



ISSN: 0976-3031

Available Online at <http://www.recentscientific.com>

*International Journal of Recent Scientific Research*  
Vol. 6, Issue, 8, pp.5556-5560, August, 2015

**International Journal  
of Recent Scientific  
Research**

## RESEARCH ARTICLE

# DOES FOREIGN AND DOMESTIC VENTURE CAPITAL FIRM DIFFER? A COMPARATIVE STUDY IN INDIA

**Komala G, and M.Muninarayanappa**

Department of Commerce, Bangalore University, Bangalore

### ARTICLE INFO

#### Article History:

Received 5<sup>th</sup>, July, 2015  
Received in revised form 12<sup>th</sup>,  
July, 2015  
Accepted 6<sup>th</sup>, August, 2015  
Published online 28<sup>th</sup>,  
August, 2015

#### Key words:

Venture Capital, India, Foreign  
VCI, Domestic VCF

**Copyright © Komala G, and M.Muninarayanappa.** This is an open-access article distributed under the terms of the Creative Commons Attribution License, which permits unrestricted use, distribution and reproduction in any medium, provided the original work is properly cited.

### INTRODUCTION

Venture Capital markets are now developing in Asia to fund the growth of new capitalist business. VCF in these countries can be provided either by domestically based firms or by foreign based venture capital firms that have entered a particular market.

In recent years, Venture Capital firms have increasingly turned to foreign countries in search of venture opportunity. The cross-border extension of Venture Capital firms presents an interesting case of internationalization, as they are at variance with both conventional portfolio and direct investment model. VC firms invest in host countries characterized by technical, legal, monetary, and political institutions that create innovative opportunities, protect investor's rights, make easy exit, and promise regulatory stability, respectively. Gain more international experience. Governments often promote inward foreign investment to encourage technology 'spillovers' from foreign to domestic firms.

### REVIEW OF LITERATURE

Zider (1998) in his research paper entitled "How Venture Capital Works" there are four major participants in the venture capital industry, namely, the entrepreneur, the investor, the investment bankers and the venture capitalists. Mayer, Schoors and Yafeh (2005) in their research paper compare VC fund

### ABSTRACT

Venture capital finance can be provided either by domestically based firms or by foreign based venture capital firms that have entered a particular market. Venture Capital firms have increasingly turned to foreign countries in search of investment opportunity. By the recognition of the importance of developing vibrant venture capital market in India, government have changed the legal and regulatory framework relating to venture capital to attract funds from foreign investors. This paper aimed to compare the domestic Venture Capital Fund and Foreign Venture Capital Investments in India and also compare sector wise flow of investments by using trend analysis. The researcher identify that the domestic venture capitalists have been actively participating in the growth of the economy but their contribution is marginal compare to foreign VCI.

investment focus and sources of finance across Germany, Israel, Japan, and the United Kingdom. Rajan (2009) in his research paper entitled "India Venture Capital and Private Equity" taken VC/PE sample in India for the period 2004-2008. The results certain factors don't favours long term growth of VC industry in India. Dheeraj Pandey and Thillai Rajan (2011) in their research paper entitled "Empirical Study on Venture Capital and Private Equity Investments: US and India" the study investigates dotcom influence on US VC industry, investment patterns comparisons across industries and exit strategies.

The data analyzed also shows the attractiveness as well as immaturity of Indian VC industry. Reddy and Subbaiah (2011) evaluate the performance of APIDC VCL in Venture Capital Financing. Srinivas and N Nagaraja (2012) in their research study entitled "Venture Capital in Karnataka"; study covered total 13 venture capital firms and 21 of their funds located in Karnataka and addresses the growth and investment of venture capital companies and their funds and growth of venture capital market in Karnataka. Swati Panda and Shridhar Dash (2013) in their research article entitled "Trust & Reputation in new ventures: insights from an Indian Venture Capital Firm" explore the importance of trust and reputation in new ventures that are raising venture capital.

