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CHANGING LANDSCAPE OF INVESTOR'S BEHAVIOR FROM VENTURE CAPITAL TO PRIVATE EQUITY IN INDIA: A LEARNER'S PERSPECTIVE

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(Abstract)

In a developing country like India capital is considered to the paramount significance of rising of finance. In the case of new companies which are pertaining to innovative ideas finds it very difficult to see the light of day on account of scarcity of finance. Venture capitalists are acknowledged as a boon for the innovative entrepreneurs in India.

Though India had the history of 42 years of venture capital financing activities, the first 27 years (Pre-LPG Era) witnessed only the laying of foundation stone for the venture capital industry and the remaining 17 years (Post-LPG Era) actually made Indian venture capital industry to reach a significant level. Ever since economic liberalization which started in India in 1991, the government is going on opening up its economy to foreign investment, attracting global players to compete and utilize the large potential in the domestic market. The venture capital in India has emerged as an important investment arena only after liberalization.

The first decade of post reforms (1992-2001) of Indian venture capital has emphasized on SMEs and small and emerging technology oriented investments and entrepreneurial development. But so far the second decade is a decade of private equity, and an era of expansion and modernization and merger and acquisition. And instead of small deals, now the venture capitalists emphasis on big and less risky deals

The present research paper makes an earnest attempt to analyze the changing investment pattern of these two decadal phases on account of its stage wise investment as well as its average deal size. The first part of the paper discusses about the conceptual framework of venture capital and private equity, methodology, objectives and hypotheses of the study. The second part is about the decadal trend of venture capital and private equity in terms stages and deal size. The third part discusses about the reasons, impact, challenges and opportunities for both venture capital and private equity.

Key words: Venture Capital, Private Equity, LPG

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Introduction

Ever since economic liberalization started in India in 1991, policymakers have steadily opened up the economy to foreign investment, attracting global players to compete and tap the large potential in the domestic market. India's progressive foreign trade policy has been implemented through a combination of fiscal reform, liberalization of trade and investment policies and rational exchange controls. This combined with strong fundamentals changes in favorable demographic profile, human capital, trade openness, increasing urbanization and rising consumer spending has made India one of the fastest growing markets in the world. The varied scope for Indian venture capital emerged as an important investment arena only after liberalization. (Mani Sunil Bartzokas Anthony, 2002)

The Venture capital sector is the most vibrant industry in the financial market today. For the developing and economy in transition, venture capital is a critical source of financing in order to commercialize Innovation and novel ideas. (Ramesh S & Gupta Arun, 1995) The emergence of new economy proved to be a major year in the private equity and venture capital in India and it was realized that the companies, which were built out of intellectual capitalization, have been more successful than that were built with brick and mortar.(Pandey I M Fliegal F C, 1995). The last decade of post liberalization globalization regime shows a tremendous performance of venture capital in India comparing to other nations of the world especially developed countries. (Dossani Rafiq and Kenney Martin, 2001)

The post liberalization globalization regime of Indian venture capital industry can be classified into two decadal phases according to its investment trend and pattern. Among these the second decade of venture capital has turned out from its ultimate role of entrepreneurial development towards later stage investments i.e. private equity. The current scenario of Indian risk capital industry is entirely diversified from funding for small and emerging industrial concern to promoting of existing for its expansion and modernization.

The Problem and Review of Literature

The spiraling growth in the economy has led to a similar rise in the funding provided by venture capitalists. Apart from a few sectors like non-banking financial services, gold financing and activities not permitted under the industrial policy of the Government of India, investors can invest their funds in most other sectors.(Dossani Rafiq, 1999) And if investors can get used to the heat and dust of India, it continues to be a country that offers great investment opportunities to foreign investors, altogether with these achievements the venture capital in India it is very necessary to make an attempt to analyze, how these investment plans are important for the real growth and development of the country and how far these VC reforms contributed to the participative development of the economy and regional balance.(Dossani Rafiq, 2003)

The simple statistics on Indian VC and PE industry has a clear view of those developments happened in the sector in a cost effective manner where, the average yearly investment of last decade in early stage and later stage was 161.86 million US$ and 159.65 million US$ respectively but in the second decade of liberalization shows a huge increase in share of later stage which is 413.17 million US$ and 3102.15 million US$ respectively excluding the actual and projected of figure of year 2007.

