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

Komala G, and M.Muninarayanappa
Department of Commerce, Bangalore University, Bangalore

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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.

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 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.
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

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

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

Source: www.sebi.gov.in

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 revels 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.

The biotechnology sector trend revels 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.
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.

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.

The industrial products 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.

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.

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

8. www.sebi.gov.in

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