\*Corresponding author: **Komala G**

Department of Commerce, Bangalore University, Bangalore

**Objectives**

1. To compare Registered and Foreign Venture Capital Investment in India.
2. To do a comparative study on flow of investments in terms of each sector.

**Scope of the Study**

This study is conducted on the basis of prior data relating to Industry Wise Cumulative Investment Details of SEBI Registered Venture Capital Funds (VCF) and Foreign Venture Capital Funds (FVCF) in India for a period of 8 years from 2007 to 2014.

**RESEARCH METHODOLOGY**

**Type of Study** - Empirical

**Type of Data** – Secondary

**Sources and Tools Used for data Collection**

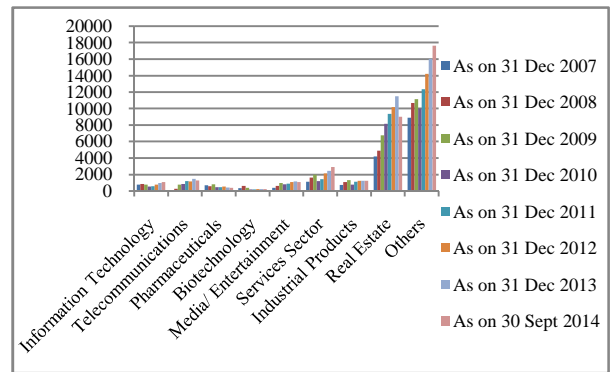
1. The study is based on the technical analysis, previous data relating to Industry Wise Cumulative Investment Details of SEBI Registered Venture Capital Funds (VCF) and Foreign Venture Capital Funds (FVCF) in India.
2. The information so taken is compiled through tabulation and trend analysis is used to determine flow of investment in terms of each sectors.

**Limitation**

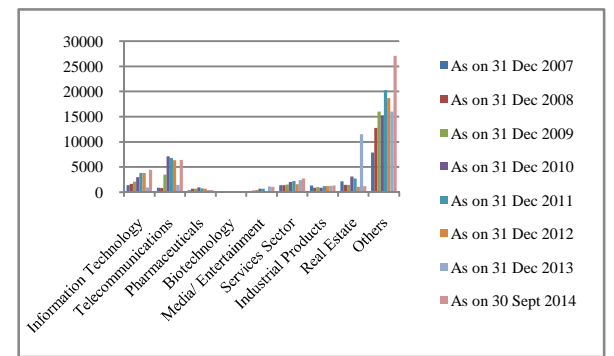
1. Limitation of time
2. The findings are based on trend analysis of Industry Wise Cumulative Investment Details of SEBI Registered Venture Capital Funds (VCF) and Foreign Venture Capital Funds (FVCF) in India.
3. Only secondary data used for the study.

**Data Analysis and Interpretation**

recovery. Telecommunications, Media and Entertainment, service sector and real estate is also attracting investments in India. This shows economic growth of the country.



**Graph 1** Industry Wise Cumulative Investment Details of SEBI Registered Venture Capital Funds (VCF) in India (Rs. In crore)



**Graph 2** Industry Wise Cumulative Investment Details of SEBI Registered Foreign Venture Capital Funds (FVCF) in India (Rs. In crore)

The above table and graph depicts that total investments made by foreign venture capital funds (FVCF) in India from Dec 2007 to Sept 2014. This clearly shows that telecommunications, IT, Service sector, industrial products, real estate, and others attracting investments compare to biotechnology, pharmaceuticals, and media/entertainment.

