

Venturelitch.com announces expanded coverage of Indian startups

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Venturelitch.com announces expanded coverage of Indian startups. Indian entrepreneurs are invited to submit elevator pitches of their startups. All elevator pitches will be reviewed by group of angel investors.

The investment of venture capitalists in Indian industries in the first half of 2006 is \$3 billion and is expected to reach \$7.0 billion at the end of 2007. We have general feeling that Indian venture capital arena is somewhat boring. Why don't we see hundreds of Indian web 2.0 startups?

Early Days

In the absence of an organised Venture Capital industry until almost 1995, individual investors and development financial institutions played the role of venture capitalists in India. Entrepreneurs have largely depended upon private placements, public offerings and lending by the financial institutions. In 1973 a committee on Development of Small and Medium Enterprises highlighted the need to foster venture capital as a source of funding new entrepreneurs and technology. Thereafter some public sector funds were set up but the activity of venture capital did not gather momentum as the thrust was on high-technology projects funded on a purely financial rather than a holistic basis.

Regulatory Guidelines & Framework

Later, a study was undertaken by the World Bank to examine the possibility of developing Venture Capital in the private sector, based on which the Government of India took a policy initiative and announced guidelines for Venture Capital Funds (VCFs) in India in 1988.

However, these guidelines restricted setting up of VCFs by the banks or the financial institutions only. Thereafter, the Government of India issued guidelines in September 1995 for overseas investment in Venture Capital in India. For tax-exemption purposes, guidelines were also issued by the Central Board of Direct Taxes (CBDT) and the investments and flow of foreign currency into and out of India have been governed by the Reserve Bank of India's (RBI) requirements. Further, as a part of its mandate to regulate and to develop the Indian capital markets, the Securities and Exchange Board of India (SEBI) framed the SEBI (Venture Capital Funds) Regulations, 1996. These guidelines were further amended in April 2000 with the objective of fuelling the growth of Venture Capital activities in India.

Industry Size, Activity and Participants

Pursuant to the regulatory framework mentioned above, some domestic VCFs were registered with SEBI. Some overseas investment has also come through the Mauritius route. However, the venture capital industry, understood globally as 'independently managed, dedicated pools of capital that focus on equity or equity-linked investments in privately held, high-growth companies', is relatively in a nascent stage in India. Figures from the Indian Venture Capital Association (IVCA) show that, till 1998, around Rs. 30 billion had been committed by domestic VCFs and offshore funds which are members of IVC]. Figures available from private sources indicate that overall funds committed are

around US\$ 1.3 billion. Investable funds are less than 50% of the committed funds and actual investments are lower still.

Policy Support

Given the proper environment and policy support, there is undoubtedly tremendous potential for venture capital activity in India. The Finance Minister of India, in his 1999 budget speech, announced that 'for boosting high-tech sectors and supporting first generation entrepreneurs, there is an acute need for higher investment in venture capital activities.' The SEBI committee on Venture Capital was set up in July, 1999 to identify the impediments and suggest suitable measures to facilitate the growth of venture capital activity in India. Also keeping in view the need for a global perspective it was decided to associate Indian entrepreneurs from Silicon Valley in the committee.

Objectives and Vision for Venture Capital in India

Venture capitalists finance innovation and ideas which have potential for high growth but with inherent uncertainties. This makes it a high-risk, high return investment. Apart from finance, venture capitalists provide networking, management and marketing support as well. In the broadest sense, therefore, venture capital connotes financial as well as human capital. In the global venture capital industry, investors and investee firms work together closely in an enabling environment that allows entrepreneurs to focus on value creating ideas and allows venture capitalists to drive the industry through ownership of the levers of control, in return for the provision of capital, skills, information and complementary resources. This very blend of risk financing and hand holding of entrepreneurs by venture capitalists creates an environment particularly suitable for knowledge and technology based enterprises.

Scientific, technology and knowledge based ideas properly supported by venture capital can be propelled into a powerful engine of economic growth and wealth creation in a sustainable manner. In various developed and developing economies venture capital has played a significant developmental role. India, along with Israel, Taiwan and the United States, is recognized for its globally competitive high technology and human capital. India has the second largest English speaking scientific and technical manpower in the world.

The Indian software sector crossed the Rs 100 billion mark turnover during 1998. The sector grew 58% on a year to year basis and exports accounted for Rs 65.3 billion while the domestic market accounted for Rs 35.1 billion. Exports grew by 67% in rupee terms and 55% in US dollar terms. The strength of software professionals grew by 14% in 1997 and has crossed 1,60,000. The global software sector is expected to grow at 12% to 15% per annum for the next 5 to 7 years.

Recently, there has also been greater visibility of Indian companies in the US. Given such vast potential not only in IT and software but also in the field of service industries, biotechnology, telecommunications, media and entertainment, medical and health services and other technology based manufacturing and product development, venture capital industry can play a catalytic role to put India on the world map as a success story.

Where are VC's Investing In India?

- IT and IT-enabled services
- Software Products (Mainly Enterprise-focused)
- Wireless/Telecom/Semiconductor
- Banking
- PSU Disinvestments

- Media/Entertainment
- Bio Technology/Bio Informatics
- Pharmaceuticals
- Electronic Manufacturing
- Retail

Issues and Challenges

Indian VC yet to be established as a sustainable asset class among institutional investors. Moreover a limited amount of true 'risk-capital' impacts entrepreneurial activity. Exit challenges exist mainly due to shallow capital markets and dull M&A environment for small companies. Most importantly, India is yet to create a brand-name for IP-led companies, like Israel has successfully done. Expanded coverage of Indian startups will contribute to better recognition of Indian fledgling startups.

- **END** -VentureItch.com - online journal covering startups, innovation, venture capital and emerging technologies.

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