

Role of Venture Capital in Indian Economy

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Abstract: *The Venture capital is the life blood of new industry in the financial market today. Venture capital is the money provided by professionals who invest alongside management in young, rapidly growing companies that have the potential to develop into significant economic contributors. Venture capital is an important source of equity for start-up companies. Venture capital can be visualized as “your ideas and our money” concept of developing business. The venture capital industry in India has really taken off in. Venture capitalists not only provide monetary resources but also help the entrepreneur with guidance in formalizing his ideas into a viable business venture. In order to promote innovation, enterprise and conversion of scientific technology and knowledge based ideas into commercial production, it is very important to promote venture capital activity in India. India’s success story in the area of information technology has shown that there is a tremendous potential for growth of knowledge based industries. The recent economic slowdown of IT Sector is provided a chance to Venture capitalist to consider investment opportunities in other sectors such as Manufacturing and Service Industry which will be necessary to have overall economic development and to reduce the economic dependency on a single sector. The current paper will concentrate on the different opportunities in Non-IT Sector as well the investment opportunities available for Venture capitalist which ensures better perspective for Indian economy.*

Key Words: *Life Blood, Economic Contributor, Entrepreneur, Business Venture, Information Technology*

I. Introduction

The Venture capital sector is the most vibrant industry in the financial market today. Venture capitalists are professional investors who specialize in funding and building young, innovative enterprises. Venture capitalists are long-term investors who take a hands-on approach with all of their investments and actively work with entrepreneurial management teams in order to build great companies which will have the potential to develop into significant economic contributors. Venture capital is an important source of equity for start-up companies. Venture capital can be visualized as “your ideas and our money” concept of developing business. Venture capitalists are people who pool financial resources from high net worth individuals, corporate, pension funds, insurance companies, etc. to invest in high risk - high return ventures that are unable to source funds from regular channels like banks and capital markets. The venture capital industry in India has really taken off in. Venture capitalists not only provide monetary resources but also help the entrepreneur with guidance in formalizing his ideas into a viable business venture.

Five critical success factors have been identified for the growth of VC in India, namely:

- The regulatory, tax and legal environment should play an enabling role as internationally venture funds have evolved in an atmosphere of structural flexibility, fiscal neutrality and operational adaptability.
- Resource raising, investment, management and exit should be as simple and flexible as needed and driven by global trends.
- Venture capital should become an institutionalized industry that protects investors and invitee firms, operating in an environment suitable for raising the large amounts of risk capital needed and for spurring innovation through start-up firms in a wide range of high growth areas.
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- In view of increasing global integration and mobility of capital it is important that Indian venture capital funds as well as venture finance enterprises are able to have global exposure and investment opportunities
- Infrastructure in the form of incubators and R&D need to be promoted using government support and private management as has successfully been done by countries such as the US, Israel and Taiwan. This is necessary for faster conversion of R&D and technological innovation into commercial products.

With technology and knowledge based ideas set to drive the global economy in the coming millennium, and given the inherent strength by way of its human capital, technical skills, cost competitive workforce, research and entrepreneurship, India can unleash a revolution of wealth creation and rapid economic growth in a sustainable manner. However, for this to happen, there is a need for risk finance and venture capital environment which can leverage innovation, promote technology and harness knowledge based ideas.

II. Venture capital at a take-off stage in India:-

The venture capital industry in India is still at a nascent stage. With a view to promote innovation, enterprise and conversion of scientific technology and knowledge based ideas into commercial production, it is very important to promote venture capital activity in India. India's recent success story in the area of information technology has shown that there is a tremendous potential for growth of knowledge based industries. This potential is not only confined to information technology but is equally relevant in several areas such as bio-technology, pharmaceuticals and drugs, agriculture, food processing, telecommunications, services, etc. Given the inherent strength by way of its skilled and cost competitive manpower, technology, research and entrepreneurship, with proper environment and policy support, India can achieve rapid economic growth and competitive global strength in a sustainable manner.

A flourishing venture capital industry in India will fill the gap between the capital requirements of Manufacture and Service based startup enterprises and funding available from traditional institutional lenders such as banks. The gap exists because such startups are necessarily based on intangible assets such as human capital and on a technology-enabled mission, often with the hope of changing the world. Very often, they use technology developed in university and government research laboratories that would otherwise not be converted to commercial use. However, from the viewpoint of a traditional banker, they have neither physical assets nor a low-risk business plan. Not surprisingly, companies such as Apple, Exodus, Hotmail and Yahoo, to mention a few of the many successful multinational venture-capital funded companies, initially failed to get capital as startups when they approached traditional lenders. However, they were able to obtain finance from independently managed venture capital funds that focus on equity or equity-linked investments in privately held, high-growth companies. Along with this finance came smart advice, hand-on management support and other skills that helped the entrepreneurial vision to be converted to marketable products.

A similar investor preference for start-up IT companies is being seen, though not of the same magnitude. Yet, it is apparent that investors are willing to take higher risks for a potentially higher reward by investing in start-up companies.

Until 1998, the venture creation phenomenon for the IT sector in India had been quite unsatisfactory. Some experts believe that India lacks strong anchor companies like HP and Fairchild, which funded the start-ups of early Silicon Valley entrepreneurs. Others believe that Indian entrepreneurs are not yet globally connected and are often unwilling to share equity with a quality risk capital investor. There was also a perception that start-ups in India do not typically attract the right managerial talent to enable rapid growth. Finally, exit options were considered to be few, with the general feeling that entrepreneurs were unwilling to sell their start-ups even if it was feasible. As a result, much of the risk capital available was not quickly deployed. However, since March 1999, things have been changing dramatically for the better.

The venture capital phenomenon has now reached a take-off stage in India. Risk capital in all forms is becoming available more freely. As against the earlier trend, where it was easy to raise only growth capital, even financing of ideas or seed capital is available now. The number of players offering growth capital and the number of investors is rising rapidly. The successful IPOs of entrepreneur-driven Indian IT companies have had a very positive effect in attracting investors. The Indian government initiatives in formulating policies regarding sweat equity, stock options, tax breaks for venture capital along with overseas listings have all contributed to the enthusiasm among investors and entrepreneurs, as has the creation of the dot.com phenomenon.

In India, the venture capital creation process has started taking off. All the four stages - including idea generation, start-up, growth ramp-up and exit processes - are being encouraged. However, much needs to be done in all of these areas, especially on the exit side.

III. India is attractive for risk capital:-

India certainly needs a large pool of risk capital both from home and abroad. Examples of the US, Taiwan and Israel clearly show that this can happen. But this is dependent on the right regulatory, legal, tax and institutional environment; the risk-taking capacities among the budding entrepreneurs; start-up access to R&D flowing out of national and state level laboratories; support from universities; and infrastructure support, such as telecoms, technology parks, etc.

Steps are being taken at governmental level to improve infrastructure and R&D. Certain NRI organizations are taking initiatives to create a corpus of US\$150m to strengthen the infrastructure of IITs. More focused attempts will be required in all these directions.

Recent phenomena, partly ignited by success stories of Indians in the US and other places abroad, provide the indications of a growing number of young, technically-qualified entrepreneurs in India. Already there are success stories in India. At the same time, an increasing number of savvy, senior management personnel have been leaving established multinationals and Indian companies to start new ventures. The quality of enterprise in human capital in India is on an ascending curve.

The environment is ripe for creating the right regulatory and policy environment for sustaining the momentum for high-technology entrepreneurship. Indians abroad have leapfrogged the value chain of

technology to reach higher levels. At home in India, this is still to happen. By bringing venture capital and other supporting infrastructure, this can certainly become a reality in India as well.

India is rightly poised for a big leap. What is needed is a vibrant venture capital sector, which can leverage innovation, promote technology and harness the ongoing knowledge explosion. This can happen by creating the right environment and the mindset needed to understand global forces. When that happens we would have created not 'Silicon Valley' but the 'Ind Valley' - a phenomenon for the world to watch and reckon with.

A viable venture capital industry depends upon a continuing flow of investment opportunities capable of growing sufficiently rapidly to the point at which they can be sold yielding a significant annual return on investment. If such opportunities do not exist, then the emergence of venture capital is unlikely. In the U.S. and Israel such opportunities occurred most regularly in the information technologies. Moreover, in every country, with the possible exception of the U.S., any serious new opportunity has to be oriented toward the global market, because few national markets are sufficiently large to generate the growth capable of producing sufficient capital gains.

Since Independence, the Indian government strove to achieve autarky and the protection of Indian markets and firms from multinational competition guided nearly every policy – the information technology industries were no exceptions. The protectionist policy had benefits and costs. The benefit was that it contributed to the creation of an Indian IT industry; the cost was that the industry was backward despite the excellence of its personnel. Due to this lack of foreign investment and despite the presence of skilled Indian personnel, India was a technological backwater even while East Asia progressed rapidly.

In terms of experience, India contrasted favorably with most developing countries, which had small, inefficient stock markets listing only established firms. However, although these stock markets provided an exit opportunity, they did not provide the capital for firm establishment. Put differently, accessible stock markets did not create venture capital for startups; they merely provided an opportunity for raising follow-on capital or an exit opportunity. Other institutional sources of funds .India has a strong mutual fund sector that began in 1964 with the formation of the Unit Trust of India (UTI), an open-ended mutual fund, promoted by a group of public sector financial institutions. Because UTI's investment portfolio was to consist of longer-term loans, it was meant to offer savers a return superior to bank rates. In keeping with the risk-averse Indian environment, initially UTI invested primarily in long-term corporate debt. However, UTI eventually became the country's largest public equity owner as well. This was because the government controlled interest rates in order to reduce the borrowing costs of the large manufacturing firms that it owned. These rates were usually set well below market rates, yet UTI and other institutional lenders were forced to lend at these rates. In response, firms started issuing debt that was partially convertible into equity in order to attract institutional funds.