**Flow of investment in terms of each sector-Trend Analysis**

The venture capital investors are keen to invest in different

**Table 1**

Industry Wise Cumulative Investment Details of SEBI Registered Venture Capital Funds (VCF) in India (Rs. In crore)

Sectors of Economy	As on 31 Dec 2007	As on 31 Dec 2008	As on 31 Dec 2009	As on 31 Dec 2010	As on 31 Dec 2011	As on 31 Dec 2012	As on 31 Dec 2013	As on 30 Sept 2014
Information Technology	779	871	782	533	578	770	954	1072
Telecommunications	118	275	767	858	1185	1182	1468	1299
Pharmaceuticals	716	581	802	460	469	550	420	376
Biotechnology	354	603	389	187	188	216	222	223
Media/ Entertainment	401	622	965	802	911	1101	1148	1078
Services Sector	1134	1618	1991	1215	1443	2137	2428	2924
Industrial Products	735	1095	1301	783	1110	1224	1252	1241
Real Estate	4207	4887	6753	8155	9373	10159	11482	9000
Others	8881	10664	11143	10029	12336	14218	16026	17634
<b>Total</b>	<b>17325</b>	<b>21216</b>	<b>24893</b>	<b>23023</b>	<b>27592</b>	<b>31556</b>	<b>35400</b>	<b>34847</b>

Source: www.sebi.gov.in

From the above table and graph shows the cumulative investments of domestic venture capital firms made in India from Dec 2007 to Sept 2014. The investments made in Information Technology is decreased in 2009 and 2010 due to global recession, from 2011 onwards IT and ITES started its

understanding the pattern of investment in the last 7 years as list before in table 1 the different sectors. The information technology is a new sector in Indian market with history less than 20 years unlike the manufacturing sector, the trend analysis shows that the domestic sectors is investments follow

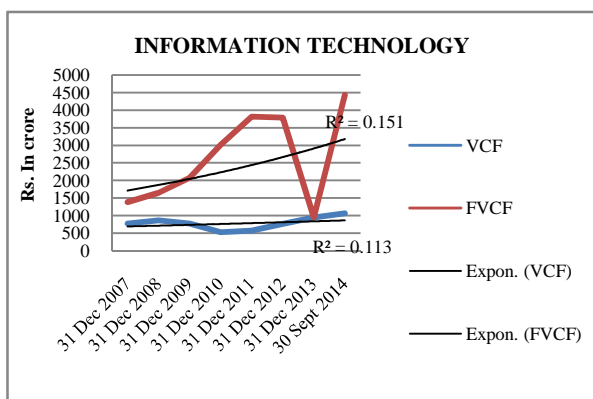
an increasing with exponential trend the  $R^2$  value suggest a slowly increase in the investment in this sector. The foreign venture capitalist investor is investing in the same manner as the domestic investor.

The telecommunication sector trend reveals that domestic investors are following a liner trend with a very good coefficient of determination of 0.89.

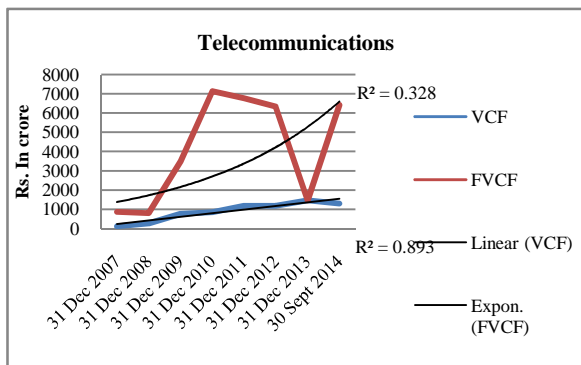
**Table 2** Industry Wise Cumulative Investment Details of SEBI Registered Foreign Venture Capital Funds (FVCF) in India (Rs. In crore)

