

Role of venture capital in the development of Rajasthan: Entrepreneurs perspective

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ABSTRACT : Since independence there is significant improvement in the economic and social development of Rajasthan for which role of venture capitalist is important. in this paper the researcher indented to highlight the different industrial sector of Rajasthan which got benefited by different venture capitalist . and Also efforts are made to determine the entrepreneurs perception regarding the role of venture capital for smooth functioning of newly established companies. The research design used is exploratory in nature. The data is being collected from the entrepreneurs of Rajasthan, RVCF and other websites, hence this research is based on primary and secondary data. Correlation is used to determine the relationship between the role of venture capital and development of Rajasthan . The results of this study would help venture capitalist to modify their role and policies according to the changing needs of state's entrepreneurs which will facilitate it's adoption by rural.

Key Words: Venture Capital, Venture Capitalist, Entrepreneur, RVCF.

1.0 OBJECTIVE(S) OF THE RESEARCH

To study different industrial sector of Rajasthan which got benefited by different venture capitalist

- To study the entrepreneurs perception regarding the role of venture capital for smooth functioning of newly established companies
- To find the correct path to fulfill the changing needs of state's entrepreneur

2.0 HYPOTHESIS DEVELOPMENT

H₀₁: There is no scope for venture capital in Rajasthan.

H₀₂: The need of state's entrepreneur does not change with time.

3.0 RESEARCH METHODOLOGY

Type of Research Design

- Descriptive: The study would use the data collected from both primary and secondary sources to investigate different set of objectives and analyze the different industrial sector of Rajasthan which got benefited by different venture capitalist

Data Type: Cross sectional data.

Data Collection Methods

Method for collecting primary data: Structured observation and structured questionnaire.

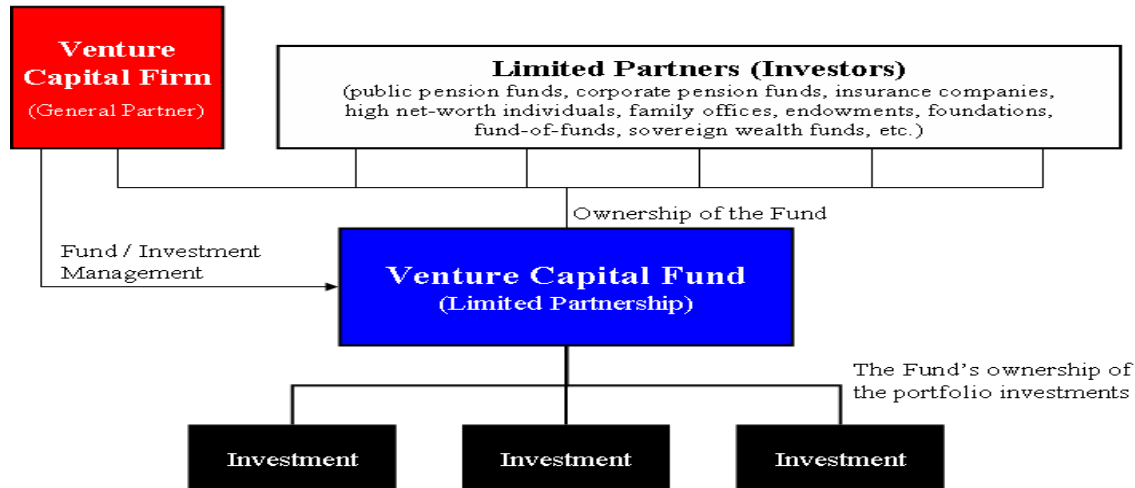
Method for collecting secondary data:

- Journal/Document Review
- Observation: Annual reports. press release
- Web search : Company/industry websites
- Various policies from national/state organizations

Data Analysis Techniques: Correlation Analysis.