A good number of studies have been made in the field of venture capital and private equity and a few studies have been made especially in International scenario and Indian scenario the studies are much focused on the legal and regulatory aspects of venture capital. The reports of committees appointed by SEBI and Planning Commission on venture capital by KB Chandrashekhar (2000), Ashok Lahiri (2003), and Desai (2006) have had their set of recommendations in order to cater to the needs of venture capital investors without much investment regulations for the promotion of entrepreneurial development and early stage investments.

The study of Rafiq Dossani and Kenny Martin (2001) in Indian scenario pertaining to Indian Venture Capital industry, llustrates that the earlier patterns of growth or failure in Venture Capital industries in India and other countries and regions. It does not cover any issues regarding the pattern of investment environment especially as regards to private equity. Another descriptive paper of Rafiq Dossani (1999), describes that India's achievements in IT and IT enabled services with respect to venture capital investments. His paper (2003) on "Reforming Venture Capital in India: Creating the Enabling Environment for Information Technology", analyses the need for Venture Capital in India to support the growth of its Information Technology industry. His latest paper (2006) on early stage or risk capital in Indian scenario touches the aspects of risk associated with venture capital in comparison with later stage which considered being private equity as well. The paper had an attempt to find out the major issues regarding the Indian venture capital in comparison with China where the funding for SMEs and SSIs has made the benchmark for qualified venture investments.

The study of C P Chandrasekhar, (2003) in his paper describes that India's experience with private equity is illustrative of the rush of this form of finance to the developing world. The paper finds that private equity boom would now aggravate this trend of transfer of ownership from Indian to foreign hands. The paper of D Nagayya (2005), regarding recent trends in venture capital in the Liberalization Context reviews development of Venture Capital Funds (VCFs) and Venture Capital Investment (VCIs) in the country. The paper comes out with its findings regarding the current private equity boom which would lead India for next arena of Foreign Investments. The study report of Evalueserve (2006) on "Venture Capital Market in India Getting Overheated?" summarizes that the Venture Capital market in India seems to be getting as hot as the country's famous summers. The paper emphasizes on the future attraction of Foreign Players in Indian early stages.

Bubna Amit (2007) had described the impact of VC/PE with some relevant case studies where the attraction towards later stage investments is being visualized. And the paper by Pandey I.M, (1992) had the view that venture capital is meant for entrepreneurship development and capitalizing innovative business ideas. Most of the studies in Indian venture capital having the description of business environment of venture capital in India. Very few studies have conceptualized Private equity separately from venture capital. Therefore it is the need of the hour to study the current scenario of venture capital as compared to private equity especially the movement of venture capitalists towards private equity.

The present research study the researchers make an earnest attempt analyze the changing investment pattern of these two decadal phases on account of its stage wise investment as well as its average deal sizes. The first decade (1992-2001) of Indian venture capital has emphasized on SMEs and small and emerging technology oriented investments and entrepreneurial development. But second decade is decade of private equity, and era of expansion and modernization and merger and acquisition. Instead of small deals the venture capitalists emphasis on big and less risky deals.

Objective and Hypothesis of the Study

The present study aims to trace out the changing landscape of investor behavior from venture capital to private equity has the following sub-objectives.

To find out the trends in venture capital in post-liberalization-globalization regime with special preference to the risk elements of venture capital.

To give adequate suggestions and recommendations. The study is mainly based on data published in reports of IVCA and AVCA based on the following hypotheses.

The null hypothesis of the study (H_0) assumes that the investor behavior as regards to venture capital investment remains the same in both the decades of post-liberalization and the alternative (H_1) assumes that the investors became selective in terms of risk elements of venture capital investment.