Sectors of Economy	As on 31 Dec 2007	As on 31 Dec 2008	As on 31 Dec 2009	As on 31 Dec 2010	As on 31 Dec 2011	As on 31 Dec 2012	As on 31 Dec 2013	As on 30 Sept 2014
Information Technology	1390	1649	2082	3016	3813	3787	954	4433
Telecommunications	872	801	3502	7145	6778	6352	1468	6430
Pharmaceuticals	360	648	675	985	775	713	420	463
Biotechnology	31	31	72	140	140	100	222	141
Media/ Entertainment	69	284	469	701	720	209	1148	1107
Services Sector	1341	1358	1538	2039	2256	1596	2428	2755
Industrial Products	1312	856	1043	886	1217	1211	1252	1319
Real Estate	2141	1424	1432	3107	2725	1091	11482	1183
Others	7868	12749	16015	15223	20307	18716	16026	27061
<b>Total</b>	<b>15384</b>	<b>19800</b>	<b>26827</b>	<b>33241</b>	<b>38730</b>	<b>33773</b>	<b>35400</b>	<b>44943</b>

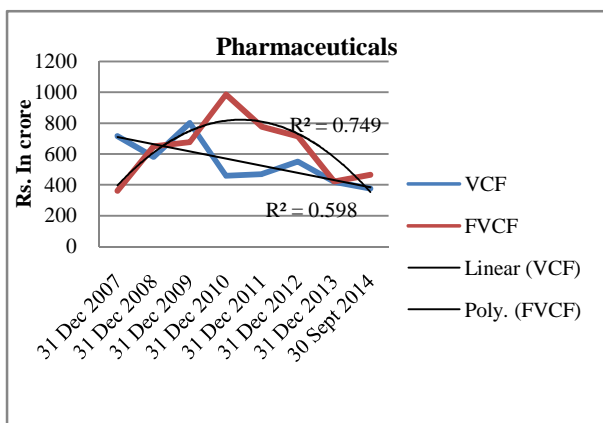
Source: www.sebi.gov.in



**Graph 3** Trend analysis of IT Sector



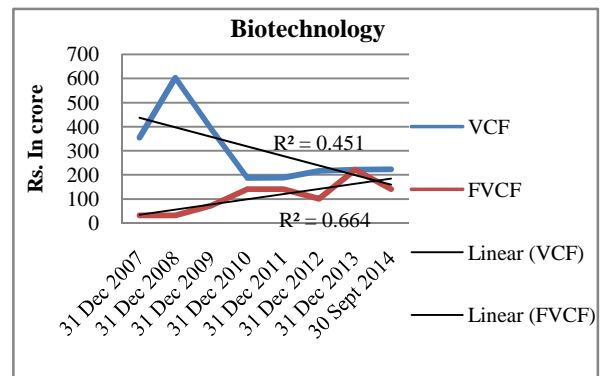
**Graph 4** Trend analysis of Telecommunications Sector



**Graph 5** Trend analysis of Pharmaceuticals Sector

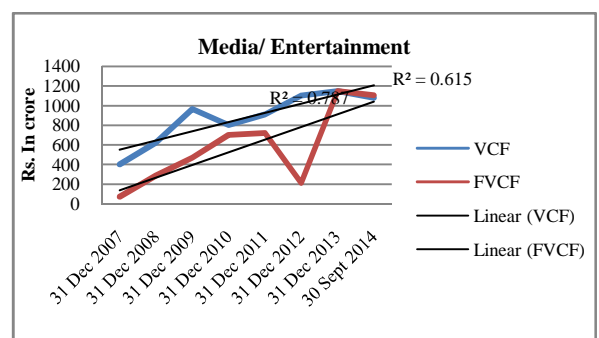
The foreign investor following an exponential trend bring in money as the years increase but the value tend to decrease depends on their market conditions. The year 2013 saw a sharp decline in this sector as the scams of 2 G was exposed and the trust is decreased in this sector.

The pharmaceuticals sector trend reveals that domestic investors are following a liner trend with a coefficient of determination of 0.6. The foreign investor following a power trend with cyclic pattern the trend is decreasing from the past 4 years the next 4 to 5 years the investment will increase.



