LIQUIDITY ANALYSIS OF SELECTED VENTURE CAPITAL FINANCING COMPANIES IN INDIA

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ABSTRACT
This study is about Venture Capital Funds (VCFs) in India. This paper has studied four venture capital funds in India, viz, CAPITAL TRUST, TATA CAPITAL, Sequoia, IFCI Capital. Venture capital has gained importance especially after the liberalization of the Indian economy after 1991. This industry includes both public sector units as well as private funds. This industry is under SEBI regulation. This paper has also given the examples of successful venture capital funding in some industries in India. This study has used secondary data from the selected companies. The study has also given examples of some of the companies which have received funding from the venture capital fund. This study also identifies some of the future challenges of VCFs in India.

Keywords: venture capital, performance, India.

INTRODUCTION

The concept of venture capital in the sense of risk or start-up capital is quite old in India. This sort of capital has been made available for establishing new business and financing later developments, by friends, relatives and family members for centuries. The history of modern venture capital in India, however, is not very old, starting in the mid-eighties. Like many other Asian countries, at the government policy level, venture capital is defined in terms of technology financing. In India, tax incentives are given to venture capitalists, but only when finance is provided for high-tech ventures. In practice, most venture capitalists in India, however, follow a flexible and broad investment approach to venture capital. Venture capitalists supply funds to new, high-risk, but not necessarily high-tech ventures, and also extend management, marketing and financial skills to the assisted firms.

The purpose of this article is to discuss the process of developing venture capital activity in India using an in-depth case study. For the case study, we have selected Companies of India. The case is analysed on the basis of data and information obtained from the company reports.

REVIEW OF LITERATURE

Venture capital is essential to the creation and growth of innovative businesses. The aim of this study was not to develop a new philosophy, but rather to explore questions and achieve research purposes through empirical inquiry and subordinate data collection and analysis. The aim of this study was not to develop a new philosophy, but rather to explore questions and achieve research purposes through empirical inquiry and subordinate data collection and analysis.

Park & Tzabbar (2016) examines the dependence of venture financiers and venture CEOs effects uniqueness of creative firms at different life stages. VCs enable their founders to apply unique and creative technology early in a new endeavor but hinder them from doing so later in the venture, according to a study of 482 US biotech companies. Furthermore, structurally strong CEOs who can afford to take more risks are amplifying

the benefits of VC funding on early-stage inventiveness. However, late-stage CEOs mitigate the negative impacts of VC funding on innovative originality. Conversely, CEOs whose impact stems from their innovative talents seem to take a a better-balanced strategy. These CEOs counterbalance amongst the favorable and harmful impact of VC money for innovative innovation early in enterprise. New insights into the risk preferences with capabilities of equally based participants impact the innovation outcomes of new initiatives are offered by this study.

Cumming and Vismara (2017) conclude the research available to academics frequently partly demonstrates entrepreneurial equity financing segmentation. In recent studies, the authors stress the challenge of conducting entrepreneurial finance research. Also, many publications choose to focus on their own subjects rather than mention other specialists, extending this division. As a result, earlier results may be reviewed with fresh datasets to drive research development and focus on prospective interdisciplinary studies.

Bellavitis et al. (2017) published a report on entrepreneurial financing. The study showed that, new projects should explore certain new sources of finance, including investing, bootstrapping and conventional debt financing. The authors explored the usage of conventional and modern forms of entrepreneurial financing and how they could transform the future of the entrepreneurial capacity building fund.

Hoegen, A., Steininger (2018) announced that crowd funding is on the rise: its scale has risen by 1000 per cent in only three years and is likely to outpace global venture capital investment. An increasingly increasing body of study is investigating the new concept of crowd funding. Although the literature gives a detailed and systematic image of the decision-making mechanism for conventional start-up funding or bank loans. From an overview of 68 papers, they are building a systematic system of specific factors of impact. While there are several influences implicated in prior study, some have gained less consideration. In particular, the cognitive traits of investors and the sense in which investment decisions are reached appear to have a significant impact on decisions but are rarely studied. In comparison, several of the research analysed rely more on particular causes and performance of the initiative than on the fundamental decision-making mechanisms.