Need and Significance of Private Equity:

Venture capital refers to capital provided by firms who invest alongside management in young companies that are not quoted on the stock market. The objective is high return from the investment. Value is created by the young company in partnership with the venture capitalist's money and professional expertise. Private equity is a wider concept term, which refers to any type of equity investment in an asset in which the equity is not freely tradable on a public stock market.(Dossani Rafiq, 2006) Passive institutional investors may invest in private equity funds, which are in turn used by private equity firms for investment in target companies. Leveraged buyout, venture capital, growth capital, angel investing, mezzanine capital and others are the common form of private equity investment. Private equity funds typically control management of the companies in which they invest, and often bring in new management teams that focus on making the company more valuable. (Rafiq Dossani and Martin Kenney 2001)

Private equity refers to investment in companies that are not listed on secondary markets, while technically the opposite of public equity they are broadly equivalent to stocks, though return on investment often takes much longer. A private equity firm owning such securities must find a buyer in the absence of a traditional marketplace such as a stock exchange though they are not listed on an exchange. (Prof. Bubna Amit, 2007) Initial (IPO), capitalizing the value of the security on a stock exchange, are the often-useful technique for "exit" or "selling out".

The real deference between venture capital and private equity is in accordance with the volume of investment i.e. if the investment is less than 10 crore it is venture capital and if it is more than 10 crore it is private equity and second deference is in accordance with the stages of investment i.e. venture capital means the investment is the investment in early stages of the firm and Private equity is of late stages and thirdly the private equity don't accept investment proposal where risk element is more than 10x on other hand the venture capital is ready to invest in more risky ventures too, and that too the basic objective of promoting venture capital financing by the governments is only due to its this special feature.(Davila, A., Foster, G., & Gupta, M. (2003)

Private Equity/Venture Capital Investment in India since Liberalization

In India the post liberalization globalization is the real break through for venture capital investment. Earlier only government and public sector companies were the participants of Indian venture capital industry. (Thaneja Satish, 2002) The post liberalization globalization era has witnessed the entrance of domestic giants in beginning but now after 17 years it is being said that India is the real and fruitful destination of foreign institutions as well as individuals where china comes only at the second number. (Report of K.B. Chandrasekhar Committee, 2000) Currently the participants of Indian venture capital are mostly overseas bodies which emphasize mostly in private equity funding. (Pandey I M, 1992)The planning commission report (Nitin Desai, Planning Commission, 2006), on Indian venture capital very clearly identify the phase wise transformation of Indian venture capital to private equity and tabulate the growth of private equity in four phases according to the, primary source of funds, deal size and number of participants and funds and stages wise transactions, which concludes that the importance of later stage is on an upward trend and participation of private and overseas investors are increasing along with the amount of deal sizes.

Table .1

Investment and Deal Sizes of Venture Capital/Private Equity in India Since Liberalization (1992 -2007)

Year	Total Investment	Index	Growth	Total No Of Deals	Index	Growth	Average Deal Size	Index	Growth
1992	103.55	100	0	428	100	0	0.24	100	0
1993	134.46	130	29.85	488	114	14.02	0.28	117	16.67
1994	182.32	176	35.59	602	141	23.36	0.3	125	7.14
1995	201.15	194	10.33	622	145	3.32	0.32	133	6.67
1996	281.7	272	40.04	691	161	11.09	0.41	171	28.13
1997	80	77	-71.60	691	161	0.00	0.12	50	-70.73
1998	250	241	212.50	728	170	5.35	0.34	142	183.33
1999	500	483	100.00	489	114	-32.83	1.02	425	200.00
2000	1160	1120	132.00	280	65	-42.74	4.14	1725	305.88
2001	937	905	-19.22	110	26	-60.71	8.52	3550	105.80
2002	591	571	-36.93	78	18	-29.09	7.58	3158	-11.03
2003	470	454	-20.47	56	13	-28.21	8.39	3496	10.69
2004	1650	1593	251.06	71	17	26.79	23.24	9683	177.00
2005	2200	2125	33.33	146	34	105.63	15.07	6279	-35.15
2006	7500	7243	240.91	299	70	104.79	25.08	10450	66.42
2007	14234	13746	89.79	387	90	29.43	35.08	14617	39.87
AI* AAGR	1904.70		64.20	385.38		8.14	8.13		64.42