I. Introduction

Meaning: **Venture capital (VC)** is financial capital provided to early-stage, high-potential, high risk, growth startup companies. The venture capital fund makes money by owning equity in the companies it invests in, which usually have a novel technology or business model in high technology industries, such as biotechnology, IT, software, etc.¹ Venture Capital is one source of non-bank financing, which is quite prevalent in developed financial markets for small or start up firms (Keuschnigg 1998)



[Source: http://upload.wikimedia.org/wikipedia/commons/7/79/Venture_Capital_Fund_Diagram.png]

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 (often an LP or LLC) 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.

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 are 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.

II. Sectors Attracting Venture Capital Investments²

Changing technology, economic conditions and new demands from consumers have resulted in rapid change for the venture capital investors as well. We recently conducted an interview with over 100 venture capital investors and identify what sectors they are expressing their interests.

1. VoIP Services

Voice over Internet Protocol is already widely considered as the main communications tool over traditional landline and even cell phones. The most well known company will be Skype, and there are thousands more other companies which offer individual or corporate solutions. VoIP is now the backbone of the telecommunications industry, this involve hardware providers, software providers, network providers, applications and delivery companies.

¹ Website: http://en.wikipedia.org/wiki/Venture_capital

²<http://smartinfobuzz.com/9-sectors-attracting-venture-capital-investments/>

2.Digital Media Companies

With online advertising surging and traditional media declining, this is not a surprise at all. Some analysts mention that they are surprised to see so many newspapers are still around, but they do expect the newspaper industry could disappear within 20 years. Amongst the online publishing and advertising industries, some are experiencing exponential growth: online reservations, directory-listing websites, online auction or listing sites (cars, businesses, real estate) and of course, social media.

3.The Solar Industry

New generation of solar energy has been developed and tested, and many large projects are being rolled out – many new projects are likely to occur over the next 2 decades, both for new locations; and to replace the older generation solar technologies.

Investment Focus: Solar technology, Solar Installation Companies, Solar Manufacturers, Project Consultants and Energy Storage.

4.Games & Applications

This is a sector that is experiencing shortage of professionals, and many colleges are now offering game developers as a course to attract students.

Investment Focus: Mobile Games, Social Media Games, Studios, Network Management Companies, Design Studios

5.Environmental Consulting

Environmental Consulting firms are so busy these days that many of them now require to hire professionals outside the United States, which seems quite unrealistic for many job seekers. In addition to the large projects they undertake, they are also busy in frequent day-to-day projects like air quality testing, water quality testing, work with EPA and consulting to industries about compliance issues.

6.Fast Food Franchises

The main growth factors include:

- A) Simple concept, consumers are willing to try out the new food in their neighborhood,
- B) Regional expansion – expanding beyond the home-state and also into international markets
- C) Fast growing opportunities in Asia, South America and Middle East have also helped many franchises to grow significantly and
- D) Immigration programs – which many immigrants consider franchising as the best way to start their business and to qualify for immigration.

These 4 factors have helped many franchises, particularly the fast-food franchises to expand with strong cashflow from franchising fees and sales.

7.Biofuel and Renewable Energy

Apart from solar energy, other sectors are also enjoying strong growth, which are attracting investment capital from venture capital and private equity firms.

Focus Sectors: Wind Energy Biomass, Ethanol, Energy Storage, and Energy Conservation

8.Boutique Funds Management Companies

These are small-medium sized fund managers. There are several reasons why they are attracting investments from venture capital investors.

- A) VCs can create affiliates or fund-of-funds by investing into other funds, and diversify into other opportunities – such as industries or geographical spread.
- B) Pension funds have allocated certain proportion of capital into venture capital funds, so there is a consistent flow of investment capital from these institutions.
- C) Recovery of the equities market is helping fund managers to deliver better returns; and there is also consistent increasing of capital inflows from investors as well.
- D) Demands from investors investing & diversifying their investment portfolio such as investing into emerging economies, gold, exchange rates or commodities.