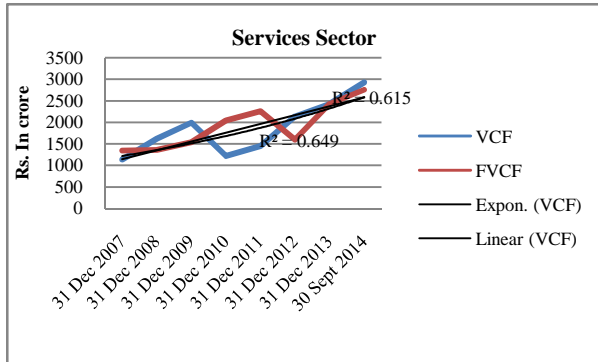
**Graph 6** Trend analysis of Biotechnology Sector

The biotechnology sector trend reveals that domestic investors are following a linear trend with a coefficient of determination of 0.45 with decreasing the investment in this sector. The foreign investor follows the same linear trend as domestic investors with a  $R^2$  of 0.66.



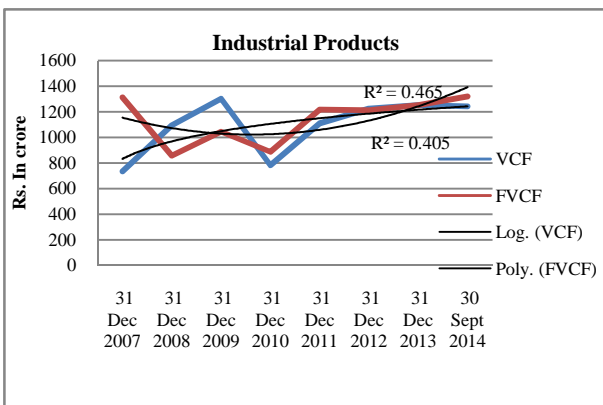
**Graph 7** Trend analysis of Media and Entertainment Sector

The media/entertainment sector trend reveals that domestic investors are following a linear trend with a coefficient of determination of 0.62 with steady increasing the investment in this sector. The foreign investor follows the same linear trend as domestic investors with a  $R^2$  of 0.79 and the trend is increasing but there is a dip in the year 2012.



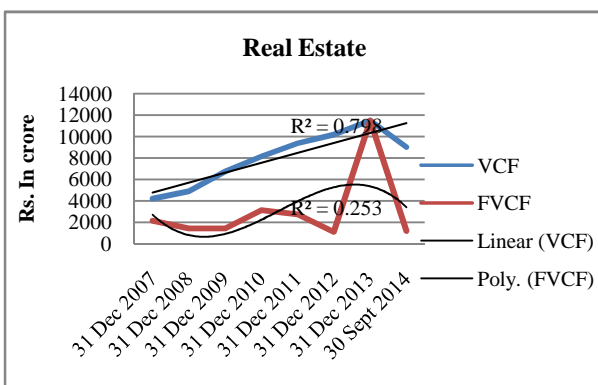
**Graph 8** Trend analysis of Services Sector

The service sector trend reveals that domestic investors are following an exponential trend with a coefficient of determination of 0.62 with steady increasing the investment in this sector. The foreign investment is following a linear trend with a  $R^2$  of 0.65.



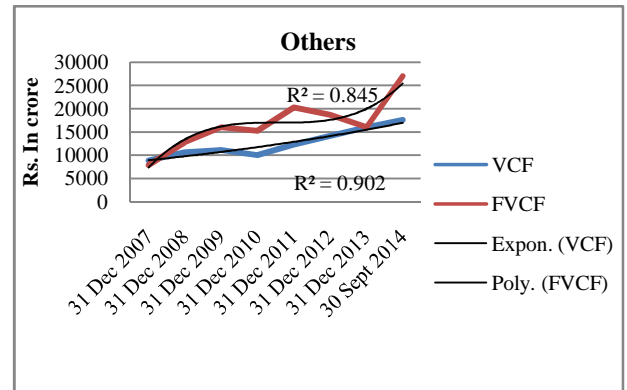
**Graph 9** Trend analysis of Industrial Products Sector

The industrial product sector trend reveals that domestic investors are following a logarithmic trend or increasing with a log function with a coefficient of determination of 0.405. The foreign investor following a polynomial pattern the trend is decreasing and slowing increasing the recent years.