Source: *Compiled by authors form, a)Venture Intelligence Report TSJ Media, 2004- 06 (b) Venture Capital Year Book IVCA 2001-03 (c) Venture Activity Report IVCA 1993, 94, 95, 96, 97.*

From the table regarding the total VC/PE investment in India it has been found out that the VC investment is going on increasing with an average growth of 61.75% where the deal size was increasing only in beginning but comparing to the growth of VC it has only an average growth of 6.77% it is only nominal. In case of deal sizes the AAGR is of 64.41% which is on US$ 35 million per deal in the current year, indicates the real trend of VC is transforming to big deals which is the major characteristics of private equity.

To find out the real changes in the pattern of VC investment and its transformation to the private equity it is necessary to divide the total years in to two decadal phases, which can trace out the maximum possible result of VC investment trends in transformation. The table below and figures 4 and 5 frame out the trends in the first phase of VC investment in the first decade post liberalization regime i.e. 1991-1999, and the table 3 and figures 6 and 7 picturise the VC/PE investment in the new millennium including the six months actual and total projection for the 2007.

Table .2

Growth of Venture Capital Investments in India During the First Decade (1992-1999)

Year	Total Investment	Index	Growth	Total No Of Deals	Index	Growth
1992	103.55	100.00	0.00	428.00	100.00	0.00
1993	134.46	129.85	29.85	488.00	114.02	14.02
1994	182.32	176.07	35.59	602.00	140.65	23.36
1995	201.15	194.25	10.33	622.00	145.33	3.32
1996	281.70	272.04	40.04	691.00	161.45	11.09
1997	80.00	77.26	-71.60	691.00	161.45	0.00
1998	250.00	241.43	212.50	728.00	170.09	5.35
1999	500.00	482.86	100.00	489.00	114.25	-32.83
AI*& AAGR	216.65		44.59	592.38		3.04

Source: *Compiled by authors form, a) Venture Activity Report IVCA 1993, 94, 95, 96, 97. b) Venture Capital Year Book IVCA 2001,*

The table 2 and figures 4 and 5 is of first decade of post LPG has the total trend of VC investments has an average investment of US$ 216 million with an average growth rate of 44% whereas the table 3 and figures 6&7of post 2000 investment trends point out that the average investment is of 3225 million with an AAGR of 62..41. But in comparison with the total deals the first phase shows the tremendous growth due to small and risky investments. In fact the numbers of VC funds were on an average of 593 in first phase where it is only 170 in the second phase with a growth of 15.86 on an average.

Table 3

Growth of Venture Capital Investments in India During the Second Phase (2000-2007)

Year	Total Investment	Index	Growth	Total No Of Deals	Index	Growth
2000	1160.00	1120.23	0.00	280.00	65.42	0.00
2001	937.00	904.88	-19.22	110.00	25.70	-60.71
2002	591.00	570.74	-36.93	78.00	18.22	-29.09
2003	470.00	453.89	-20.47	56.00	13.08	-28.21
2004	1650.00	1593.43	251.06	71.00	16.59	26.79
2005	2200.00	2124.58	33.33	146.00	34.11	105.63
2006	7500.00	7242.88	240.91	299.00	69.86	104.79
2007	14234.00	13746.00	89.79	387.00	90.00	29.43
AI*[1]& AAGR	3592.75		67.31	178.38		18.58

Source: *Compiled by authors form, a) Venture Intelligence Report TSJ Media, 2004- 06 (b) Venture Capital Year Book IVCA 2001-03.*

Risk and Deal Size

The private equity India is on its transformation to big and less risky deals now. The post liberalization globalization era has its ultimate impact on the promotion of foreign investments in India which has not only placed in stock market but also it has maximum involvement in unlisted equities too. The second decade is a decade of private is not only equity due to the effect of 9/11 but also it is the global trend, which is transformed along with the foreign investors. Below the table and figures 8&9 describe the total deal size trends in Indian VC and PE investments.