9. Robotics and Industrial Automation

The world's manufacturing industry continues to move towards automation & robotics. This is an inevitable trend, and there had been many breakthroughs in these sectors. Investors have been backing companies that research and developing these technologies. venture capital investors have invested in companies that produce robots used at hospitals, aged care facilities and for home-care services.

III. Rajasthan: The State Profile

Rajasthan is a state where tradition and glory meet in the midst of colours. It is endowed with magnificent forts, palaces, havellies, natural resources, heritage, beauty and culture. With the lofty hills of Aravali-one of the oldest mountain ranges of the world and the golden sand dunes of the Great Indian Desert, Rajasthan is the only desert of the sub-continent.

Rajasthan is located in the north-western region of India. It is the largest State in the Republic of India. It forms a corridor between the northern and the western states in the country.

Rajasthan Asset Management Co. Pvt. Ltd (RAMC), manages to Rajasthan Venture Capital Fund (RVCF). RAMC, a professionally managed and privately held company, manages two SEBI registered domestic venture capital funds - RVCF Fund I & SME TECH FUND – RVCF Trust II supported by 11 investors including Rajasthan State Industrial Development and Investment Corporation (RIICO) and Small Industries Development Bank of India (SIDBI) as lead investors.

RVCF aims to invest in start-up and mid stage companies, operating in high growth sectors with a sustainable revenue model and a highly motivated and experienced management team

6.1 Fund Objective

Fund's aim is to selectively invest in companies operating in high growth sectors and create value for all stakeholders. The companies that are capital efficient, can scale rapidly and are early movers, generate interest from RVCF.

RVCF seek to develop close relationships with founders and management teams. They are collaborative and patient in their approach and believe in supporting the entrepreneur at all levels.

The Fund's investment in companies is through the route of equity, quasi-equity and debt instruments. The Fund seeks to achieve its return through dividends and capital gains at the time of disinvestment through an Initial Public Offering, a sale of its holding to Strategic Investors, Buy-back, etc

Rajasthan Patrika Group ('RP' or 'Patrika') is an existing strong multi-media house. The group has its strong presence in area of Newspapers, FM Radio, Out of Home advertising, Events Management, Yellow Pages, Yearbook, Magazines, VAS solutions, online portal, Cable network etc .

6.2 Investment Policy

1. Eligible Projects

The Fund's primary objectives are to make available growth capital to new companies, which have shown performance, and to cater to growth and expansion of unlisted companies in the Information Technology, Bio-Technology, Retail, Auto, Agri-Tech, Health Care, Tourism, Entertainment, Logistics, Packaging and other Technology driven projects. The Fund also invests in start-ups, turn-around and buy-out situations on case to case basis. We occasionally might make follow-on investments over the life of a company, depending on its needs.

6.3 Investment Criteria

The Fund is looking for projects offering potential for an attractive growth and earnings. Some of the parameters critical for project selection are:

Management: A strong and committed management team with a demonstrated track record and integrity.

Market: High growth potential in the market, which the investee company seeks to serve the market will need to be quantifiably large with growth opportunities especially in emerging areas that address global markets.

Competitiveness: The investee company should possess the ability to develop and retain a long term competitive advantage through the use of technology.

Return On Investment: There should be a logical and visible exit mechanism available for investor that provides attractive capital appreciation with above-average profitability.

6.4 Investment Range

Instrument Range

The Fund undertakes individual investment in the preferred range of Rs. 50 million to 150 million. Normally investment in equity is restricted to 40% of the total paid up capital of the company. Larger investment may also be considered jointly with national funds.

Investment Horizon

The Funds investment horizon varies from 3 to 7 years with the option for a quicker exit incase the situation so warrants

6.5 Disinvestment

The preferred exit route is through a listing on the stock exchange within 3 to 5 years, or as may be stipulated, from the date of investment.

