

Review Article

# A Study on Challenges in Venture Capital Investment in India

G. Sabitha<sup>1</sup>, M. Shravani<sup>2</sup>

Associate Professor<sup>1</sup>, Student<sup>2</sup>

Department of MBA, Anurag Group of Institutions  
Venkatapur(V), Ghatkesar(M), MedchalMalkajgiri (d), Telangana, India

**Abstract** - The Venture Capital sector is the most important industry in the financial market today. The present study focuses on Challenges faced by Venture Capitalists and the reasons for shutting down Venture Capital in India and also focuses on Venture Capital investment in different sectors in India. Using secondary data research found which sectors of the economy attract maximum venture capitalists invest in India. The research found that the total investment made by Venture Capitalists in India in different sectors was 37903 Million. Real Estate is the highest growing sector in Venture Capital investment, is the second-largest recipient with IT and telecommunications. Research can draw a suggestion that Venture Capital investment in the service sector and Industrial products need to be encouraged. The conclusion found that sectors have a strong influence on Venture Capital investment.

**Keywords** - Capitalist, Financing stages, Shut down, Venture capitalists

## I. INTRODUCTION

Venture Capital can be created as 'your ideas and our money' concept of developing business. Venture Capital is the type of private equity, a form of financing that is provided by firms or funds to small, early-stage, emerging firms that are deemed to have high growth potential, or which have demonstrated high growth (in terms of the number of employees, annual revenue, or both). Venture capital firms or funds invest in these early-stage companies in exchange for equity, or an ownership stake, in the companies they invest in. Venture capitalists take on the risk of financing risky start-ups in the hopes that some of the firms they support will become successful. Because start-ups face high uncertainty, VC investments do have high rates of failure.

### A. Definition:

Startup companies with the potential to grow to need a certain amount of investment. Wealthy investors like to invest their capital in such businesses with a long-term growth perspective. This capital is known as venture capital and the investors are called venture capitalists.

### B. 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 funding:** The earliest round of financing needed to prove a new idea, often provided by angel investors. Equity crowdfunding 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. This is typically where VCs come in. Series A can be thought of as the first institutional round. Subsequent investment rounds are called Series B, Series C, and so on. This is where most companies will have the most growth.
- **Second-Round:** Working capital for early-stage companies that are selling the product, but not yet turning a profit. This can also be called Series B round and so on.
- **Expansion:** Also called Mezzanine financing, this is expansion money for a newly profitable company
- **The exit of venture capitalists:** VCs can exit through secondary sales or an IPO or an acquisition. Early-stage VCs may exit in later rounds when new investors (VCs or Private Equity investors) buy the shares of existing investors. Sometimes a company very close to an IPO may allow some VCs to exit and instead new investors may come in hoping to profit from the IPO.



- **Bridge financing stage:** Bridge financing is when a start-up seeks funding in between full VC rounds. The objective is to raise a smaller amount of money instead of a full round and usually the existing investors participate.

## II. OBJECTIVES

- To understand the major challenges faced by venture Capitalists.
- To study the reasons for shutdown companies.
- To analyze the Venture Capital investment in India.
  - a) Successful Venture Capitalist.
  - b) Failure Venture Capitalist.
- To draw an effective conclusion to suggest the Venture Capitalist.

## III. SCOPE OF THE STUDY:

The scope of the study is to understand the challenges and reasons for shutting down the Venture Capital Investments in India. The study is based on Venture Capital Investment in different sectors in India. The study is mainly based on secondary data. The study takes into consideration only the venture capital investment from 2011 to 2018.

## IV. METHODOLOGY OF THE STUDY:

**Data collection:** The study is based on secondary data on venture capital investments.

The data is collected from different publications and online resources including.

1. A population study on venture capital companies in India.
1. Random sample study.
2. 10 companies have been selected for understanding the reasons for shutting down.

## V. LITERATURE REVIEW:

1. **Subash and Nair, (May 2005)** through the modern concept of venture capital started during 1946 and now practiced by almost all economies around the world, there seems to be a slowdown of venture capital activities after 2000. There may be a long list of reasons for this situation, where people feel riskier to put their money in new and emerging ventures. Hardly 5% of the total venture capital investment globally is given to really-

stage ventures. In all the year's people around the world has seen the potentiality of venture capital in promoting different economies of the world by improving the standard of living of the people by expanding business activities, increasing employment, and also generating more revenue to the government.