The largest single source of funds for U.S. venture capital funds since the 1980s has been public and private sector pension funds. In India, there are large pension funds but they are prohibited from investing in either equity or venture capital vehicles, thus closing off this source of capital. In summation, prior to the late 1980s, though India did have a vibrant stock market, the rigid and numerous regulations made it nearly impossible for the existing financial institutions to invest in venture capital firms or in startups. Nearly all of these institutions were politicized, and the government bureaucrats operating them were risk-averse. On the positive side, there was a stock market with investors amenable to purchasing equity in fairly early-stage companies. It was also possible to bootstrap a firm and/or secure funds from friends and family – if one was well connected. However, no financial intermediaries comfortable with backing small technology-based firms existed prior to the mid 1980s. It is safe to say that little capital was available for any entrepreneurial initiatives. An entrepreneur aiming to create a firm would have to draw upon familial capital or bootstrap their firm.

An Indian venture capital industry is struggling to emerge and given the general global downturn, the handicaps existing in the Indian environment are threatening. As we have seen, many of the preconditions do exist, but the obstacles are many. Some of these can be addressed directly without affecting other aspects of the Indian political economy. Others are more deeply rooted in the legal, political, and economic structure and will be much more difficult to overcome without having a significant impact on other parts of the economy. A number of these issues were addressed in a report submitted to SEBI in January 2000 from its Committee on Venture Capital. SEBI then recommended that the Ministry of Finance adopt many of its suggestions.

In June 2000, the Ministry of Finance adopted a number of the Committee's proposals. For example, it accepted that only SEBI should regulate and register venture capital firms. The only criterion was to be the technical qualifications of their promoters, whether domestic or offshore. Such registration would not impose any capital requirements or legal structure – this is very important, because it would allow India to develop a legal structure suitable to its environment, while offering tax pass-through for all firms registered as venture capital firms with SEBI. This was an important achievement of the Committee's report. However, the proposed guidelines continued to prohibit finance and real estate investments. Whether this type of micromanagement is good policy seems dubious. Also, registered venture capital funds must invest 70 percent of their paid-in capital in unlisted equity or equity-related, fully convertible instruments. Similarly, related-company transactions would

be prohibited, and not more than 25 percent of a fund's capital could be invested in a single firm. In the U.S. most of these provisions are not law, but are codified in the limited partnership contracts and accepted as common sense. Rather than letting the market decide which venture capital firms are operating responsibly, the Indian government continues to specify a variety of conditions.

A number of suggestions were not accepted even though they would assist in the growth of venture capital. Many were related to the much larger general issues of corporate governance. For example, there was no change in the regulations regarding restrictions on currency non convertibility, providing employees more flexible stock-option plans, allowing domestic venture capital firms to hold equity in overseas startups, and regulations allowing greater flexibility in voting and dividend rights. Reluctance to adopt these measures is understandable, because they would strike at some of the fundamental issues of corporate governance in India. Thus they were seen as policy decisions that might set in motion a larger chain of events.

At the end of 2001, the Indian venture capital environment contained several unresolved issues. One important obstacle was the inability to pass through unrealized gains or losses through to the venture capital fund's investors through a direct distribution of stock or other securities unless the fund is organized as a trust. In the US, these "in-kind distributions" are the most common method of compensating investors. This method increases the return for socially beneficial tax-exempt organizations such as foundations and pension funds. Private individuals, of course, pay taxes. Allowing legal structures, such as limited partnerships, will enable such pass-through and encourage investment in venture capital funds

India has a large, sophisticated financial system including private and public, formal and informal actors. In addition to formal financial institutions, informal institutions such as family and moneylenders are important sources of capital. India has substantial capital resources, but as Table 1 indicates, the bulk of this capital resides in the banking system. In the formal financial system, lending is dominated by retail banks rather than the wholesale banks or the capital markets for debt. The primary method for firms to raise capital is through the public equity markets, rather than through private placements.

Critical factors for success of venture capital industry:

While making the recommendations the Committee felt that the following factors are critical for the success of the VC industry in India:

- (A) The regulatory, tax and legal environment should play an enabling role. Internationally, venture funds have evolved in an atmosphere of structural flexibility, fiscal neutrality and operational adaptability.
- (B) Resource raising, investment, management and exit should be as simple and flexible as needed and driven by global trends
- (C) Venture capital should become an institutionalized industry that protects investors and investee firms, operating in an environment suitable for raising the large amounts of risk capital needed and for spurring innovation through startup firms in a wide range of high growth areas.
- (D) In view of increasing global integration and mobility of capital it is important that Indian venture capital funds as well as venture finance enterprises are able to have global exposure and investment opportunities.
- (E) Infrastructure in the form of incubators and R&D need to be promoted using Government support and private management as has successfully been done by countries such as the US, Israel and Taiwan. This is necessary for faster conversion of R & D and technological innovation into commercial products.

The hassle free entry of such Foreign Venture Capitalists in the pattern of FIIs is even more necessary because of the following factors:

- (i) Venture capital is a high risk area. In out of 10 projects, 8 either fails or yield negligible returns. It is therefore in the interest of the country that FVCIs bear such a risk.
- (ii) For venture capital activity, high capitalization of venture capital companies is essential to withstand the losses in 80% of the projects. In India, we do not have such strong companies.
- (iii) The FVCIs are also more experienced in providing the needed managerial expertise and other supports.

Recommendations made by K B Chandrasekhar Committee:

- (1) Multiplicity of regulations – need for harmonization and nodal Regulator
- (2) Double taxation for Venture Capital Funds need to be avoided
- (3) Mobilization of Global and Domestic resources
- (4) Flexibility in Investment and Exit of Venture Capitalists:
- (5) Flexibility in the matter of investment ceiling and sectoral restrictions:
- (6) Relaxation in IPO norms:
- (7) Issue of Shares with Differential Right with regard to voting and dividend:
- (8) Global integration and opportunities:
 - (A) Incentives for Employees:
 - (B) Incentives for Shareholders
 - (C) Global investment opportunity for Domestic Venture Capital Funds (DVCF):

(9) Development in Infrastructure and R&D

(10) Self Regulatory Organization (SRO)

Implementation of these recommendations would lead to creation of an enabling regulatory and institutional environment to facilitate faster growth of venture capital industry in the country. Apart from increasing the domestic pool of venture capital, around US\$ 10 billion are expected to be brought in by offshore investors over 3/5 years on conservative estimates. This would in turn lead to increase in the value of products and services adding up to US\$100 billion to GDP by 2005. Venture supported enterprises would convert into quality IPOs providing over all benefit and protection to the investors. Additionally, judging from the global experience, this will result into substantial and sustainable employment generation of around 3 million jobs in skilled sector alone over next five years. Spin off effect of such activity would create other support services and further employment. This can put India on a path of rapid economic growth and a position of strength in global economy.

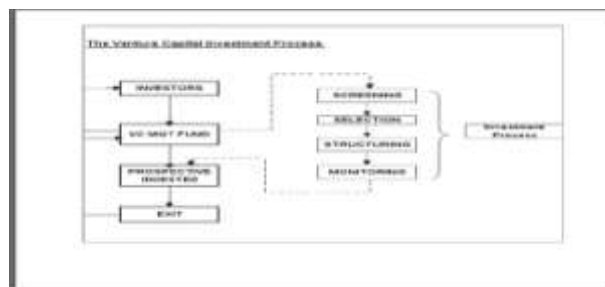
In 2010, venture capitalists invested approximately \$22 billion into nearly 2,749 companies. Of these, 1,001 companies received funding for the first time. The average venture fund size was \$149 million. Venture capitalists have been instrumental in developing sectors such as the computer, biotechnology and the communications industries. Today, the majority of venture capital is invested in high technology companies including software, biotechnology, medical devices, media and entertainment, wireless communications, Internet, and networking. In the last five years, the venture industry has also committed itself to investing in the clean technology sectors which include renewable energy, environmental and sustainability technologies and power management. However, venture capitalists also invest in innovative companies within more traditional industries such as consumer products, manufacturing, financial services, and healthcare services and business products and services. Venture capital activity has a significant impact on the U.S and global economies. Venture capital is a catalyst for job creation, innovation, technology advancement, international competitiveness and increased tax revenues. According to the 2011 Venture Impact study, produced by IHS Global Insight, originally venture-backed companies accounted for 11.87 million jobs and over \$3.1 trillion in revenue in the United States (based on 2010 data). Those totals compare to 21% of GDP and 11% of private sector employment.

Venture capitalists are long-term investors who take a very active role in their portfolio companies and it does not yield return on their investment for 7-10 years, on average. The initial investment is just the beginning of a long relationship between the venture capitalist and entrepreneur. Venture capitalists provide great value by providing capital and management expertise. Venture capitalists often are invaluable in building strong management teams, managing rapid growth and facilitating strategic partnerships. Typically, the venture capitalist realizes a return on their investment when the company goes public (IPO) or is merged or purchased by another company (M&A).

The **Indian Private Equity and Venture Capital Association** was established in 1993 and is based in New Delhi, the capital of India. IVCA is a member based national organization that represents Venture capital and Private equity firms, promotes the industry within India and throughout the world and encourages investment in high growth companies. It enables the development of venture capital and private equity industry in India and to support entrepreneurial activity and innovation. The IVCA also serves as a powerful platform for investment funds to interact with each other. In 2006, the total amount of private equity and venture capital in India reached US\$7.5 billion across 299 deals.

IVCA members comprise Venture capital firms, Institutional investors, Banks, Business incubators, Angel investor groups, Financial advisers, Accountants, Lawyers, Government bodies, Academic institutions and other service providers to the venture capital and private equity industry. Members represent most of the active venture capital and private equity firms in India. These firms provide capital for seed ventures, early stage companies, later stage expansion, and growth finance for management buy-ins/buy-outs of established companies. So far, the biggest member firm of IVCA is ICICI Ventures which currently has a \$750 million fund, and has \$450 million under management.