In case a public listing is not feasible due to the reasons of size of the investment or other circumstances, the alternative method of exit consists of a sale to strategic investor, buy-outs and buyback of share by the company and promoters on the basis of a pre-determined formula and independent valuation of shares as on the date of buyback

IV. Testing of Hypothesis

Rajasthan is An Ideal Bio Technology Destination. Rajasthan is very rich in Bio resources. The State provide tremendous bio diversity, rarely to be found in any other State. Agricultural and Forest have been the main source of the state economy for quite some time now. The State is a leading producer of mustard, rapeseed, soyabean, barley, maize, wheat, cotton, groundnut, milk, etc. Fruits and vegetables, such as Potato, Tomato and Onion are also available in abundance. There is vast scope of quality improvement of cotton. In addition, there are various varieties of exotic Indian spices in the State. Thus, integrated horticulture development would improve the availability of raw material for food processing industries in the State.¹

Rajasthan has great potential to create immense industrial activity in Biotechnology and modern Biotech products involving recombinant DNA based products and Bio Informatics. In line with the developed world, the Government would make all efforts to focus on modern processes in the area of agriculture industry, floriculture, human and animal health care (medical and veterinary science) and environment to provide good commercial opportunities in the field of Biotechnology.

Table1: Rajasthan is leading producer of the following crops in the country

Sr.	Crops	Qty. (in million Tonnes)	Rank in India
1	Mustard	2.65	I
2	Guar	0.23	I
3	Isabgol	0.06	I
4	Barley	0.37	II
5	Soyabean	0.60	III
6	Wheat	6.73	V
7	Ground Nut	0.26	VI
8	Maize	0.97	VI

Reference: Economic Intelligence Service, CMIE, Nov.'2001

A few more areas of focus in agriculture based sector are:-

- Bio Pesticides and Bio Fertilizers,
- Development of heritable traits responsible for various abiotic stresses like drought, temperature and salinity in crop improvement.

- Genetic improvement of Animal breeds,
- Transgenic Seeds for Dry farming,
- Development of Bio fuel.
- Development of genomic medicines.

V. Existing Resources

8.1 Premier Institutions in Rajasthan

The premier institutions in Rajasthan which are offering education and research facilities in Biotechnology are Agriculture University, Udaipur; Rajasthan Agriculture University, Bikaner; University of Rajasthan, Jaipur; Agriculture Research centre, Durgapura, Jaipur; Birla Institute of Scientific Research, Jaipur; Central Arid Zone Research Institute (CAZRI), Jodhpur ; etc. These institutes are involved in R&D activities covering Medicinal Plants, Tissue Culture, Plant Genetics etc. BITS, Pilani is offering courses in Bio Tech and Bio Science such as M.Sc., ME, M.Pharma, B.Pharma etc. BITS Pilani is also engaged in research in various areas of Bio technology and Bio sciences and working on various projects for leading companies. This premier institutes can provide consultancy, contractual research, training etc. in the Bio-technology sector.

8.2 Facilities available at R&D Centers in Rajasthan.

The R&D Centers located at Agriculture Research Station, Durgapura, Jaipur; Rajasthan Agriculture University, Bikaner and Birla Institute of Scientific Research, Jaipur; Birla Institute of Technology and Science, Pilani are having sophisticated labs equipped with following facilities:

- Trinocular Microscope with Micro-Zoom Photographic attachment
- Elisa Reader
- Refrigerated Centrifuge
- Micro-Refrigerated Centrifuge
- Ultra-Centrifuge
- Deep Freezer (-80°)
- Disc/slab Gel Electrophoresis
- Densitometer
- Gel Documentation system with Image Analysis Software
- Audio-Visual Equipments
- Genetic Analyser
- Tissue Culture Laboratory
- Reverse Osmosis Water Purifier System
- Rain-Out-Shelters
- Transilluminator
- Growth Chambers
- Green Houses

VI. RIICO EXTENDS A SPECIAL LAND PACKAGE TO MODERN BIO TECH INDUSTRIES AND INSTITUTES IN THE DESIGNATED BIO TECH PARKS

Land allotment for setting up of various Bio-Tech and Bio-Informatics industries including projects covered under Modern Bio Technology, is made at the rate of development charges prevailing in the area. The following entitled land rebate by way of reimbursement is allowed after stipulated minimum fixed investment is actually made on the allotted plot within the period stipulated for investment in the package.