[1] *Average investment or average (Hereafter)*

Table 4

Trends in Deal Size of Venture Capital/Private Equity Investment Since Liberalization

First Phase				Second Phase			
Years	**Average Deal Size**	**Index**	**Growth**	**Years**	**Average Deal Size**	**Index**	**Growth**
1992	0.24	100.00	0.00	2000	4.14	1725.00	0.00
1993	0.28	116.67	16.67	2001	8.52	3550.00	105.80
1994	0.30	125.00	7.14	2002	7.58	3158.33	-11.03
1995	0.32	133.33	6.67	2003	8.39	3495.83	10.69
1996	0.41	170.83	28.13	2004	23.24	9683.33	177.00
1997	0.12	50.00	-70.73	2005	15.07	6279.17	-35.15
1998	0.34	141.67	183.33	2006	25.08	10450.00	66.42
1999	1.02	425.00	200.00	2007	36.78	14616.67	40.87
AI*& AAGR	0.38		46.40	AI*& AAGR	15.89		44.20

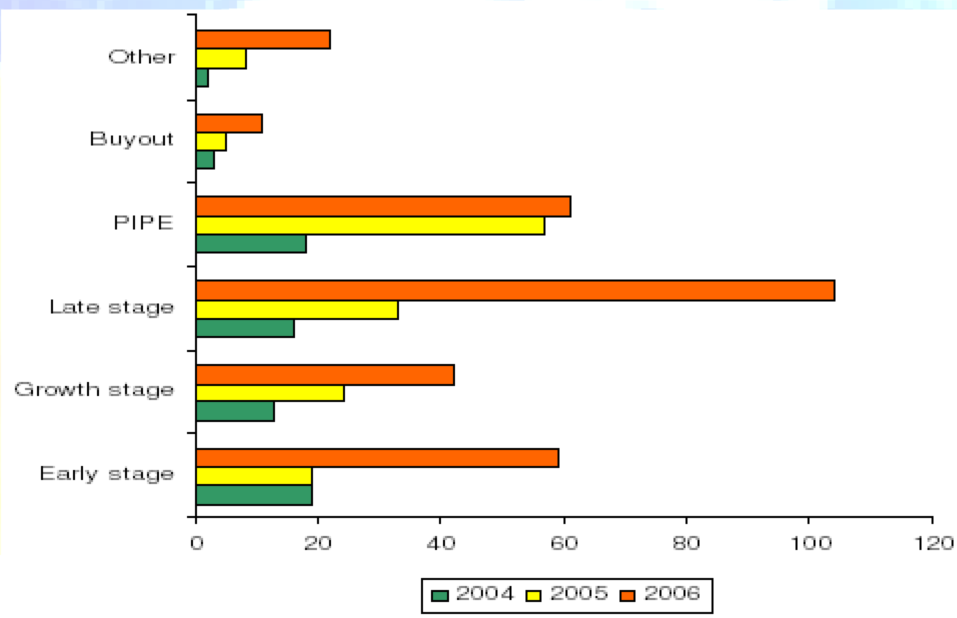
Source: *Compiled by authors form, a)table 1,2and 3*

From the table 4 and figure 8&9 it has been found out that the venture capital was performed a vital role in the promotion of SMEs in the beginning of first decade of post LPG era where in the second decade it has been fully turned towards the big and high volume investments. The statistics of the first and second decade as on the tables and graphs which the average of average deal sizes in the first decade stood at US$0.38 million whereas it has been increased to 15.89 with an average growth of 44.2% and that too in the year 2007 it has reached the level of 35.08 million where the private equity is referred to the investment more than Rs.50 crore which has attained in the be year 2003. For further analysis about the VC and PE investment trends on account of its transformation process through its stage wise investment the table 5 and figures 10&11 emphasizes on the early and later stage investment pattern.