Ma et al. (2020) took a survey of Korean companies to research alternate exit roots taken from start-ups. Data were obtained for this reason from 2000-2010. The research concentrated on the optimal path for start-ups to be classified on the stock exchange. To this end, companies were challenged to pick between IPOs, sales and reverse takeovers as their chosen route of exit. The researcher also found out that the companies that opted for the reverse acquisition were poorer off relative to those who chose IPO to the exit decision. The authors have defined the potential direction of the study by analyzing the effect of the mixture of reverse type of merger with PIPE (private involvement in the public entity) to make start-ups public.

RESEARCHMETHODOLOGY

Sampling: It incorporates population and sampling unit, determining the sampling techniques, and sampling size.

Population: A population is the aggregate of all the elements that share some common set of characteristics and that comprise the universe for the purpose of the research problem. The universe of present study consists of all venture capital companies, who are working in India.

Sample unit: 4 venture capital companies i.e., Capital Trust Ltd., Tata Capital Limited, IFCI Limited, Sequoia Capital Limited were selected for the study.

Sample size: The study includes 4 venture capital companies with the period of study is from. 2014-15 to 2018-19.

Sampling Technique: In present research, the respondents were selected using convenience sampling from 4 venture capital companies. The sample of the present study represented the population as it is having a major share in the Indian venture capital market.

Data Type: For achieving the objective of this study and to conduct the investigation, data was collected from secondary sources:

The Secondary data was collected through Annual report of the selected companies. Further Journals, Research papers, and case–study, Websites, Articles with internet was used with google.com, Google Scholar websites.

Data analysis Tool: data gathered from the annual report of the selected companies were analyzed with the statistical tool of Correlation and multiple regressions with ANOVA.

DATA ANALYSIS

Solvency ratio

A solvency ratio is a crucial indicator used by potential business lenders to assess an enterprise's capacity to satisfy its long-term debt commitments. A solvency ratio determines whether a company's cash flow is adequate to cover its long-term commitments and is therefore a measure of its financial health.

The following primary hypothesis was created to quantify the differences in the performance of the VC firms:

H0(5): There is a significant difference in the Solvency ratio of Venture Finance Companies

It includes the following ratios:

Debt to Total Assets ratio

This ratio measures a company's level of debt. The debt ratio is the sum of total debt divided by total assets. It is the proportion of a company's assets financed by debt. A ratio greater than one suggests assets finance a considerable portion of debt.

It's formula is as under:

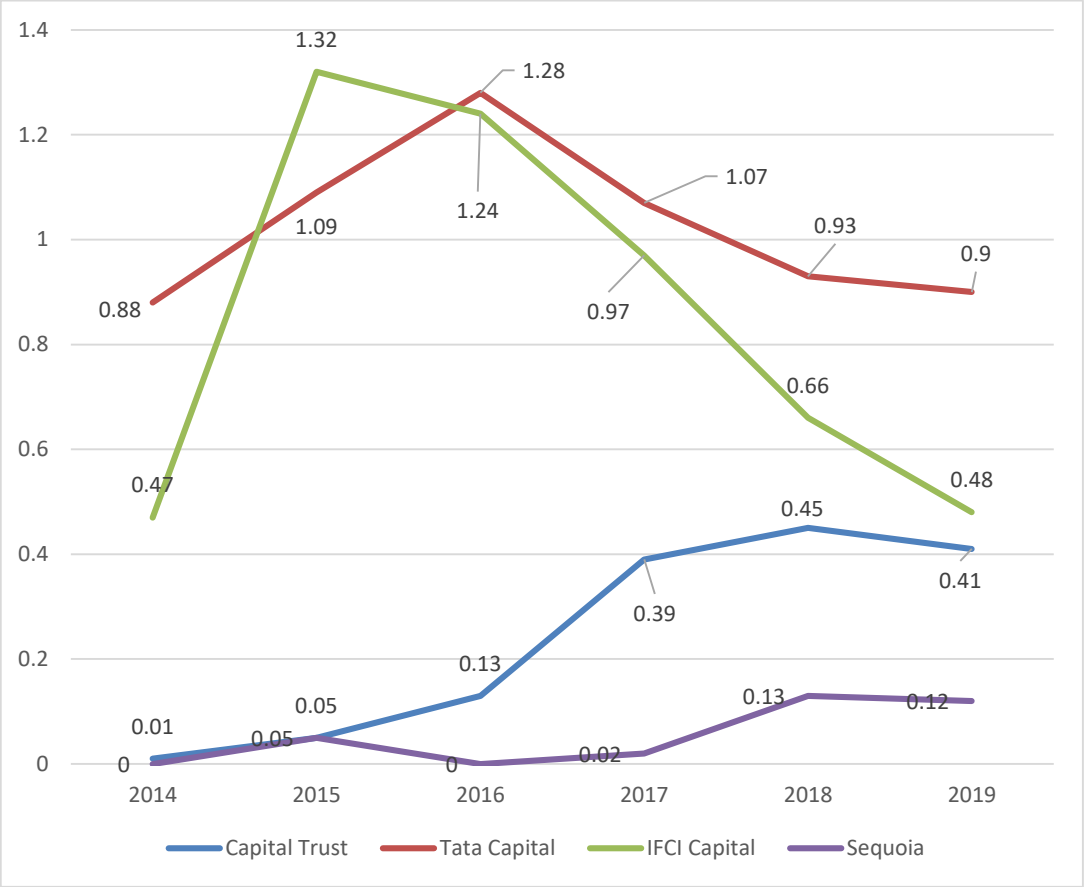
$$Debt\ to\ total\ Assets\ Ratio = \frac{Debt}{Total\ Assets}$$