1. Major Bio Technology and Bio Informatics Companies (annual turn over of more than Rs. 100 crores in this field as per the latest audited balance sheet) - For the industry which is set up on the allotted plot with a minimum fixed investment of Rs. 10 crores within a period of 4 years from the date of allotment in a specially designated Bio Technology parks/ zones, entitled land rebate shall be @ 60% of the allotment rate for the plot upto maximum of 10 acres area.

2. General Bio Technology and Bio Informatics Units- For the industry which is set up by any entrepreneur on the allotted plot in a specially designated Bio Technology parks/ zones with a minimum fixed investment of Rs. 15 lacs per 1000 sqm. within a period of 5 years, entitled land rebate shall be @ 40% of the allotment rate

for the plot upto maximum of 5 acres area. Additional discount of 10% on allotment rate may also be allowed if the plot allottee commences commercial production within 3 years from the date of allotment.

3. General Bio Technology and Bio Informatics Training Institutes- No rebate in the allotment rate shall be allowed. However, RIICO may consider land allotment in any industrial area on the rate prevailing in the area.

4. Bio-Technology Industries outside the Bio-Technology Parks in Identified Industrial Areas - For the Bio Technology industries which is proposed to be set up outside the Bio Technology Parks in the Identified Industrial Areas, entitled land rebate shall be @ 10% of the allotment rate for the plot upto maximum of 4000 sqm. area.

VII. Infrastructure

Bio Tech Parks by RIICO

Bio Tech Parks at two locations namely Sitapura-Jaipur and Chopanki, Bhiwadi (Alwar) has been set up by RIICO. The necessary common facilities such as incubators, R&D Centre etc. will be encouraged in private sector.

(i) Bio Tech Park at Sitapura, Jaipur:-

RIICO has developed Bio Tech Park in an area of about 23.5 acres at Sitapura, Jaipur. The Park is located on Jaipur, Kota national highway, just 4 kms. away from the Airport and about 15 Kms. from the City Centre. 15 nos. of plots have been developed in the Park. The size of the developed plots is ranging from 700 sq. mtrs. to 20,000 sq. mtrs. Good quality Infrastructure such as Earth Station (for high speed data com facility), Power, Telecom, Roads, Educational Institutions, Water supply etc. are available in the park.

The State Govt. will also encourage development of Bio Technology Parks in private sector. State Govt. would consider extending concessions to such Bio-Technology Parks on case to case basis, to be decided at the level of SLEC/BIDIP.

Manpower:-

BITS, Pilani; Rajasthan Agriculture University, Bikaner; Agriculture University, Udaipur, Private Universities in Jaipur and other Institutions offers courses (under graduates and Post graduates) in Bio Tech, Bio Sciences etc.

Most of Universities and Colleges in the State are now offering B.Sc.(Bio-Tech) and M.Sc.(Bio Tech) courses.

Venture Capital Fund

RIICO in association with SIDBI is operational a Venture Capital Fund known as Rajasthan Venture Capital Fund (RVCF) for providing Venture Capital to IT, Biotech and other knowledge based industries.

VIII. Conclusion

The role of venture capital on growth of SME is real and practical as established by this study. study reaffirms the correlation between changing needs of entrepreneurs and venture capitalists which also leads to SME development and poverty alleviation. This study has demonstrated that use of venture capital have been profitable and will be profitable in the over all development of not only Rajasthan but the nation as a whole . The impact of venture capitalist is prominent on both economic and social-economic factors.

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