Venture Capital Process

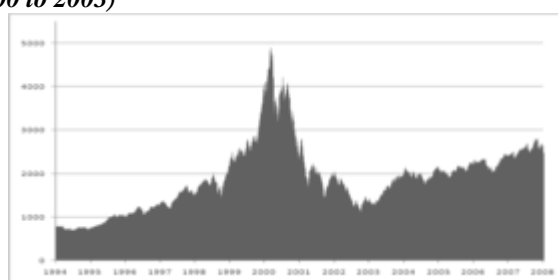


Source: <http://business.mapsofindia.com/venturecapital-process>

The 7th five year plan as well as the fiscal policy of the Government of India acknowledged the necessity for venture capital. Year 1973 also fostered venture capital as a source of funding new entrepreneurs and technology which was given by the report of the Committee on Development of small and medium entrepreneurs. The government of India, relying on the World bank's study of the inspection of the potential of development of Venture Capital in the private sector took a policy initiative and communicated guidelines for Venture Capital Funds in 1988 but these were restrictive; allowing the setting up of Venture Capital Funds by banks or financial institutions only.

Year 1988 marked the establishment of the Technology Development and Information Company of India Ltd. (TDICI) promoted by the ICICI and UTI (Unit Trust of India) and was immediately followed by the Gujarat Venture Finance Ltd. However, there was no significant Venture Capital activity till the mid 1990s; unfriendly policy and regulatory framework being the major reasons. In the year 1996, Security Exchange Board of India introduced Foreign Venture Capital and Private Equity Funds investing in India in order to regulate as well as facilitate Foreign Venture Capital and Private Equity Fund's investment in India. A venture may be defined as a project prospective of converted into a process with an adequate assumed risk and investment. With few exceptions, private equity in the first half of the 20th century was the domain of wealthy individuals and families.

The private equity crash (2000 to 2003)



The technology-heavy NASDAQ Composite index peaked at 5,048 in March 2000, reflecting the high point of the dot-com bubble.

The NASDAQ crash and technology slump that started in March 2000 shook virtually the entire venture capital industry as valuations for startup technology companies collapsed. Over the next two years, many venture firms had been forced to write-off large proportions of their investments, and many funds were significantly "under water" (the values of the fund's investments were below the amount of capital invested). Venture capital investors sought to reduce size of commitments they had made to venture capital funds, and, in numerous instances, investors sought to unload existing commitments for cents on the dollar in the secondary market. By mid-2003, the venture capital industry had shriveled to about half its 2001 capacity. Nevertheless, PricewaterhouseCoopers's Money Tree Survey shows that total venture capital investments held steady at 2003 levels through the second quarter of 2005.

Although the post-boom years represent just a small fraction of the peak levels of venture investment reached in 2000, they still represent an increase over the levels of investment from 1980 through 1995. As a percentage of GDP, venture investment was 0.058% in 1994, peaked at 1.087% (nearly 19 times the 1994 level) in 2000 and ranged from 0.164% to 0.182% in 2003 and 2004. The revival of an Internet-driven environment in 2004 through 2007 helped to revive the venture capital environment. However, as a percentage of the overall private equity market, venture capital has still not reached its mid-1990s level, let alone its peak in 2000. Venture capital funds, which were responsible for much of the fundraising volume in 2000 (the height of the dot-com bubble), raised only \$25.1 billion in 2006, a 2%-decline from 2005 and a significant decline from its peak.

Financing stages

There are typically six stages of venture round financing offered in Venture Capital, that roughly correspond to these stages of a company's development.

- **Seed Money:** Low level financing needed to prove a new idea, often provided by angel investors. Crowd funding is also emerging as an option for seed funding.
- **Start-up:** Early stage firms that need funding for expenses associated with marketing and product development
- **Growth (Series A round):** Early sales and manufacturing funds
- **Second-Round:** Working capital for early stage companies that are selling product, but not yet turning a profit
- **Expansion :** Also called Mezzanine financing, this is expansion money for a newly profitable company

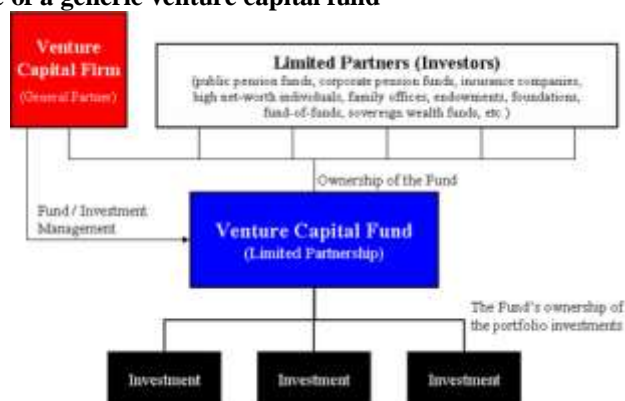
- **Exit of venture capitalist** : Also called bridge financing, 4th round is intended to finance the "going public" process between the first round and the fourth round, venture-backed companies may also seek to take venture debt

IV. Venture capitalists

A venture capitalist is a person or investment firm that makes venture investments, and these venture capitalists are expected to bring managerial and technical expertise as well as capital to their investments. A venture capital fund refers to a pooled investment vehicle that primarily invests the financial capital of third-party investors in enterprises that are too risky for the standard capital markets or bank loans. Venture capital firms typically comprise small teams with technology backgrounds (scientists, researchers) or those with business training or deep industry experience.

A core skill within VC is the ability to identify novel technologies that have the potential to generate high commercial returns at an early stage. By definition, VCs also take a role in managing entrepreneurial companies at an early stage, thus adding skills as well as capital, thereby differentiating VC from buy-out private equity, which typically invests in companies with proven revenue, and thereby potentially realizing much higher rates of returns. Inherent in realizing abnormally high rates of returns is the risk of losing all of one's investment in a given startup company. As a consequence, most venture capital investments are done in a pool format, where several investors combine their investments into one large fund that invests in many different startup companies. By investing in the pool format, the investors are spreading out their risk to many different investments versus taking the chance of putting all of their money in one start up firm.

Diagram of the structure of a generic venture capital fund



Structure

Venture capital firms are typically structured as partnerships, the general partners of which serve as the managers of the firm and will serve as investment advisors to the venture capital funds raised. Venture capital firms in the United States may also be structured as limited liability companies, in which case the firm's managers are known as managing members. Investors in venture capital funds are known as limited partners. This constituency comprises both high net worth individuals and institutions with large amounts of available capital, such as state and private pension funds, university financial endowments, foundations, insurance companies, and pooled investment vehicles, called funds of funds

Types

Venture Capitalist firms differ in their approaches. There are multiple factors, and each firm is different. Some of the factors that influence VC decisions include:

- Business situation: Some VCs tend to invest in new ideas, or fledgling companies. Others prefer investing in established companies that need support to go public or grow.
- Some invest solely in certain industries.
- Some prefer operating locally while others will operate nationwide or even globally.
- VC expectations often vary. Some may want a quicker public sale of the company or expect fast growth. The amount of help a VC provides can vary from one firm to the next.

Roles

Within the venture capital industry, the general partners and other investment professionals of the venture capital firm are often referred to as "venture capitalists" or "VCs". Typical career backgrounds vary, but, broadly speaking, venture capitalists come from either an operational or a finance background. Venture capitalists with an operational background tend to be former founders or executives of companies similar to

those which the partnership finances or will have served as management consultants. Venture capitalists with finance backgrounds tend to have investment banking or other corporate finance experience.

Although the titles are not entirely uniform from firm to firm, other positions at venture capital firms include:

- **Venture partners** — Venture partners are expected to source potential investment opportunities ("bring in deals") and typically are compensated only for those deals with which they are involved.
- **Principal** — this is a mid-level investment professional position, and often considered a "partner-track" position. Principals will have been promoted from a senior associate position or who have commensurate experience in another field, such as investment banking, management consulting, or a market of particular interest to the strategy of the venture capital firm.
- **Associate** — this is typically the most junior apprentice position within a venture capital firm. After a few successful years, an associate may move up to the "senior associate" position and potentially principal and beyond. Associates will often have worked for 1–2 years in another field, such as investment banking or management consulting.
- **Entrepreneur-in-residence (EIR)** — EIRs are experts in a particular domain and perform due diligence on potential deals. EIRs are engaged by venture capital firms temporarily (six to 18 months) and are expected to develop and pitch startup ideas to their host firm although neither party is bound to work with each other. Some EIRs move on to executive positions within a portfolio company.

Need of venture capital

- There are entrepreneurs and many other people who come up with bright ideas but lack the capital for the investment. What these venture capitals do is to facilitate and enable the start up phase.
- When there is an owner relation between the venture capital providers and receivers, their mutual interest for returns will increase the firms motivation to increase profits.

Venture capitalists have invested in similar firms and projects before and, therefore, have more knowledge and experience. This knowledge and experience are the outcomes of the experiments through the successes and failures from previous ventures, so they know what works and what does not, and how it works. Therefore, through venture capital involvement, a portfolio firm can initiate growth, identify problems, and find recipes to overcome them.

Compensation

Venture capitalists are compensated through a combination of management fees and carried interest (often referred to as a "two and 20" arrangement):

- **Management fees** — an annual payment made by the investors in the fund to the fund's manager to pay for the private equity firm's investment operations. In a typical venture capital fund, the general partners receive an annual management fee equal to up to 2% of the committed capital.
- **Carried interest** — a share of the profits of the fund (typically 20%), paid to the private equity funds management company as a performance incentive. The remaining 80% of the profits are paid to the fund's investors. Strong limited partner interest in top-tier venture firms has led to a general trend toward terms more favorable to the venture partnership, and certain groups are able to command carried interest of 25–30% on their funds.

Because a fund may be run out of capital prior to the end of its life, larger venture capital firms usually have several overlapping funds at the same time; doing so lets the larger firm keep specialists in all stages of the development of firms almost constantly engaged. Smaller firms tend to thrive or fail with their initial industry contacts; by the time the fund cashes out, an entirely-new generation of technologies and people is ascending, whom the general partners may not know well, and so it is prudent to reassess and shift industries or personnel rather than attempt to simply invest more in the industry or people the partners already know.

Main alternatives to venture capital

Because of the strict requirements venture capitalists have for potential investments, many entrepreneurs seek seed funding from angel investors, who may be more willing to invest in highly speculative opportunities, or may have a prior relationship with the entrepreneur.