The year-to-year growth of the Debt ratio is presented in the table below:

Debt Ratio of VC Companies under study
(2014 to 2019)

Year	Capital Trust	Tata Capital	IFCI Capital	Sequoia
2013-14	0.01	0.88	0.47	0.00
2014-15	0.05	1.09	1.32	0.05
2015-16	0.13	1.28	1.24	0.00
2016-17	0.39	1.07	0.97	0.02
2017-18	0.45	0.93	0.66	0.13
2018-19	0.41	0.90	0.48	0.12
Mean	0.24	1.03	0.86	0.05
S.D.	0.20	0.16	0.38	0.06
C.V. (%)	82.92	15.14	44.15	106.45

Source: Annual Reports of the Companies understudy



Debt ratio of VC companies under study

From the above table and figure, it can be observed that the Debt ratio for Capital Trust has shown increasing trend except in 2019, the ratio of the company varies between 0.01in 2014 to 0.45in 2018. The ratio of Tata Capital has fluctuating trend. The ratio of the company varies between 0.88in 2014 to 1.28 in 2016. For, IFCI the ratio was fluctuative and varies between 0.47in 2014 to 1.32in 2015. The Debt ratio of Sequoia has fluctuating trend due to no debt in the two years. The Debt ratio of the company varies between 0.00 in 2014 and 2016 to 0.13 in 2018. The Debt ratio is a very basic ratio of solvency, and the trend has shown the improvement but below the limit of 1 for all the companies in year 2019.

F Test for Total finance: For applying F Test for Debt ratio provided, these assumptions were used:.
(i) There is no significant difference in the Debt ratio of companies.

(ii) The year-wise difference in the Debt ratio of companies is not significant.

ANOVA Table-Debt ratio

Source	SS	DF	Mean Square $\left(\frac{SS}{d.f.}\right)$	F Ratio
SSC	3.97	(C-1)=(4-1)=3	1.32	F=26.55
SSR	0.29	(R-1)=(6-1)=5	0.06	F=1.15
Error	0.75	(C-1)(R-1)=15	0.05	
Total	5.01	(N-1)=23		

(i) F Test amongst the Companies

F ratio=26.55

The Critical F at 5% significance level and for d.f. (3,20) =3.28

Conclusion: The ANOVA table reveals that the computed F-value is higher than the F-critical. Therefore, we can reject the null hypothesis and the gap in the Debt ratios of the companies are significant.