2. **Berlin (1998)**, venture capitalists take an active role in the management of the firm. They fund the new company and work in close collaboration with the stock market to take the firm public. Therefore, they place emphasis on the support to the company. They offer start-ups the controls, they might be granted as well as the exit strategy available. In all, they foster growth in companies through hands-on involvement in financing, management, and technical support.
3. **Cornelli and Yosha (1997)** had analyzed the problem of an entrepreneur, manipulating short-term results for purposes of "window-dressing". Venture capital funds are not the only financial intermediaries that bridge the gap between the investors and small businesses; banks also provide the intermediary function for small businesses.
4. **Groh, A. P. and Von Liechtenstein. H, (2011)**, contributed to the knowledge of the capital flow from institutional investors via venture capital (VC) funds as intermediaries to their final destination, entrepreneurial ventures. They found the top criteria to be the expected deal flow and access to transactions, a VC fund's historic track record, entrepreneur local market experience, the match of the experience of team members with the proposed investment strategy, the team's reputation, and the mechanisms proposed to align interest between the investors and the VC funds.
5. **Wonglimpiyarat (2007)** argued that venture capital had improved the nation's innovative capacity by making investments in early-stage businesses that had offered both high potential and high.

## VI. THE MAJOR CHALLENGES FACED BY VENTURE CAPITALIST

### A. Business Plan:

A poor business plan is a reason for many business failures. An effective business plan defines the goals of the business owner and formulates a road map to reach those goals. The business plan should identify its market, sales projections, customer needs, special niches, and price range.

### B. Lack of Capital:

A business that runs out of working capital before bringing insufficient funds to sustain its expenses is often a result of poor budgeting or unrealistic forecasts. When setting up the initial budget, the business owner might underestimate expenses, such as material costs, labor, or utilities.

### **C. Increased selection and competition:**

It's never been easier to start a business. Gone are the days when it took weeks, months, and a myriad of forms to get your business started. Now if you can buy a domain name and register your business online, you're in business.

### **D. Marketing and Customer Loyalty:**

Along the same lines as increased selection and competition is the challenge to market to potential customers effectively and retain your existing customers. Smartphones, social media, texting, email, Twitter, and other communication channels are making it easy for businesses and individuals to get their messages out.

### **E. Uncertainty:**

All of us and especially business leaders find great discomfort in uncertainty. Because of global debt and economic struggles, uncertainty is more pronounced today than in the past. The sad news is that uncertainty leads to a short-term focus.

### **F. Regulation:**

A changing regulatory environment is always of concern in certain industries, but uncertain energy, environmental and financial policy is wreaking havoc for nearly all companies today. The problems to be solved are to understand the meaning of regulation in your industry, its implications for your business, and to develop the skills necessary to deal with it.

### **G. Problem Solving and Risk Management:**

A major challenge for all companies is identifying, assessing, and mitigating risks, including human and financial capital, in addition to the macroeconomy. The lack of a sophisticated problem-solving competency among today's business leaders is limiting their ability to adequately deal with risks facing their businesses.

### **H. A big idea, but no plan:**

You believe in your potential for success. So, plan it out! Every good business idea deserves a great business plan, including a marketing and sales strategy. App-builders, for instance, often create an elaborate product development strategy. They believe if they build it, "they" (meaning customers) will come.

## **VII. THE REASONS FOR SHUTDOWN COMPANIES**

### **A. Roder:**

- **Launched in:** 2014
- **Founder(s):** Abhishek Negi, Ashish Rajput, Siddhant Matre
- **Category:** Intercity Cab Aggregator
- **Headquarters:** Gurugram
- **Funding:** They first raised a seed round of \$350K from Unicorn India Ventures in September 2015. Later, in January 2016, Roder raised about \$250K (INR 1.6 Cr.) in a seed round funding from Unicorn India Ventures.
- **Brief Overview:** Roder, earlier known as Insta Cabs it used to offer inter-city on-demand cabs. The start-up was aimed towards revolutionizing the travel between cities by offering cabs at almost half the fare than market rates for one-way journeys.
- **Shutdown Reason:** As per reports, Roder closed its operations in September 2017 due to rising customer acquisition costs and a low repeat rate for outstation travel.