Table 5 Stage Wise Venture Capital/Private Equity Investment Since Liberalization (Phase I, 1992-1999)								
Years	Early Stage	Index	Growth Rate	%Share	Late Stage	Index	Growth Rate	%Share
1992	75.27	100.00	0.00	72.68	28.29	100.00	0.00	27.32
1993	89.62	119.06	19.06	66.65	44.85	158.54	58.54	33.35
1994	127.00	168.73	41.71	69.67	55.30	195.48	23.30	30.33
1995	143.19	190.24	12.75	71.18	57.97	204.91	4.83	28.82
1996	185.97	247.07	29.88	66.02	95.73	338.39	65.14	33.98
1997	60.96	80.99	-67.22	76.20	19.04	67.30	-80.11	23.80
1998	158.00	209.91	159.19	63.20	92.00	325.20	383.19	36.80
1999	274.75	365.02	73.89	54.95	225.25	796.22	144.84	45.05
AI& AAGR	139.35		33.66	67.57	77.30		74.97	32.43
Source: *Compiled by authors form, a) Venture Activity Report IVCA 1993, 94, 95, 96, 97. b) Venture Capital Year Book IVCA 2001,*								

Figure-2

Stage-wise VC investment for 2004-2006



Source: IVCA presentation 2007, www.indiavca.org

The table 5 and figures 10&11 on the total Stage wise investment of the first decade of Indian venture capital after 1991, has a clear-cut view of early stage and later stage where the average investment is US$ 139.35 million with a marginal average growth of 33.66% and an average share of 67.57% which the remaining is only given to the later stage i.e. 32.43%. The average of later stage is of 77.3 million with an average growth of 74.97%, where the importance of early stage has emphasized in the first phase.

Figure-2 comes out with the details regarding the stage wise investment of venture capital for the last three years in which the late stage, Private Investments in Public Equities (PIPEs) are a head of growth and early stage for all the three years under the consideration. Table-6 presents the broad idea regarding the early and later stage investments in the second decade of post liberalization. It clearly neglected the early stage which is the fundamental objective of promoting venture capital by all the governments. The average investment of early stage in the second decade is only 404.28 million with percentage share of 15.99% one an average growth of 94.89%. While on the other hand the share of late stage is of 84% with an average investment sand growth of US$2816.68 million and 65.58% respectively. In comparison with the total stage wise investment of both the decades it has been found out that there are some important break through for this transformations.

Table 6

Stage Wise Venture Capital/Private Equity Investment Since Liberalization (Phase II, 2001-2007)**

Years	Early Stage	Index	Growth Rate	%Share	Late Stage	Index	Growth Rate	%Share
2000	342.00	454.36	0.00	29.47	818.42	2892.97	0.00	70.53
2001	77.64	103.15	-77.30	8.29	859.39	3037.79	5.01	91.71
2002	80.78	107.32	4.04	13.69	509.43	1800.74	-40.72	86.31
2003	47.80	63.50	-40.83	10.17	422.20	1492.40	-17.12	89.83
2004	412.00	547.36	761.92	24.97	1238.00	4376.10	193.23	75.03
2005	482.00	640.36	16.99	22.02	1707.00	6033.93	37.88	77.98
2006	752.00	999.07	56.02	10.06	6723.00	23764.58	293.85	89.94
2007	1315.00		38.30	9.21	12957.00		52.55	90.79
AI*& AAGR	404.28		94.89	15.99	2816.68		65.58	84.02

Source: *Compiled by authors form, a) Venture Intelligence Report TSJ Media, 2004- 06 (b) Venture Capital Year Book IVCA 2001-03.*

Testing of Hypothesis

"The null hypothesis of the study (H_0) assumes that the investor behavior as regards to venture capital investment remains the same in both the decades of post-liberalization and the alternative

(H_1) assumes that the investors became selective in terms of risk elements of venture capital investment."