Furthermore, many venture capital firms will only seriously evaluate an investment in a start-up company otherwise unknown to them if the company can prove at least some of its claims about the technology and/or market potential for its product or services. To achieve this, or even just to avoid the dilutive effects of receiving funding before such claims are proven, many start-ups seek to self-finance sweat equity until they reach a point where they can credibly approach outside capital providers such as venture capitalists or angel investors. This practice is called "bootstrapping".

There has been some debate since the dot com boom that a "funding gap" has developed between the friends and family investments typically in the \$0 to \$250,000 range and the amounts that most VC funds prefer

to invest between \$1 million to \$2 million. This funding gap may be accentuated by the fact that some successful VC funds have been drawn to raise ever-larger funds, requiring them to search for correspondingly larger investment opportunities. This gap is often filled by sweat equity and seed funding via angel investors as well as equity investment companies who specialize in investments in startup companies from the range of \$250,000 to \$1 million. The National Venture Capital Association estimates that the latter now invest more than \$30 billion a year in the USA in contrast to the \$20 billion a year invested by organized venture capital funds.

Crowd funding is emerging as an alternative to traditional venture capital. Crowd funding is an approach to raising the capital required for a new project or enterprise by appealing to large numbers of ordinary people for small donations. While such an approach has long precedents in the sphere of charity, it is receiving renewed attention from entrepreneurs such as independent film makers, now that social media and online communities make it possible to reach out to a group of potentially interested supporters at very low cost. Some crowd funding models are also being applied for startup funding, for example, Grow VC. One of the reasons to look for alternatives to venture capital is the problem of the traditional VC model. The traditional VCs are shifting their focus to later-stage investments, and return on investment of many VC funds have been low or negative.

In industries where assets can be securitized effectively because they reliably generate future revenue streams or have a good potential for resale in case of foreclosure, businesses may more cheaply be able to raise debt to finance their growth. Good examples would include asset-intensive extractive industries such as mining, or manufacturing industries. Offshore funding is provided via specialist venture capital trusts, which seek to utilise securitization in structuring hybrid multi-market transactions via an SPV (special purpose vehicle): a corporate entity that is designed solely for the purpose of the financing.

In addition to traditional venture capital and angel networks, groups have emerged, which allow groups of small investors or entrepreneurs themselves to compete in a privatized business plan competition where the group itself serves as the investor through a democratic process.

Law firms are also increasingly acting as an intermediary between clients seeking venture capital and the firms providing it.

Stage at which investment made	Risk of loss	Causation of major risk by stage of development
The Seed-stage	66.20%	72.00%
The Start-up Stage	53.00%	75.80%
The Second Stage	33.70%	53.00%
The Third Stage	20.10%	37.00%
The Bridge/Pre-public Stage	20.90%	33.00%

Types of Investing

By combining the two dimensions of CVC investing - strategic and financial objectives - four distinct investment strategies can be outlined.

A. Driving Investments Driving investments are pursued by CVCs for strategic alignment that is tightly linked between the investment company's operations and the startup company that is being invested in. The purpose of this investing option is to advance the strategy of the current business. The CVC looks for key growth areas within the startup companies and then hopes to combine them with the company's initiatives. Appropriately selected investing and alignment can benefit the investing company by furthering the corporate strategy. On the other hand, this could result in failure. Closely linked investments essentially roll into the current strategy in place. This would not be useful in dealing with already disruptive strategies in place, or in finding new ones when the investing company needs to update processes when trying to keep up with a changing environment. Thus, if CVCs are looking to "transcend current strategies and processes,"^[3] they would need to look to other investing strategies.

B. Enabling Investments Enabling investments are also made for strategic purpose, but in this case they are not linked closely with the investing company's operations. The thought process is that a tight link is not necessary for a successful investment to help the investing company to succeed. Although this may seem counterintuitive, the idea is to take advantage of complementary products. Enabling investments complement the strategy of the current business. Ideally, the popularity of the investments will help to create demand for the investing company's products by stimulating the industry in which the products are used. The limits of enabling investments are that they will only be successful if they "capture a substantial portion of the market growth they stimulate".

C. Emergent Investments While Emergent investments do not promote current strategies, they do link tightly with the investing company's operations. If the business environment or company's strategy changes, the investment could become strategically valuable. This design helps create a sort of option strategy that is

independent of financial returns. Emergent investments allow investing companies to explore new untapped markets that they are unable to enter due to their focus on the current markets they serve. Investment products can be sold in new markets to help gather vital information that could not be otherwise obtained. If the information looks promising, the company could look to shift towards this new direction. Emergent investments are initially made for financial gains but could ultimately result in strategic gains as well. On the contrary, if they do not prove to be important for the company strategy, they should be left untouched to generate whatever financial returns possible. In summary, emergent investments require “balancing financial discipline and strategic potential.”

D. Passive Investments Passive investments are neither connected to the investing company’s strategy nor their operations. Thus, these investments do not help the investing company to actively advance their own business and can only provide financial returns. Essentially, passive investments are no different than typical investments whose financial returns are contingent on the volatility of the private equity market. Due to the lack of any strategic advantages with this kind of investing, passive investments are not very practical or advantageous.

Financing Process

The financing process outlines basic steps taken by CVCs from initial contact with potential startup companies through the first round of financing.

- 1) Startup companies looking for financing make initial contact with CVCs. CVCs can also seek out potential startups looking for funding.
- 2) Startup management team presents a business plan to the CVC. If the reviewed business plan generates interest, the CVC will ask the startup for more information including a product demonstration. Investors will also conduct their own due diligence to investigate and better understand the product, technology, market, and any other related issues.
- 3) If the CVCs are interested in the proposed startups product or service, they will look to determine the value of the startup. They communicate this valuation to the startup, often via a term sheet. If the startup is happy with the offer, a purchase price and investor equity is agree on. Negotiations can take place during this stage of investment valuation.
- 4) Legal counsels from both sides agree to a finalized term sheet where business terms for the investment are specified. A closed period, referred to as a lock-up time period, is also established during which the startup company cannot discuss investing opportunities with other investment groups. This indicates that a pending deal is in the process of completion. Once a term sheet is finalized, both sides look to negotiate and finalize financing terms.
- 5) Negotiations are conducted between the legal counsels from the CVC and the startup company. The startup legal team typically creates transaction documents that the CVC counsel reviews. Negotiations continue until all legal and business issues are addressed. During this time, the CVC conducts a more thorough investigation of the startup company, understanding the startup’s books and records, financial statements, projected performance, employees and suppliers, and even its customer base.
- 6) Closing of financing is the final step. This can take place immediately upon execution of the definitive agreements or after a few weeks. The additional time may be necessary if the CVC needs time to complete their due-diligence or based on the startup company’s financial needs.

Sectoral Composition of India’s GDP

As per the figures available for 2011 fiscal, almost 52 percent of India’s GDP comes from the agricultural sector and the services sector is the second biggest contributor with 34 percent. The industrial sector contributes almost 14 percent of **India’s GDP**.

Agriculture and Other Allied Activities Contribution to GDP

Year	1st Quarter statistics in INR crores	2nd Quarter statistics in INR crores	3rd Quarter statistics in INR crores	4th Quarter statistics in INR crores
2004-05	135745	108879	172401	148401
2005-06	139404	113023	185750	156309
2006-07	144790	116947	193209	164245
2007-08	151336	122418	211649	169677

2008-09	154307	123389	204748	171675
2009-10	156740	126524	201853	177390
2010-11	161614	132668	224044	190778
2011-12	167548	136806	230359	193955

Manufacturing Contribution to India GDP

Year	1st Quarter statistics in INR crores	2nd Quarter statistics in INR crores	3rd Quarter statistics in INR crores	4th Quarter statistics in INR crores
2004-05	104208	116104	115718	122684
2005-06	117187	120670	126161	134992
2006-07	131954	137611	143788	157084
2007-08	148701	152128	158009	170214
2008-09	159042	162174	162114	172445
2009-10	167571	176550	180421	195187
2010-11	182895	187309	194435	209523
2011-12	196170	192790	195509	208999

Electricity, Gas and Water Supply Contribution to GDP

Year	1st Quarter statistics in INR crores	2nd Quarter statistics in INR crores	3rd Quarter statistics in INR crores	4th Quarter statistics in INR crores
2004-05	15369	15738	15671	15898
2005-06	16775	16448	16737	17161
2006-07	18054	18076	18561	18667
2007-08	19839	19679	19823	20084
2008-09	20687	20723	20823	21110
2009-10	21902	22175	21656	22533
2010-11	22541	22241	22480	23684
2011-12	24333	24424	24509	24839

Trade, Hotel, Transport and Communications Contribution to India GDP

Year	1st Quarter statistics in INR crores	2nd Quarter statistics in INR crores	3rd Quarter statistics in INR crores	4th Quarter statistics in INR crores
2004-05	166536	173240	186971	200973
2005-06	189062	194038	208192	225403
2006-07	208411	217544	233919	251680
2007-08	234697	239445	258240	279431

2008-09	257700	261944	272156	295776
2009-10	279250	289020	301003	327941
2010-11	314546	319798	330117	365994
2011-12	357883	350263	363101	391527

Finance, Insurance, Real Estate and Business Services Contribution to GDP

Year	1st Quarter statistics in INR crores	2nd Quarter statistics in INR crores	3rd Quarter statistics in INR crores	4th Quarter statistics in INR crores
2004-05	105870	106130	110428	114744
2005-06	117760	119871	123364	131482
2006-07	133638	136440	141377	149923
2007-08	150540	153509	158429	165897
2008-09	168259	170953	177881	189619
2009-10	187106	189145	192558	201074
2010-11	205861	208815	214205	221114
2011-12	225165	229498	233758	243294

India Gross Domestic Product at Factor Cost

Year	1st Quarter statistics in INR crores	2nd Quarter statistics in INR crores	3rd Quarter statistics in INR crores	4th Quarter statistics in INR crores
2004-05	695045	690774	781082	804564
2005-06	760412	752534	856505	884765
2006-07	831321	826243	936709	971738
2007-08	912135	905075	1026552	1055198
2008-09	984293	974496	1086507	1117212
2009-10	1057641	1070305	1166482	1213211
2010-11	1147409	1151725	1262338	1324484
2011-12	1238738	1228982	1339724	1395071

India GDP 2012-13

HSBC, a leading global bank has stated that in 2012-13 fiscal India's chronological and yearly growth will be a moderate one. It had previously stated that in the same period India's GDP will grow by 7.5 percent but has now brought down the forecast to 6.2%. HSBC opines that in 2014 India will see a better growth rate of almost 7.4 percent – previously it had forecast 8.2 percent for the period.