### **B. Taskbob**

- **Launched in:** 2015
- **Founders:** AseemKhare, AbhiroopMedhekar, Ajay Bhatt, AmitChahalia
- **Headquarters:** Mumbai
- **Category:** Hyperlocal Services
- **Funding:** The startup raised \$5.7 Mn in two rounds of funding: \$4.5 Mn in Series A (February 201) and \$1.2 Mn in Seed Funding (April 2015).
- **Brief Overview:** Taskbob was started with a vision of creating happy households. Taskbob facilitated instant, high-quality home services for customers while driving higher productivity for servicemen. It further aimed. It acquired rival Bengaluru-based Zepper. in 2016.
- **Shutdown Reason:** On the company's Facebook page, Taskbob announced its shutdown on January 19, 2017. Inability to

scale itself and achieve profitability, due to the low margins in the business and the tough external market was given the key reasons for this start-up shutdown.

#### C. Economist:

- **Launched in:** November 2014
- **Founders:** AnishaDhar, NupurKhanna
- **Category:** Foodtech
- **Headquarters:** Gurugram
- **Funding:** The start-up raised an undisclosed amount of Seed investment from Cube Capital Advisors Pvt Ltd in May 2016.
- **Brief Overview:** Economist operated with a full-stack business model, wherein it controls kitchens and delivery services. It delivered lab-tested, calorie-counted gourmet meals.
- **Shutdown Reason:** The website currently says, "We will be back shortly." But the reasons for the shutdown are not clear. However, considering the impact 2016's 'winter year' had on the food-tech market, and the investment involved in running a full-stack business model; working capital requirements and lack of funds raise could be the reasons for the shutdown.

#### D. Cube26:

- **Launched in:** 2012
- **Founders:** Saurav Kumar, AbhilekhAgarwal, Aakash Jain
- **Headquarters:** Delhi
- **Category:** Mobile technology
- **Funding:** It raised \$7.7 Mn in Seed funding from Tiger Global and Flipkart in October 2015.
- **Brief Overview:** It is a technology firm focussed on enhancing the user experience across multiple devices and platforms using software and IoT.
- **Shutdown Reason:** Cube26 shut down its IoT business, which also led to several job cuts. It will now focus only on its software and services business.

#### E. Splitkart:

- **Launched in:** 2015
- **Founders:** Sharique Khan, MonajeetSinha
- **Headquarters:** Gurugram
- **Category:** Fintech

- **Funding:** The startup raised an undisclosed amount of Seed funding from Anand Chandrasekaran, Rajesh Sawhney, Anupam Mittal, Dinesh Agarwal, and Gaurav Gupta in December 2015.
- **Brief Overview:** Splitkart was a mobile app that helped users in splitting the bill and plan group outings. The app also showcased deals from nearby restaurants and pubs and included social media sharing options.
- **Shutdown Reason:** The shutdown reasons are not clear yet. As per a VC Circle report, the founders are busy upgrading the site but did not share any specific timeline for restarting operations. At the moment, the app is not available on Google Play Store or the IOS store. The website too is not operational.

### VIII. ANALYSING REGISTERED VENTURE CAPITAL INVESTMENT IN DIFFERENT SECTORS IN INDIA

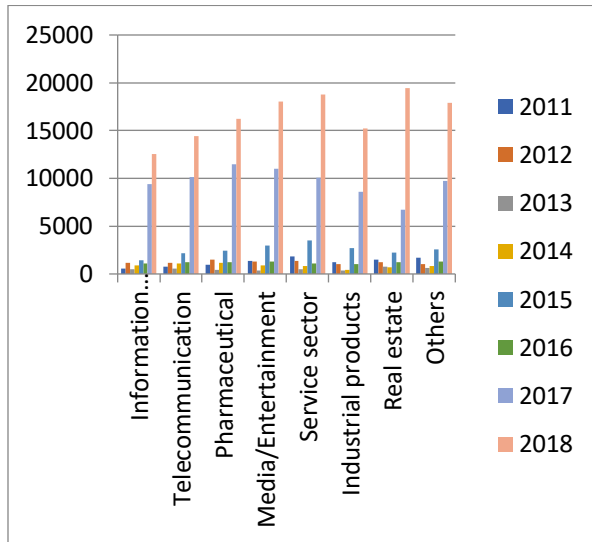
The different sectors include the detailed Venture Capital investment of SEBI Registered Venture Capital as DEC 31 of each year. Different sectors for which data has been obtained are information Technology, Telecommunication, Pharmaceuticals, Media/Entertainment, Service sector, Industrial products, Real estate, and others.

