects the cash is known as a financial speculator and gives assistance, information, support and systems administration to potential business thoughts. A capitalist is also willing to take risks and is in charge of financing new, potentially profitable businesses. His job is to give specialized help, showcasing help and general activity of the task. Assuming that a financial speculator finds a business thought that appears to be universally serious or in fact plausible, he should seriously mull over putting resources into that undertaking. Assets can be raised from both public and confidential establishments, for example, value or obligation and a mix of both. Since the economic growth policy of liberalization in 1991, important things have occurred; Entrepreneurship has grown as a result of these shifts in venture capital practices. There has been a significant increase in the number of venture capital firms since 1991. It is fascinating to take note of those effective organizations, for example, Intel, Prophet, Cisco and Skype were first subsidized by funding firms. This trend has also begun in India, where IT sectors have been influenced by venture capital.

II.OBJECTIVES OF THE STUDY

- Understand venture capital financing in detail
- To understand the problems and challenges of venture capital financing in India
- To understand the potential of venture capital financing in India

III.BASIC UNDERSTANDING OF VENTURE CAPITAL FINANCING

The concept of venture capital financing originated in the United States at the end of the 19th century and began to gain traction in the late 1970s. The American Research and Development was the first venture capital organization, and it set the stage for the financing of over 100 businesses. There are four phases in the supporting system, beginning with thought age; begins, creeps up, and afterward finishes with an exit.

- **Coming up with ideas:** The investment supporting cycle starts with a proposed field-tested strategy. The arrangement ought to incorporate a concise rundown, business potential open doors, monetary practicality and other pertinent subtleties. The plan is approved after the group examines the concepts.
- **Starting gathering:** A meeting of all necessary stakeholders is held to determine the next course of action when the plan is ready.
- **Planning:** It aims to exchange information, develop strategies, and address complaints from customers.
- **Term sheet:** The term sheet makes sense of the essential agreements between all partners.
- **Funding will be done in three stages**
- **Beginning phase financing:** It begins with seed financing, seed subsidizing and first stage subsidizing. The amount offered as a loan is considered seed funding. After that, services, plans, and products are developed with seed funding. The actual first-stage financing comes next, financing all of the company's most important activities.
- **Expenditure funding:** Assuming that organizations in all actuality do well in the beginning phases, the subsequent stage is extension. It receives funding to expand and capitalize on new business opportunities.
- **Buyout supporting:** This is the supporting of the acquisition of part or the entire organization.

In terms of returns, venture capital funding has a number of advantages. It can carry cash to the organization; they give the organization investment opportunities notwithstanding specialized and promoting help. However, it likewise has specific drawbacks; the way that total independence is lost when we include others in our business, navigation is compromised. Private equity financing is a risky type of financing that typically has only short-term advantages.

IV.ISSUES AND CHALLENGES OF VENTURE CAPITAL FINANCING IN INDIA

- **Administrative system issues:** India right now misses the mark on legitimate convertible system; the issue of share price, cap, and floor prices necessitates a cumbersome procedure.
- **Long process of transmission:** There are numerous procedures in which the parties' agreements must be finalized, which exhaust the entire process; These regulations ought to be relaxed through some provisions.
- **Master the executives:** The Venture Capital Finance cycle requires a group of specialists who can assess all perspectives; this inflates costs for organizations and at times prompts manual blunders.
- **Long-term advantages:** Indians are benefit situated ordinarily, they need a prompt outcome, which isn't true with investment supporting, it has a more drawn-out restitution period and takes time.
- **Market size:** The power focus of Venture Capital Finance is still little; that far can't target enormous clients.
- **Mismatch in Demand and Supply:** There is a serious bungle among request and supply in the Indian market. Some new businesses are searching for funding yet are not actually sound. At times they need exits from the Venture Capital Finance that are not covered by the guidelines.
- **Global rivalry:** Global assets have a huge offer in the Indian market. These worldwide business sectors frequently disregard neighborhood needs. This issue ought to be tended to and more subject to homegrown organizations.
- **Low quality administration:** One of the company's most pressing issues is quality care. Indian overall set of laws is exceptionally powerless and equity consumes most of the day.
- **As needed, commercial organization:** The main thing is an immense business association; it can carry gigantic changes to the business environment of the country.

V.VENTURE CAPITAL FINANCING OPPORTUNITIES IN INDIA

By delivering the guidelines of chance capital, the public authority advances the improvement of the capacity to utilize existing and procured assets and in this way the improvement of business venture. On the off chance that in 1996-1998 just eight homegrown confidential value speculation reserves were enlisted with SEBI, then in 1999-2000 currently 14 assets were enrolled. Institutional interest is rising, and foreign capital investments are also rising. In conjunction with local government financial institutions and SIDBI, numerous state governments have established IT venture capital funds. Andhra Pradesh, Karnataka, Delhi, Kerala, and Tamil Nadu are among these. Soon, additional states will join. In 2000, the Service of Money reported the progression of tax assessment from investment assets to advance them and increment work creation. This is supposed to give areas of strength for a to abroad Indians living in Silicon Valley and somewhere else to contribute a portion of their capital, skill and organizations in these endeavors. Gray cell Ltd., a media company based in Bangalore, has recently received approximately $1.7 million in venture capital investments. Soon, the company will start making and selling branded online consumer goods. 10-12 years. The staff behind these lodges should be specialists to take your business to a higher level.

- ➢ Need put together exploration ought to be finished with respect to the current organizations in India and their holes ought to be filled to make more grounded organizations.
- ➢ Regulations should be enacted by the government to support innovative businesses and concepts.

- A more grounded grumbling dealing with framework ought to be carried out.
- The public authority's drives in planning approaches empowering financial backers and business people.
- A lot of scientific and technical research that has already been done and is still being done by a lot of research labs. A loan could be given to start a national venture capital fund for software and IT.

Industry (NFSIT) in a joint effort with different monetary organizations for limited scope enterprises and improvement.

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