HSBC has also stated that there are plenty of difficulties in the Indian administration and domestic policies are in a paralyzed state. The bank feels that these factors will restrict the amount of investment being done in India and limit its economic progress in the immediate future. It feels that things can improve in the second part of the fiscal.

HSBC opines that in the present circumstances the RBI might feel forced to take a step and reduce the rates. The changes are likely to be made on June 18, 2012 and there could be a deduction of almost 25 basis points. This will happen in spite of the consistent inflation.

The bank also states that the rate at which demand is going up, there could be risk of further inflation. It has called for the economic structure to be reformed with greater efficiency and stressed that this needs to be done quickly.

India's GDP statistics for the first three months of 2012 were not at par with expectations. During April the rate of industrial production was pretty unimpressive as well when compared on a year-on-year basis and to March 2012.

The fact that India has not been able to effect useful structural improvements has hampered its possible growth as well. In the final quarter the national economy grew at 6.1 percent and in the next quarter it came down to 5.3%, which is the lowest figure recorded after 2004.

However, inflation rate is still pretty high in India. In May 2012, the WPI inflation increased to 7.55 percent as opposed to 7.23% in April. At present the CPI inflation rate is more than 10percent.

HSBC states that inflation rate can come down to certain extent owing to reduction in oil prices and moderate economic growth but the exchange rate is still weak and India's overall economic capacity is somewhat restricted and all these factors can keep the inflation factor in play.

Though the opportunities arising from the global industry for the Indian SMEs are huge, but so are the challenges. The global economic slowdown and cost pressures have made the Global SME industry outsource elements of technology, design and sub-assembly Manufacture. SMEs who will be successful are the ones who can innovate, adapt cutting edge technologies, deliver customized solutions, develop and maintain a global standard in Manufacturing qualities and specifications while maintaining their cost advantages. The Challenge, therefore, for the Indian SMEs is to proactively respond to changing customer Expectations. This could require a lot of effort and investment; however the dividends to be reaped are phenomenal.

SWOT Analysis of SMEs

Strengths

- Flexibility and speed
- Innovativeness
- Specialized
- Frugal engineering costs

Weakness

- Inability to provide complete life cycle support
- Not able to export sub-assemblies independently of the primes
- Delay in R&D investment and achieving returns³
- Insufficient capital Opportunity
- Large and growing domestic market
- Outsourcing of manufacturing to India
- Indigenization thrust from Government of India

Opportunities

- Huge Market Opportunity
- Less Labor Cost compare to Developed Country

Threats

- Foreign SMEs in India
- Lack of information on business and partnering opportunities
- Delay in responding to market needs
- Non-awareness of future capability requirements and upcoming business opportunities

The SMEs must ensure that they play a vital role in this process and their potential is fully leveraged. They need to ramp up their capability to deal with new issues such as product Development, marketing to a global world and adopting competitive business practices. The government has a critical role to play in guiding them over this new ground. The Government needs to identify a series of initiatives to promote the SMEs to develop and sustain capabilities. This includes opening up export opportunities in global supply chain, assisting SMEs to grow skills, encouraging investment in R&D of innovative technologies. Such initiatives will ensure that we have an industrial base that has the capability and capacity to meet its objective of 70% domestic procurement. Achieving a balanced and inclusive macroeconomic growth is extremely vital for India to emerge as a stable global economic powerhouse. The role of manufacturing sector in providing the necessary balance and inclusive character to India's macroeconomic growth is undisputed. Recognizing the strategic importance of manufacturing to India's future growth trajectory, the Government of India created the National Manufacturing

Competitiveness Council (NMCC). NMCC formulated a National Strategy for Manufacturing (NSM) in 2005-06. Under the auspices of NSM, NMCC along with various Ministries and private sector collaboratively launched a host of relevant programs to, upgrade skills and innovation capacities within small and medium industries, raise awareness about intellectual property, enhance IT-adoption etc. Under its flagship "Visionary Leaders for Manufacturing Programme", NMCC, in collaboration with industry bodies and industry experts, has helped train a band of visionary managers, senior executives, CEOs and entrepreneurs in the manufacturing sector. The manufacturing sector in India has indeed come a long way since the inception of NMCC. The sector had become increasingly knowledge and IT intensive. Across sectors, players have developed capabilities helping them build highly unique core-competencies even in R&D intensive hi-tech industries such as aerospace, defense and life sciences. Skill building will have to be core ingredient of any recipe to hone the competitiveness of these players. At NMCC we firmly believe that enhancing productivity on the shop-floor is key to unlocking profitable growth across a large section of the manufacturing sector. I am happy to note that this is one of the key issues discussed at length in this report being launched by Accenture. It's time that public agencies, industry bodies and manufacturers leverage the talent within the IT& ITeS sector to develop scalable models that can be cost-effectively taken to remote manufacturing units in the country. This needs to be put in place as an immediate goal. The second key ingredient is innovation. We recognize that innovation is more of a mindset issue than a resource issue. Many firms are shy to innovate as they fail to have an appetite for risk. We need to find ways of creating this risk appetite and developing capabilities within these firms to take calculated risks. Communicating and sharing success stories can be the first step and industry bodies will need to action this in collaboration with innovative public and private sector organizations. As we inch closer to launching the National Strategy for Manufacturing 2011, I believe that we need to be ready with programs in these two areas that can be implemented through public private partnerships. Only then will we be in a position to achieve goals spoused in the forthcoming National Strategy for Manufacturing. I congratulate Accenture for publishing this timely research report and for raising issues of immense relevance to manufacturers in India. I hope that manufacturers will be in a position to derive strategic insights from this report and implement them within their respective firms. Entrepreneurialism. At the same time, we are cognizant of the fact that a large part of the Indian manufacturing sector, predominantly labor intensive in character, continues to languish on fringes of competitiveness. Our challenge is to make these labor-intensive players as competitive as high performers in their respective sectors. There programs in these two areas that can be implemented through public private partnerships. Only then will we be in a position to achieve goals espoused in the forthcoming National Strategy for manufacturing.

For the period 2001-2010, agriculture, industry and services have respectively accounted for around 20%, 27% and 53% of India's GDP. Compare that with China where the average numbers are 12%, 46% and 42%, in the same order.

1 These numbers make it evident that the non-agricultural composition of China's GDP is far more balanced as compared to that of India. Accelerated growth of the manufacturing sector has been instrumental in generating this balance for the Chinese economy. During the period 2001 to 2010, Chinese manufacturing sector grew at an average rate of 11.7% as compared to 7.3% in India. Hence, during the last decade, the average share of manufacturing value added (MVA) to China's GDP reached a staggering number of 34.2%, more than twice the share of MVA in India's GDP. Moreover in the same period, China ramped up its share of world manufacturing output from 9.5% to 19.8%, whereas the share of India registered an increase of only 1% and stood at just 2% in 2010.

2. With services sector growth peaking in the range of 9-11%, and agricultural productivity not showing sustained improvement, over the last decade, manufacturing will now have to shoulder the responsibility of helping India sustain a high growth trajectory. The manufacturing sector also needs to be an employment engine, generating opportunities for India's emergent young workforce and absorbing its surplus agricultural labor. Manufacturers in India therefore have a role cut out for them. The task is ambitious and will have to be achieved in a business environment that is getting more complex and competitive. With increasing demands for product localization and shrinking product lifecycles, manufacturers will have to implement out-of-the-box solutions, while at the same time facing the tide of highly price competitive imports from India's partners in free trade agreements. Manufacturers in India will need to leverage the existing strengths of the Indian manufacturing ecosystem – its growing labor force and talent, its wide array of business technologies and processes and its mature partner networks – in order to manufacture products that command a premium based on value.

As in India, small and medium-sized family-owned enterprises make up the backbone of German manufacturing. They have historically specialized in machinery and other heavy equipment. But in recent years, these enterprises with active support from large industries (their customers) and government have turned manufacturing into an art form. To achieve this, these enterprises poured money into R&D and cut other expenses. The government supported them by loosening up the tightly regulated labor market. Large and small manufacturers found unique ways to cut labor costs by sometimes providing an employment guarantee for a

fixed period as a quid-pro-quo for less pay. Instead of laying-off workers, managements deployed idled workers to new assignments. The result of such strategies is evident. Germany has emerged as the most competitive industrial economy across the developed world through the last decade. Unemployment in Germany has declined during the global economic crisis. In 2010, the unemployment numbers in Germany actually dropped, according to the OECD, whereas the GDP expanded by around 3.6%—highest since reunification, twenty years ago. For the purpose of our research, we spoke to senior executives to understand their plans to grow profitably in this evolving global and local macro-business environment. We asked them about their strategic priorities and the actions they would be taking to address them in light of changing priorities of their global and local customers. In all we were able to strike 100 valuable discussions. Out of these 80 interactions were conducted with industry leaders through meticulous execution of a survey tool and the remaining 20 took the form of free-flowing conversations with business leaders, policy makers and academics on issues relevant to our research. Blending insights gathered from the survey and interviews with Accenture's time-tested High Performance Business Research and secondary data, we have developed a robust High Performance Manufacturing Business Framework. We have always believed that identifying a valuable market position ahead of competitors is a necessary first step to high performance. Our research on this project suggests that high performing manufacturers build their market position by prioritizing investments in strategic initiatives that support and strengthen their core differentiation. Our framework identifies four distinctive capabilities that organizations must build to differentiate them from the competition: smart shop floor, market-driven innovation infrastructure, data based decision making and responsive relationships. Through examples and case studies, this report shares rich insights into how leading companies across India's manufacturing sector are focusing their energies to build such capabilities. But we do not stop at identifying distinctive capabilities. The new Accenture framework enables us to offer four action points that business leaders can use to develop a performance culture within their organizations. We propose four key actions toward this goal: building manufacturing's brand image in India, investing in a best-in class operating environment, using sustainability to build competitiveness and developing leaders across the organization. The challenge of building India's strong manufacturing sector must be a shared responsibility.