Table 1: Total Venture Capital investment in different sectors:

Sectors/Year	2011	2012	2013	2014	2015	2016	2017	2018
Information Technology	578	770	954	1366	1839	1224	1473	1718
Telecommunication	1185	1182	1468	1299	1350	1016	1201	1031
Pharmaceutical	469	550	420	379	476	345	775	646
Media/Entertainment	911	1101	1148	866	812	399	720	827
Service sector	1443	2137	2428	2940	3520	2712	2256	2545
Industrial products	1110	1224	1252	1304	1065	1023	1211	1324
Real estate	9373	1015	1148	1097	1005	8574	6725	9716
Others	12524	1443	1624	1804	1878	1519	1941	1792

Source: Technology Development Board, Department of Science and Technology Annual Reports

**Fig 1: Graphical representation of total Venture Capital investment of different sectors in India from 2011-2018.**



**Interpretation:**

- The above graph shows the comparison of venture capital investment in different sectors from 2011-2018.
- Real estate is the highest sector of venture capital investment.
- Pharmaceutical is the least sector of venture capital investment.

**IX. FINDINGS**

- The Total venture capital investment was highest in the year 2015 with 37903.
- Considering the Eight years of venture capital from 2011-2018, Real estate is the highest growing sector in venture capital investment.
- Information technology and telecommunication sector at second position in venture capital investment.
- Service sector and industrial products at third position in venture capital investment.
- Media/Entertainment at fourth position in venture capital investment but not attracting much in venture capital investment.
- There is not much venture capital investment growth in pharmaceuticals and they much-declining trend.
- The Venture Capitalist mainly faces the major challenges of no proper business plan,

selecting the right business or product, and no proper marketing.

- The major reasons for the shutdown of the Venture Capitalist due to rising customer acquisition costs, the tough external market, the inability to raise funds, and the lack of demand.

**X. CONCLUSION**

Venture Capital Investment in the service sector and Industrial products need to be encouraged. Media sector failing to attract Venture capital investment so there should be an improvement in the future. The SEBI can relax certain conditions and restrictions on Venture Capital Investment. It is recommended that the venture capitalists should retain their basic feature that is taking a high risk. To promote and develop the Venture Capital sick industry, the government should provide fiscal relief by exempting the dividend paid to Venture Capital fund investors from income tax.

The existing venture capitalists are likely to work on salvaging their existing investments and will look forward to mergers and acquisitions to cover their risk in some of the present ventures. It is also said that the Venture Capital funds will stop diversifying and preferred investments in a few specific sectors would concentrate on the industry they know better. So in this process ventures with proven management and business models will get priority over newer and innovative ideas.

**REFERENCES**

- [1] Pallavi Rani, HarpreetKaur, Kanwaldeep Singh (2013) – Venture capital investment growth and obstacles in India.
- [2] Sajai Singh (2006) – Venture capital investment in the Indian market.
- [3] [http://en.wikipedia.org/venture\\_capital\\_investment](http://en.wikipedia.org/venture_capital_investment).
- [4] <http://www.sebi.gov.in/reports/handbook-statistics/june-2011-2018>.
- [5] [http://www.sebi.gov.in/otherentry/apr-2018/how-to-get-registered-as-a-venture-capital-fund\\_20375.html](http://www.sebi.gov.in/otherentry/apr-2018/how-to-get-registered-as-a-venture-capital-fund_20375.html)
- [6] <http://business.chron.com/reasons-closing-business-3673.html>
- [7] <http://inc42.com/features/indian-startup-shutdowns-2011-2018>