To analyze the investor behavior from venture capital to private equity it is necessary to consider the aspects of both deal size and stage wise aspects of investments in venture capital India in both the decades of post-liberalization-globalization regime. To analyze the paternal changes in deal size investments of venture capital and stage wise investments since liberalization the measures of skewness has been used. The researchers use the measures of skewness on actual venture capital/private equity investments made by the venture capitalists in two broadly classified stages i.e. early stage and later stage and average deal size per year since liberalization as whole. Below the table 7 regarding the descriptive analysis of combined deal size and stage wise investments in venture capital produce the results of the test of hypothesis.

Combined Descriptive Statistics of Average Deal Size and Stage-wise Investments of VC/PE in Post-Liberalization Regime (1992-2007)

	N	Minimum	Maximum	Mean	Std. Deviation	Skewness		Kurtosis	
	Statistic	Statistic	Statistic	Statistic	Statistic	**Statistic**	Std. Error	Statistic	Std. Error
Average Deal Size of VC/PE investments	16	.12	36.78	8.2394	11.2013	**1.504**	.564	1.530	1.091
Early Stage VC/PE Investments	16	47.80	1315.00	288.9987	334.7991	**2.265**	.564	5.576	1.091
Later Stage VC/PE Investments	16	19.04	12957.00	1615.8044	3441.7048	**2.913**	.564	8.557	1.091

Source: Analysis compiled from tables 4, 5 and 6

From the descriptive statistics of average deal size of venture capital investment for the entire 16 years has been showing that it is not normally distributed and the skewness statics of 1.504 is more than '1' and in case of stage wise investments the value of skewness is much higher than 1 with 2.265 and 2.913 respectively which proves that there is no symmetrical distribution and it is positively skewed.

Though from the measures of skewness where the coefficient of skewness of most of all the three sets are higher than '1' therefore the null hypothesis is being rejected which ultimately led to the support of alternative hypothesis in which the changing landscape of investor behavior from venture capital to private equity is being assumed.

The Key Challenges and Opportunities of Future Venture Capital Industry in India

In a country like India resources are abandoned where there is need of utilization of those resources in a cost effective manner. The R&D is very necessary for the utilization of those resources and commercialization is mandatory in order to make India more prosperous for the commercialization, the role of venture capital is very important. Accelerated growth in venture capital must be ensured by governing authorities. The venture capital financing in India has the ultimate role in promotion of private unlisted enterprises which are the major contributors of the total GDP and NNP. In fact the decreasing share of venture capital is the biggest challenge for new and inexperienced businesses. (Ruhnka, Tyzoon T. Tyebjee, Albert V. Bruno, 1984)

In contrast of the total statistics presented in the above tables and figures focuses on the same focal point, where the deference of private equity and venture capital lies up on. The main deference of VC and PE was the contribution towards the innovative start up and promotion of entrepreneurship and in stage wise investment pattern it has been clearly discusses that the importance of start up and early stage is continuously decreasing due the private equity boom after 9/11 and the changes in global economic climate as a whole.

The second deference between the both was on the basis of its implication towards the development and promotion of small and medium enterprises, which is the ideal indicator of the country's overall development, but in contrast of the deal size statistics it has been found out that the share of big deals are in a continues upward trend and the small and medium investments are in a downward trend which can even negatively affect the investment attitude of the rural and poor entrepreneurs.(Asim Mishra, 2005)

The third deference between the VC and PE is on the basis of its approach to the risk element that the private equity investors cannot go for more than 10x, but the venture capitalists can even invest in the ventures which has more than 10x. In entrepreneurship and innovative start ups, the risk element is more than that of an expansion and modernization of existing enterprises. The statistics of stage wise investment has proved that the importance of start up and entrepreneurship has a downward trend in comparison with the expansion and modernization investments which is classified into both early and later stage.

In fact that the taking over of 'corus' by Taa, and 'novelis' by 'birla' and the hike in the market capitalization of Reliance industries by Rs. 0.4 million crore, shows the potential of India's business growth. Altogether the individual achievements of India's business giants such as Ambani brothers, Mittals, and Asim premji etc is accepted world wide. These personal achievements are only contributories towards the total economic growth but wealth is concentrated in few hands. In order to make it for common man development of SMEs is necessary which is being neglected by private equity of India. In order to reach fruit of liberalization to the bottom growth of venture capital for entrepreneurial development cannot be avoided.