(ii) F Test within company

F ratio= 1.15

The Critical F at 5% significance level for df (3,23) =2.90

Conclusion: Since the critical F-Value is less than the computed value, hence the null hypothesis is accepted, and it revealed that the year-wise modification in the Debt ratio of companies is found insignificant.

Debt Equity ratio

The ratio is computed by dividing a company's total liabilities by the amount of equity held by its shareholders. The leverage ratio is used to determine the financial leverage of a corporation.
The D/E ratio is an important statistic in corporate finance.

$$Debt\ Equity\ Ratio = \frac{Debt}{Equity\ Shareholder's\ Fund}$$

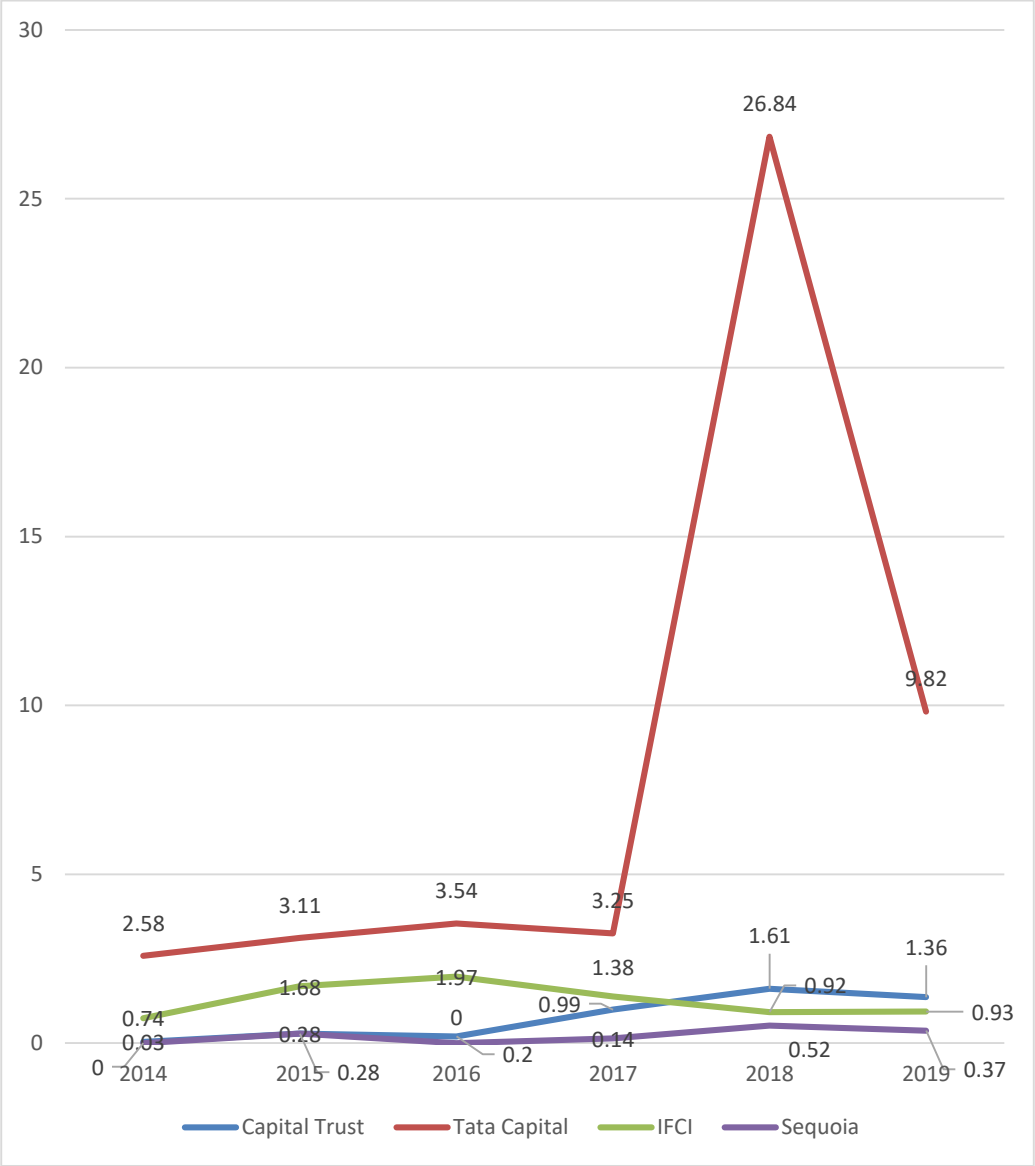
It is a measure of how much of a company's activities are funded by debt as opposed to totally owned money. It expresses the capacity of shareholder equity to satisfy all existing obligations in the case of a company downturn.