The size and scale of investments make it imperative for industry, government and other stakeholders to collectively find solutions to macro problems. His report emphasizes the need for a program similar to the one implemented by Chinese authorities to train surplus agricultural labor. It also highlights the need to create an Investor Services Organization to achieve more policy and regulatory coordination across authorities at the central, state and local levels. It is Accenture's conviction that a concerted focus on manufacturing will lay a solid foundation for India's international competitiveness. We are pleased to see a wide range of companies beginning to lay such a foundation. And we are committed to working as a trusted partner with those organizations who are keen to help India realize its potential as a global economic powerhouse.

FDI Inflows to Construction Activities has led to a phenomenal growth in the economic life of the country. India has become one of the most prime destinations in terms of construction activities as well as real estate investments.

An Overview of Construction Activities in India-

India has been a major recipient of FDI Inflows in the majority of sectors. There has been an unnerving upsurge in the economic developments of the country. In the post-liberalization era, India is known to have attracted a quantum amount of Foreign Direct Investment, especially after the liberalization of the real estate sector. Real estate is one of the major sectors under construction activities and also it is one of the most booming sectors that have contributed leaps and bounds to the Indian industry.

Openness of Indian Construction Industry to FDI Inflows-

It was during the Union Budget for 2005-06 that the Government of India opened up all gates for foreign direct investment in the construction industry in India. Construction projects which have received the maximum FDI include, housing, commercial premises, hotels, resorts, hospitals, educational institutions, recreational facilities, city and regional level infrastructure. FDI Inflows in the construction industry in India are permissible under automatic route to ensure flexibility in construction activities which will boost the Indian economy. In the real estate sector, the foreign investors are not allowed to sell undeveloped land, such as, lands which do not have proper facilities of roads, water, electricity, drainage and all other basic requirements for inhabitation.

Prerequisites for FDI Inflows in Construction Activities in India-

- A minimum land area of 10 hectares for the development of services housing plots
- A minimum built-up area of 50,000 sq. mts for construction-development projects
- Both the land requirements are applicable for combination projects

- The wholly owned subsidiaries would have a minimum capitalization of USD 10 million
- The Joint Venture companies which have Indian collaborations are entitled to USD 5 million
- The funds should be acquired within six months of commencement of the business of the company
- A minimum of three years is entitled for repatriation of original investment amount
- Early exit is permissible only under prior approval of government through Foreign Investment Promotion Board (FIPB)

FDI Inflows to Construction Activities in India-

100 percent Foreign Direct Investment is allowed in the construction industry in India under the Foreign Investment Promotion Board (FIPB)

- Only non-resident Indians (NRIs) and persons of Indian origin (PIOs) were allowed to invest in the housing and real estate sectors in India
- Foreign investors other than NRIs were allowed to invest only in the development of integrated townships and settlements. This is done either through a wholly-owned subsidiary or through a joint venture company in India
- Foreign investors are mandated to construct at least 50,000 square meters within a time frame
- 50 percent of the project must be accomplished within three years from the date of acquisition of land

Benefits of FDI Inflows in Construction Industry in India-

- FDI Inflows will improve the quality of construction activities in India which had always been very rough and opaque
- It will create a property market in India which will be deprived of cash payments
- Foreign investors prefer to make investments through above-the-board cheques from their clients which has encouraged the economic life of India
- FDI Inflows has made the financial markets in India fast, transparent, and efficient.

Opportunities at Different Sectors

Automobile Industry have been at an increasing rate as India has witnessed a major economic liberalization over the years in terms of various industries. The automobile sector in India is growing by 18 percent per year.

The Automobile Sector in India-

The automobile sector in the Indian industry is one of the high performing sectors of the Indian economy. This has contributed largely in making India a prime destination for many international players in the automobile industry who wish to set up their businesses in India.

The automobile industry in India is growing by 18 percent per year. The automobile sector in India was opened up to foreign investments in the year 1991. 100% Foreign Direct Investment (FDI) is allowed in the automobile industry in India. The production level of the automobile sector has increased from 2 million in 1991 to 9.7 million in 2006 after the participation of global players in the sector.

Advantages of FDI in the Automobile Sector in India

The basic advantages provided by India in the automobile sector include, advanced technology, cost-effectiveness, and efficient manpower. Besides, India has a well-developed and competent Auto Ancillary Industry along with automobile testing and R&D centers. The automobile sector in India ranks third in manufacturing three wheelers and second in manufacturing of two wheelers.

Opportunities of FDI in the Automobile Sector in India exist in

- Establishing Engineering Centers
- Two Wheeler Segment
- Exports
- Establishing Research and Development Centers
- Heavy truck Segment
- Passenger Car Segment

Important Aspects of Venture in Automobile Industry

FDI up to 100 percent, has been permitted under automatic route to this sector, which has led to a turnover of USD 12 billion in the Indian auto industry and USD 3 billion in the auto parts industry

- The manufacturing of automobiles and components are permitted 100 percent FDI under automatic route
- The automobile industry in India does not belong to the licensed agreement
- Import of components is allowed without any restrictions and also encouraged

FDI Inflows to Cement and Gypsum Products industry in India has registered significant growth in the last few years due to the incentives that have been provided by the government of India. The increase in FDI Inflows to Cement and Gypsum Products in India has helped in the growth and development of the industry.

Cement and Gypsum products industry in India:

The industry of cement and gypsum products in India is the second biggest manufacturer of high grade cement in the whole world. The cement and gypsum products industry in India consists of over 300 small cement plants and around 130 large cement plants with the total production capacity of more than 167.36 million tons. The different varieties of cement manufactured in India are Oil Well cement, White cement, Portland Pozzolana cement, and Ordinary Portland cement.

FDI policy in cement and gypsum products industry in India:

The government of India has allowed foreign direct investment up to 100% in the cement and gypsum products industry of the country. This has led to the increase in FDI Inflows to Cement and Gypsum Products industry in India.

Amount of FDI inflows to cement and gypsum products industry in India:

The amount of FDI Inflows to Cement and Gypsum Products industry in India came to ` 1,970 crores in 2005, which is a significant growth in FDI in cement and gypsum products over the previous years.

International companies having presence in cement and gypsum products industry in India are:

- Lafarge
- Italcementi
- Heidelberg Cements
- Holcim

FDI inflows to cement and gypsum products in India have boosted the industry:

The increased FDI Inflows to Cement and Gypsum Products industry in India has led to the growth, expansion, and development of the industry. As a result of this the quality of the cement and gypsum products has improved a great deal.

100 percent FDI is permitted under automatic route in Petroleum and Natural Gas. Petroleum and Natural Gas Industry accounts for 35 percent share in the entire energy requirements in India. Important initiatives have been taken by the Indian government to drive FDI inflows to Petroleum and Natural Gas in India.

A brief Note on Petroleum and Natural Gas Industry in India-

Petroleum and Natural Gas Industry accounts for 35 percent share in the entire energy requirements in India. Downstream industries like petrochemicals, fertilizers and energy plays a vital role in the Oil industry in India. The total crude oil demand is estimated to be 116 MMT and the production of crude oil in domestic market has accounted for 33.4 MMT. In the past three years, petroleum has witnessed a growth of 7 percent per year. The demand for Natural Gas has been estimated to be 150 MMSCMD in 2004 among which, the domestic market has accounted for only 81 MMSCMD. The Oil and Natural Gas Commission (ONGC) and Oil India Limited (OIL) are both public sector companies and have occupied around 83 percent of the entire domestic production of Petroleum and Natural Gas.

Achievements of Petroleum and Natural Gas Industry-

- Oil and Natural Gas Commission (ONGC) and Oil India Limited (OIL) have occupied 83 percent share of the total oil and gas production in domestic market. Both the companies belong to public sector
- There has been a lot of private sector participation in the Exploration and Production (E&P) sector in both domestic and international market
- The Private sector or JV companies have made 32 vital hydrocarbon inventions in the past four years.
- Reliance Industries Ltd. made the world's largest gas discovery in 2002 of about 5 trillion cubic meters.
- India has a presence of some leading global E&P companies like Hardy Oil & Gas, Niko Resources and Cairn Energy

FDI Inflows to Petroleum and Natural Gas-

- 100 percent FDI is permitted under automatic route in Petroleum and Natural Gas
- The New Exploration Licensing Policy (NELP) has been introduced to enable private sector participation in Oil and Gas exploration which will bring in more investments to the sector

- A Coal Bed Methane (CBM) Policy has been introduced to ensure attractive financial and contract terms in order to explore CBM blocks

Opportunities for FDI in the Petroleum and Natural Gas Industry

Certain important aspects of the Petroleum and Natural Gas Industry that provide opportunities to foreign investors are –

FDI Inflows to Railway Related Components industry in India has grown over the last few years due to the several incentives that have been provided by the government of India. 100% FDI is allowed in Railway Related Components in India.

Railway related components industry in India:

- The industry of railway related components in India supplies its products to the Indian railways and it also exports its products to foreign countries. The various kinds of products manufactured by the railway related components industry in India are locomotives lights, signals, slack adjusters, track fittings, round shaft chisels, and braking systems. The major companies in the industry of railway related components in India are Gondwana Enterprises, Involute Engineers and Industries, Elbe Industrial Works, and Patel Engineering Company.

Policy of FDI in railway related components:

- The Indian government has allowed foreign direct investment up to 100% in the railway related components industry of the country. The government of India also gives various incentives to the foreign investors such as exemption from paying income tax in order to increase FDI Inflows to Railway Related Components industry of the country.

Amount of FDI inflows to railway related components industry in India:

The Indian government has approved the FDI proposal of Westinghouse Air brake Company to make an investment of around ` 42.00 crores for the manufacture and marketing of railway related components in the country.

Flow of FDI has encouraged railway related components industry in India:

The increased FDI Inflows to Railway Related Components industry in India has led to the growth, development, and expansion of the industry. It has also helped to bring in the latest technology into the industry of railway related components. All these measures have helped to improve the quality of the products of railway related components industry in India.