Suggestions and Recommendations

- The SEBI, which is the regulatory body of VC and PE in India, has to find out the ways to ensure growth of venture capital without causing harm to the private equity.
- To reduce the risk element of venture capital financing and innovative entrepreneurship special types of insurance schemes should be introduced by the insurance companies.
- To ensure the regional balance the government should take initiatives to divert venture capital/private equity towards less developed states.
- The government should regulate the foreign direct investments to divert it towards where it is needed especially in venture capital.
- The special status for foreign venture capital investors through Mauritius root is getting extra benefits which should be extended to other countries too with certain restrictions to enable the identification of the actual source of finance.
- The SEBI venture capital guidelines and regulations should be amended to offer and ensure some promotional incentives for those innovative entrepreneurial developments.
- At present for venture capital companies, it is necessary to invest at least 66% in unlisted equities capital, which the level should be reduced to balance the portfolio and decrease the risk element and to attract more institutional investors to the VC industry.
- The government should impose some conditionality for those insurance companies, mutual funds, NBFCs, pension funds, provident funds, commercial banks etc. to invest some portion of their assets in unlisted equities especially in venture capital, either by starting their venture capital division or direct.

Conclusions

It is now rightly being said that the 21st century belongs to Asia that too South East Asia and in South East Asia between two developing economies i.e. India and China. India is perceived to enjoy competitive economic leverage on account of its exuberant resources and encouraging investment environment and it may be said that the post liberalization, globalization era has pertained to the success story of Indian economy in terms total investment in general and venture capital in particular. In present era Indian economy is not an exception it is following the general trend of the world and in terms of private equity it goes a head most of the developed nations. India is now sanguine enough to achieve the double digit growth rate with consistency in the current five year plan and he main contributory of this economic phenomenon are service sector and mainly ITEs, telecom, nanotechnology, outsourcing, broadband and WiFi, biotechnology etc. and in all these investment realm the role of private equity is very important that too India is in its peak in the third quarter of 2007.

The fast changing modus operandi of global investment business has now recognized the significance private equity boom after the maturity of venture capital which has the real bright future in the business world and already achieved a growth rate of 240% in 2006 and projected to achieve 50.61% by the end of 2007. Out of the total world PE pool India alone is expected to bag around US$ 25000 million in terms of total private equity investment in end of the second decade of post liberalization globalization regime. It is incontrovertibly a mind-boggling proportion of investment from Indian private equity globally, patenting India one day in the chart of business world *numero uno*.

However the need of the hour is that India private equity is important undoubtedly but the role of venture capital cannot be neglected which is ultimate foundation for the staring of business and development of innovative ideas and small businesses and also it is the base for commercialization of untried technologies. One more concern is that share of traditional businesses are declining, to maintain the balance in all sectors, the venture capitalists should maintain and sustain the competitive advantage by combining most cost effective and profitable combination of modern and traditional sectors because it s not wise to depend up only on IT enabled sectors.

India is now on a path of becoming world leader in many industrial enterprises with its success stories of industrial giants. Notwithstanding the fact that the taking over of ‘Corus’ by Tata, and ‘Novelis’ by ‘Birla’ and the hike in the market capitalization of Reliance industries by Rs. 0.4 million crore, shows the potential of India’s business growth. Altogether the individual achievements of India’s business giants such as Ambani brothers, Mittals, and Asim Premji etc are accepted world wide. These personal achievements are only contributories towards the total economic growth but wealth is concentrated in few hands. In order to make it for common man development of SMEs is necessary which is being neglected by private equity of India. In order to reach fruit of liberalization to the bottom growth of venture capital for entrepreneurial development cannot be avoided. Therefore the next set of amendments of regulations and guidelines for overseas as well as Indian venture capital should emphasize in the promotion of venture capital too in a balanced manner.

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