Debt/Equity ratio of VC Companies under study

(2014 to 2019)

Year	Capital Trust	Tata Capital	IFCI	Sequoia
2013-14	0.03	2.58	0.74	0.00
2014-15	0.28	3.11	1.68	0.28
2015-16	0.20	3.54	1.97	0.00
2016-17	0.99	3.25	1.38	0.14
2017-18	1.61	26.84	0.92	0.52
2018-19	1.36	9.82	0.93	0.37
Mean	0.75	8.19	1.27	0.22
S.D.	0.67	9.52	0.49	0.21
C.V. (%)	89%	116.32%	38%	96%

Source: Annual Reports of the Companies understudy



Debt/Equity ratio of VC companies under study

From the above table and figure, it can be observed that Debt/Equity ratio for Capital trust has fluctuative trend and decreased in year 2019. Overall, the Debt/Equity ratio of the company varies between 0.03 in 2014 to 1.36 in 2019. This ratio associates a company's total liabilities to its shareholder equity is a measure of a company's financial leverage, and it may be used to assess the company's financial health. For Tata Capital, the Debt/Equity ratio has shown fluctuative trend. Overall, the Debt/Equity ratio of the company varies between 2.58 in 2014 to 9.82 in 2019. The risk associated with long-term obligations differs from the risk associated with short-term loans and payables. It can be revealed that the Debt/Equity ratio of IFCI has raised trend till the year 2016. Overall, the Debt/Equity ratio of the company varies between 0.74 in 2014 to 0.93 in 2019. Further, the Debt/Equity ratio of Sequoia also has fluctuating trend till the year 2019. The Debt/Equity ratio for the company has raised till 2019. Overall, the Debt/Equity ratio of the company varies between 0.00 in 2014 to 0.37 in 2019.

F Test for Debt/Equity ratio: For applying F Test for Debt/Equity ratio, these assumptions were used:.
(i) There is no significant difference in the Debt/Equity ratio of the companies.

(ii) The year-wise difference in the Debt/Equity ratio of the companies is not significant.

ANOVA Table- Debt/Equity ratio

Source	SS	DF	Mean Square $\left(\frac{SS}{d.f.}\right)$	F Ratio
SSC	252.78	(C-1)=(4-1)=3	84.26	F=3.81
SSR	125.73	(R-1)=(6-1)=5	25.15	F=1.14
Error	331.67	(C-1)(R-1)=15	22.11	
Total	710.18	(N-1)=23		

(i) F Test amongst the Companies

F ratio= 3.81

Critical F at 5% significance level and for df. (3,20) =3.28

Conclusion: The above ANOVA table reveals that computed F value is higher than the critical F value. Therefore, we conclude that difference in the Debt/Equity ratio of the companies is significant.

(ii) F Test within company

F ratio= 1.14

Critical F at 5% significance level for df (23,3) =2.90

Conclusion: Since the F critical is higher than the computed F, so the null hypothesis is believed, and conclude that the year-wise modification in the Debt/Equity of the companies is found in-significant.

CONCLUSION

There are many ways to measure the performance of venture capital funds, and each venture capital may have its own approach. Venture capital as a new alternative financing and investment method brings economic dynamism, especially in developing countries where capital is scarce. Venture capitalist-backed companies' performance is reflected in venture capital investment performance metrics. In other words, whether or not the business activities of entrepreneurial companies requiring investment support were successful could be understood from the performance indicators of the venture capital firms that support these entrepreneurial companies. In this context, the liquidity, financial structure and profitability of a selected sample of venture capital and investment firms operating in India are analyzed and their performance is compared.

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