Reasons For Slow Growth Of Venture Capital In India The General Indian Environment

From its inception, the Indian venture capital industry has been affected by international and domestic developments; its current situation is the result of the evolution of what initially appeared to be unrelated historical trajectories. The creation of a venture capital industry in India through transplantation required the existence of a minimal set of supportive conditions. They need not necessarily be optimal, because, if the industry survived, it would likely set in motion a positive feedback process that would foster the emergence of successful new firms, encourage investment of more venture capital, and support the growth of other types of expertise associated with the venture capital industry; in other words, if the venture capital industry experienced any success it could entrain a process of shaping its environment. In other words, in contrast to Israel and Taiwan, India would have to experience a hybrid of Interactions C and D discussed in the introduction, if venture capital was to thrive: It would have to change its environment to allow the sustenance of a venture capital industry and the societal institutions would have to modify themselves. In other words, venture capital could begin with a sub-optimal though minimally sustainable set of conditions, the venture capital industry could take root and shape its environment to a more optimal situation, while the institutions themselves would also need to change. Small and medium-sized enterprises have a long history and great importance to India. The leaders of the Independence movement were supporters of small businesses as an alternative to "exploitation" by multinational firms. And yet, despite the emphasis upon and celebration of small enterprises, the Indian economy was dualistic. It was dominated by a few massive private-sector conglomerates, such as the Tata and Birla groups, and various nationalized firms, even while there was an enormous mass of small shopkeepers and local industrial firms. As anywhere else, these small firms were in traditional industries and were not relevant for the emergence of venture capital, but they do indicate a culture of private enterprise. This entrepreneurial propensity also has been demonstrated by the willingness of Indians emigrating in other countries to establish shops, restaurants, hotels and enterprises of all sorts.

Already, under the British, Indians valued education very highly. After Independence, the Indian government invested heavily in education, and Indian universities attracted excellent students. In the 1960s, the

Ford Foundation worked with the Indian government to establish the Indian Institutes of Technology (IIT), which adopted MIT's undergraduate curriculum. These Institutes and other top Indian educational institutions very quickly became the elite Indian engineering schools with extremely competitive entrance examinations and to which only the most intelligent students could gain entry. The excellent Indian students were very desired by overseas university graduate programs, generally, and in engineering, particularly. After graduating from overseas programs many of these Indian students did not return to India. However, many other Indian graduates remained in India working in the large family conglomerates, the many Indian universities, and various top-level research institutes such as those for space research (Baskaran 2000). This meant that there remained in India a large pool of capable engineers and scientists that were underpaid (by global standards), and potentially mobile. Despite these strengths, India had many cultural rigidities and barriers to entrepreneurship and change, beginning with an extremely intrusive bureaucracy and extensive regulations. Until recently the labor market was quite rigid. For well-educated Indians the ideal career path was to enter the government bureaucracy, a lifetime position; enter the family business, which was then a lifetime position; or join one of the large conglomerates such as Tata and Birla, which also effectively guaranteed lifetime employment. The final career path was to emigrate; not surprisingly, among the immigrants were many seeking better opportunities and release from the rigidities at home. In summation, the institutional context discouraged investment and entrepreneurship. The next sections examine the features of the Indian economy that would evolve to make the creation of the Indian venture capital industry

DATA COLLECTION

Secondary data:

1. Historical data: Pre and post liberalization of Indian economy
2. Journals and other popular publication (e.g. economic times, Business World, Business Standard)
3. Books on entrepreneurs and venture capital growth in India by popular author.
4. INTERNET

Objectives

1. To know the venture capital and different sources of financing venture capital.
2. To know the different perspective areas of venture capital in Indian financial sector.
3. To know the sectorial perspective with respect to the expert opinion.
4. To Find the best practices to increase the venture capital about better perspectives.

SCOPE OF THE STUDY

1. To the various investment perspective opportunities among various sectors.
2. To know why there is a slow growth of venture capital in India.
3. To know the stated and unstated entry barriers for venture capital in India

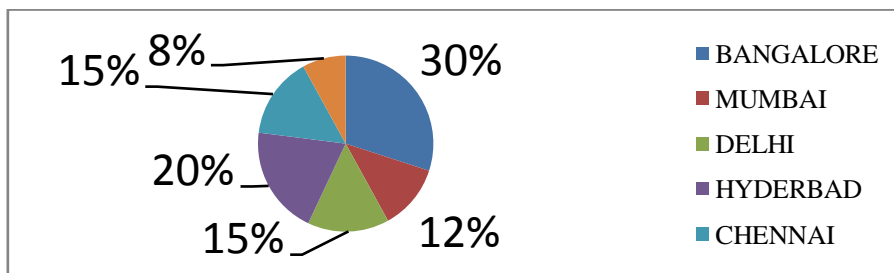
Limitations:-

venture capital and Indian entrepreneurial growth' had various limitations. They are mentioned below.

- The concept of venture capital is fairly new in India, therefore the historical data was limited to the year 1993 onwards.
- This project requires constructive supporting data which is not been involved in this paper. The questionnaire though useful, may not provide concrete information.
- Primary data collection required personal interviews, and sample selected were reluctant to fill in questionnaire.
- The secondary data is available freely online, but the recent data and data prior to 1993 is not available freely. It could be accessed from online libraries, but only after payment of a certain fee.

**The Various Venues available for Venture Capitalists
DEVELOPED CITIES IN INDIA**

Opinion	Number of respondents	Percentage (%)
Bangalore	9	30%
Mumbai	3	12%
Delhi	4	15%
Hyderabad	7	20%
Chennai	4	15%
Noida	3	8%

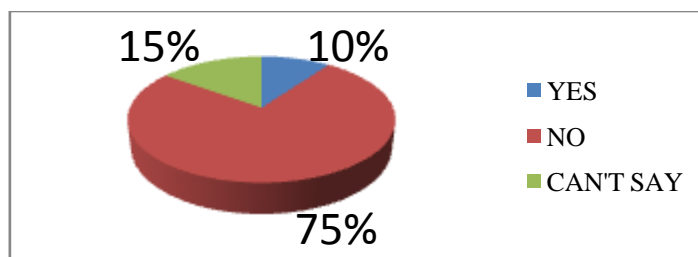


Source:- MBA Project paradise.com

INFERENCE:- From the above it is observed that most of businessmen’s, venture capitalist and professors are expressing that Bangalore is having more development i.e. 9 members, Mumbai according to 3 respondent, Delhi according to 4 respondents, Hyderabad is according to 7 respondents, and remaining 5 respondents expressed that Chennai is developed. The remaining people expressed that Noida having better perspective according to 3 respondents. By the above information it is observed that BANGLORE has highest growth rate and NOIDA has the least growth rate.

1. China Has Better Entrepreneurial Growth Than India

Opinion	Number of respondent	Percentage
Yes	3	10%
No	22	75%
May be	5	15%

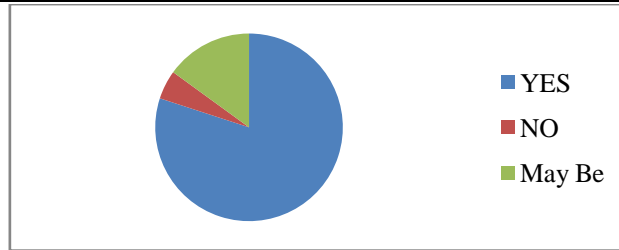


Source:- MBA Project paradise.com

INFERENCE:- From the above table it is observed that most respondents are expressing that china has less entrepreneurial development and 3 members expressed that china has better entrepreneurial growth compare to INDIA and remaining 5 members said chances may be there. May be china has more population than India, but India has more entrepreneurial growth than china.

2. Immediate Attention For Entrepreneurial Growth

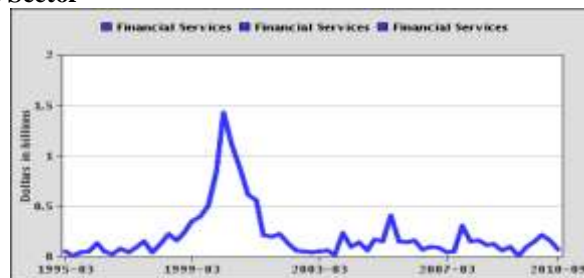
Opinion	Number of respondent	Percentage
Yes	22	75%
No	2	5%
May be	6	20%



Source:- MBA Project paradise.com

INFERENCE:- From the above table it is observed that major respondents are expressing that there is need for attention to entrepreneurial growth in Indian scenario and Two respondents are expressing that no need of special focus. There is a great need for immediate growth for entrepreneurial growth in India.

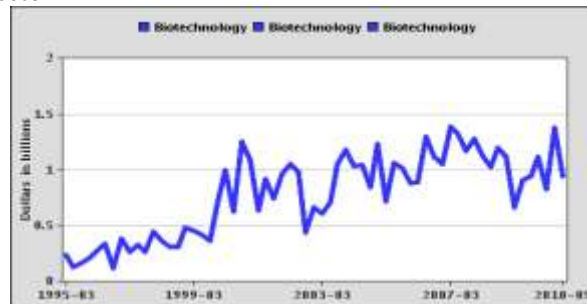
3. Financial Services Sector



Source: - businessmapsofindia.com

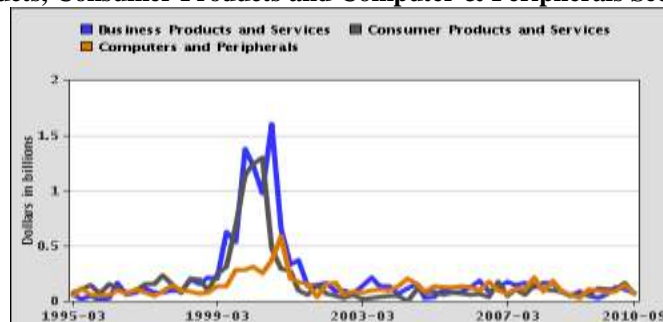
INFERENCE:- From the above diagram it is observed that financial services sector is performing towards the continuous development with less volatility by creating an opportunity for the venture capitalist in this sector. The increasing literacy rate in the Indian context provides better prospective for the financial sector. The development and growth of financial sector educating and facilitating different avenues for the investors by ensuring economic development.