**Graph 10** Trend analysis of Real Estate Sector

The Real estate sector trend analysis shows that domestic investors are following a linear trend with increasing and having a good coefficient of determination value of 0.80. The foreign investor following a polynomial pattern the trend is following a seasonal pattern and slowing decreasing the last 2 years.



**Graph 11** Trend analysis of Others Sector

The Real estate sector trend analysis shows that domestic investors are following an exponential trend with increasing value and having a good coefficient of determination value of 0.85. The foreign investor following a polynomial pattern the trend is following a cyclic pattern and slowing increasing.

**Findings**

1. The domestic VC investments made in Information Technology is decreased in 2009 and 2010 due to global recession, from 2011 onwards IT and ITES started its recovery. Telecommunications, Media and Entertainment, service sector and real estate is also attracting investments in India. This shows economic growth of the country.
2. The foreign venture capital funds clearly shows that telecommunications, IT, Service sector, industrial products, real estate, and others attracting investments compare to biotechnology, pharmaceuticals, and media/entertainment.
3. Flow of investment in terms of each sector the domestic venture capitalist firms have been actively participating in the growth of the economy but their contribution is marginal when compared to the amount of investment brought by foreign players.

**SUGGESTION AND CONCLUSION**

The venture capital firms have the burden of investing the money of different organisation into a sector which is earn good returns, the research article wants to shield light into the sector where there is potential for statistical analysis which aid in better decision made which is the current trend in the market now. The paper highlights the different trend pattern in sectors like real estate, service industry and other industries, the analysis reveals that their still room for investment in sectors bio technology were the funds have been decline from the past few years. The linear pattern in investment by the investors relives that there is good growth in such industries, the danger of

cyclic and seasonal trends are the high and low of the investment cyclic is an indication that the investors are wary of their investment and have been careful studied the growth of the sector. The domestic venture capitalist firms have been actively participating in the growth of the economy but their contribution is marginal when compared to the amount of investment brought by foreign players. The analysis shows that a small change in economy or external political factor can hugely bring or stop the flow of investment into different sectors.

## References

1. Sarika, Mike and Andy (2003), "Do Foreign and Domestic Venture Capital Firms Differ in Their Monitoring of Investees?" *Asia Pacific Journal of Management*, Vol.20, Pp.175-204.
2. Srinivas K T (2013), "Venture Capital Investments in India", *International Journal of Research in Commerce and Management*, Vol.4, issue.3, pp.57-60.
3. Srinivas (2012), "A Comparative study of registered and foreign venture capital investment with special reference to BT sector in sector", *Adhyayan*, vol.2, issue.1.
4. Krishnaswamy O.R. *Business Research Methods*, HPH, Mumbai, 2010.
5. Lulfesmann, C. 2000. "Start-up firms, Venture Capital financing and Renegotiation", *Journal of Financial Management and Analysis*, 13(1), pp.1-15.
6. Mason, M.C. and Harrison, R.T. 2000. "The Size of the Informal Venture Capital market in the United Kingdom", *Small Business Economics*, 15(2), pp.137-148.
7. Swati Panda, Shridhar Dash, (2013) "Trust and reputation in new ventures: insights from an Indian venture capital firm", *Development and Learning in Organizations: An International Journal*, Vol. 27 issue.4, pp.9 -11.
8. [www.sebi.gov.in](http://www.sebi.gov.in)

### How to cite this article:

Komala G, and M.Muninarayanappa., Does foreign and Domestic Venture Capital firm Differ? A Comparative Study in India. *International Journal of Recent Scientific Research Vol. 6, Issue, 8, pp.5556-5560, August, 2015*

\*\*\*\*\*