4. Bio Technology Sector



INFERENCE:-The Biotechnology is achieving a tremendous success in the market and it is showing an increasing trend since 1995. The Biotechnology industry has become an attractive sector for venture capitalist with stable growth.

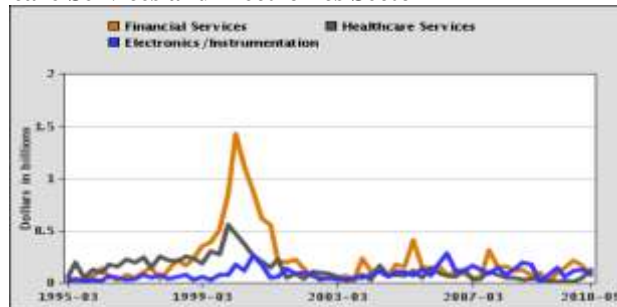
5. Business Products, Consumer Products and Computer & Peripherals Sector



INFERENCE:- The business products and services are performing better as the industrialization grows in the Indian context. The increasing trend in outsourcing opportunities among the businesses helps to increase the effectiveness by reducing the cost to the organization and to concentrate on the core competencies of the business. This attracts the investors to drag towards this industry.

Population is the curse for India with prospective to economic development where as it is a bless for industries by providing a tremendous opportunities to start a business .India is the second largest populated country it is providing a bright and endless opportunities for the investors to start up venture unless the competition exists. The technology innovation and advancement making communication very easier, faster and cost-effective. As the life style changes because of globalization impact, there is more dependency as it is creating on the technology products and as well as it is creating opportunity for service industry also in the market with attractive growth rate.

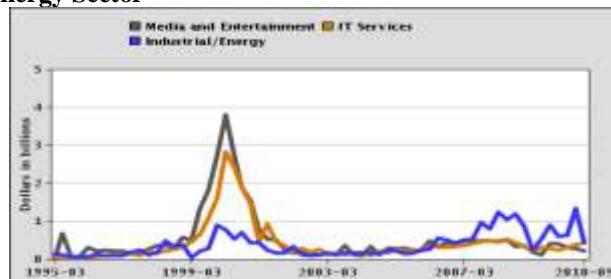
Financial Services, Healthcare Services and Electronics Sector



INFERENCE:- As the fast food culture increasing in the market and changes in life style, climatic conditions and global warming forcing the people become more conscious about the health, which is the raising cause for health care sector. The opportunity in health care and service industries are increasing as the population grows in Indian context.

The government is taking a special interest in creating a special economic park to develop more electronics oriented industries in Indian context and this is one of more attractive as well as less variable industry with plenty of opportunities where the venture capitalist can look in.

Media, IT Services and Energy Sector

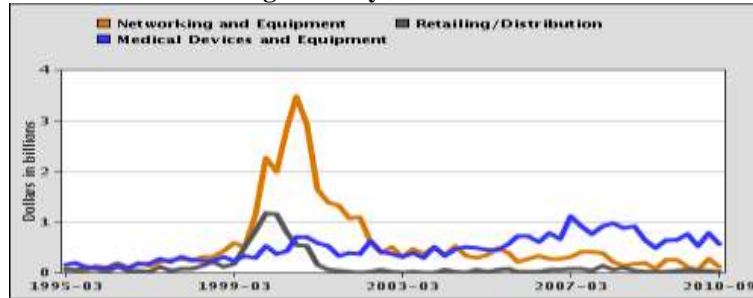


INFERENCE:-Media and entertainment is becoming more important mean of skill and new updation of the world and entertainment becomes more necessitate for the people in the current materialistic world. The main agenda of this industry is connecting the world with media technology as well as entertaining the people. This becomes more attractive industry for investors with new and innovative ideas to entertain the people.

The attractive development growth of Indian IT industry has provided a chance to grow to dependant industry such as IT services in the market and it becomes the attractive investment opportunity for the venture capitalist with better prospective of growth.

The current development in life style and industrialization forcing the government to find the opportunities to fulfill the energy requirements which is basically exhaustive in nature. The limited productivity of hydro electricity, coal electricity providing an opportunity for the investor to start the ventures with innovative ideas to generate power with Waste, solar and other forms with attractive profitability. The government is also providing extra tax benefits and subsidies to motivate the investors.

Networking, Medical Devices and Retailing Industry

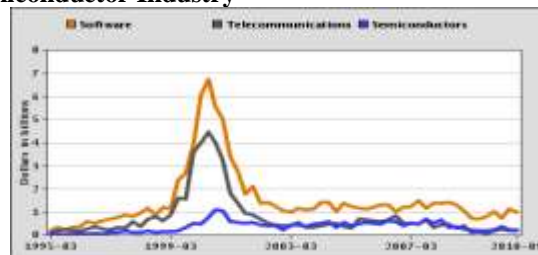


INFERENCE:- The industry growth will not only provide the opportunity in the production sector rather it will also generate immense opportunity for other dependant industries. The development in communication industry is enhancing the investment opportunity in networking and equipment industry also.

As the retailing industry is spreading its wings by attracting not only the domestic retailers but also the corporate retailers across India. It is providing ample employment opportunities for lot many individuals. The very focus of retail industry is to provide the utmost satisfaction to the customer and providing a base for lot many ancillary industries by adding value to the economy.

In the present days it provides a great opportunity for the industry dealing with medical devices and equipment as the need for these equipments is increasing due to increasing due to rise in medical emergencies and thereby it provides an opportunity for the venture capitalist in this sector.

Telecommunication and Semiconductor Industry



INFERENCE:- With respect to development the telecommunication is performing as a strong competitor for software industry in Indian context. The increasing importance given by the government to develop the other sectors with software by providing better benefits like tax benefits, subsidies, infrastructure facilities which is attractive for venture capitalist.

The development of telecommunication and energy industries creating ample opportunities for semiconductors industry to serve as sub industry. The development of electronics goods and more usage of electronics become essential in the modern life style and it is beneficial to start a new venture in the country.

Findings

1. The increasing industrialization enhances the private participation in venture capital organization and currently there are 189 organizations registered with SEBI.
2. Less importance on developing different sector is lagging the Indian economy performance such as GDP, Per Capita Income and growth rate.
3. There is tremendous increase in the contributions of other industries like Quarry, mining, Manufacturing, Telecommunication, Hotel, Transport, financial towards Indian GDP.
4. The dependency of software sector for job creation, growth rate and income makes less volatile of the market and in turn reduces the growth rate because of slack down in software industry.
5. There is a need for providing infrastructure facilities in all regions other than only developing in metro cities to diversify the industries throughout the country.
6. The additional tax rebates and tax advantages need to be introduced in identified sector to achieve success,
7. Double taxation of the same income need to avoid for attracting more foreign capital to domestic market.
8. The ability of venture capital funds to invest abroad, especially in firms established by expatriate has been crucial to the dramatic growth of the venture capital industry. In effect, the lack of convertibility of the Indian rupee is a structural impediment.
9. Currently, foreign venture capitalists require permission from the RBI for each investment and liquidation.
10. Foreign and domestic firms cannot repatriate capital or earnings without further regulatory involvement.

Suggestions

1. Canalization of rules and regulations and establishing separate board to supervise venture capital by proper promotion strategy.
2. Developing good infrastructure to attract more foreign venture capital.
3. Promoting and encouraging the entire sector to reduce the economy dependency on a particular sector.
4. Increase Tax rebates.
5. Regulate the unorganized financing sector.
6. Regulating the unorganized financial sector becomes difficult, rather making organized financial sector more attractive to the users of such funds.

V. Conclusion:-

As in India, small and medium-sized enterprises with active support from large industries (their customers) and government have turned manufacturing into an art form. To achieve this, these enterprises poured money into R&D and cut other expenses. The government supported them by loosening up the tightly regulated labor market. Large and small manufacturers found unique ways to cut labor costs by sometimes providing an employment guarantee for a fixed period as a quid-pro-quo for less pay. Instead of laying-off workers, managements deployed idled workers to new assignments. The result of such strategies is evident.

India has emerged as the most competitive industrial economy across the developing world through the last decade. Unemployment in India has declined during the global economic crisis. Identifying a valuable market position ahead of competitors is a necessary first step to high performance. Our focus on this paper suggests that high performing manufacturers can build their market position by prioritizing investments in strategic initiatives that support and strengthen their core differentiation. Our framework identifies the innovative and distinctive capabilities that organizations must build to differentiate them from the competition: smart shop floor, market-driven innovation infrastructure, data based decision making and responsive relationships. This report shares insights into leading sector opportunities across India's are available for the investors and to focus their energies to build investment opportunities. But we do not stop at identifying distinctive capabilities. We propose four key actions toward this goal: building brand image for India, opportunities in Indian operating environment, using sustainability to build competitiveness and developing Indian economy in overall sector. The challenge of building India's strong economy must be a shared responsibility.

The size and scale of investments make it imperative for industry, government and other stakeholders to collectively find solutions to macro problems. This report emphasizes the need for advertising the different opportunities in all sectors and providing employment opportunities for Indian talent pool. It also highlights the need to canalize an Investor Services Organization to achieve more policy and regulatory coordination across authorities at the central, state and local levels. The software sector development has marked India as a emerging opportunity for the venture capitalists and by using the same repo can be utilized for attracting the domestic and global venture capitalists towards Indian economy.

FDI Inflows to India will lead to a phenomenal growth in the economic life of the country. India has become one of the most prime destinations for investments. Though the opportunities arising from the global industry for the Indian industries are huge, but so are the challenges. The global economic slowdown and cost pressures have made the Global industry outsource elements of technology, design and sub-assembly Manufacture. The industries who achieve success are the ones who can innovate, adapt cutting edge technologies, deliver customized solutions, develop and maintain a global standard in Manufacturing qualities and specifications while maintaining their cost advantages. The Challenge, therefore, for the India is to proactively respond to changing customer Expectations. This could require a lot of effort and investment by the government as well as the entrepreneurs in the Indian context.

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