VENTURE CAPITAL

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VENTURE CAPITAL INVESTMENT PROCESS

DEAL ORIGINATION

1.In Deal Origination there is a continuous flow of deals is essential for venture capital business.

2.Deal may originate in various ways :(i) Referral System (ii) Active search and (iii) Intermediaries. Referral system is an important source of deals.

3.Deals may be referred to VCF by their parent organizations, trade partners, industry associations, friends, etc. Yet important source of deal flow is the active search through networks, trade fairs, conferences.

4.A third source used by venture capitalist in developed countries like USA, is certain intermediaries who match VCF and the potential entrepreneurs.

SCREENING

Screening Venture capitalist in his endeavor to choose the best ventures first of all undertakes preliminary scrutiny of all projects on the basis of certain broad criteria, such as technology or product, market scope, size of investment, geographical location and stage of financing.

Venture capitalists in India ask the applicant to provide a brief profile of the proposed venture to establish prime facie eligibility.

Entrepreneurs are also invited for face-to-face discussion for seeking certain clarifications.

DUE DILIGENCE EVALUATION

1.After a proposal has passed the preliminary screening, a detailed evaluation of the proposal takes place.

2. A detailed study of project profile, track record of the entrepreneur, market potential, technological feasibility future turnover, profitability, etc. is undertaken.

3.Venture capitalists in Indian factor in the entrepreneur's background, especially in terms of integrity, long-term vision, urge to grow managerial skills and business orientation.

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They also consider the entrepreneur’s entrepreneurial skills, technical competence, manufacturing and marketing abilities and experience.

Further, the project’s viability in terms of product, market and technology is examined.

Besides, venture capitalists in India undertake thorough risk analysis of the proposal to ascertain product risk, market risk, technological and entrepreneurial risk.

DEAL STRUCTURING

1.Once the venture is found viable, the venture capitalist negotiates the terms of the deal with the entrepreneur.

2.This it does so as to protect its interest.

3.Terms of the deal include amount, form and price of the investment.

4. It also contains protective covenants such as venture capitalists right to control the venture company and to change its management, if necessary, buy back arrangements, acquisition, making IPOs.

5.Terms of the deal should be mutually beneficial to both venture capitalist and the entrepreneur.

6.It should be flexible and its structure should safeguard interests of both the parties.

POST-INVESTMENT ACTIVITY

1.Once the deal is financed and the venture begins working, the venture capitalist associates himself with the enterprise as a partner and collaborator in order to ensure that the enterprise is operating as per the plan.

2. The venture capitalists participation in the enterprise is generally through a representation in the Board of Directors or informal influence in improving the quality of marketing, finance and other managerial functions.

3. Generally, the venture capitalist does not meddle in the day-to-day working of the enterprise, it intervenes when a financial or managerial crisis takes place.

EXIT PLAN

The last stage of venture capital financing is the exit to realise the investment so as to make a profit/minimize losses.

The venture capitalist should make exit plan, determining precise timing of exit that would depend on an a myriad of factors, such as nature of the venture, the extent and type of financial stake, the state of actual and potential competition, market conditions, etc.

At exit stage of venture capital financing, venture capitalist decides about disinvestments/ realisation alternatives which are related to the type of investment, equity/quasi-equity and debt instruments.

Thus, venture capitalize may exit through IPOs, acquisition by another company, purchase of the venture capitalist's share by the promoter and

FACTORS DETERMINING VENTURE INVESTMENT

Strong Management Team.

A Viable Idea

Business Plan

Project Cost and Returns

Future Market Prospects

Existing Technology

Miscellaneous Factors

STRONG MANAGEMENT TEAM

Venture capital firms ascertain the strength of the management team in terms of adequacy of level of skills,., commitment and motivation that creates a balance between members in area such as marketing, finance and operations, research and development, general management, personal management and legal and tax issues.

Track record of promoters is also taken into account.

A VIABLE IDEA

Before taking investment decision, venture capital firms consider the viability of project or the idea.

Because a viable idea establishes the market for the product or service.

Why the customers will purchase the product, who the ultimate users are, who the competition is with and the projected growth of the industry?

BUSINESS PLAN

The business plan should concisely describe the nature of the business, the qualifications of the members of the management team, how well; the business has performed, and business projections and forecasts.

The promoters experience in the proposed or related businesses is an important consideration.

The business plan should also meet the investment objective of the venture capitalist.

PROJECT COST AND RETURNS.

AVCI would like to undertake investment in a venture only if future cash inflows are likely to be more than the present cash outflows.

While calculating the Internal Rate of Return (IRR) the risk associated with the business proposal, the length of time his money will be tied up are taken into consideration.

Project cost, scheme of financing, sources of finance, cash inflows for next five years are closely studied.

FUTURE MARKET PROSPECTS

The marketing policies adopted, marketing strategies in relation to the competitors, market research undertaken, market size, share and future market prospects are some of the considerations that affect the decision.

EXISTING TECHNOLOGY

Existing technology used and any technical collaboration agreements entered into by the promoters also to a large extent affect the investment decision.

MISCELLANEOUS FACTORS

Others factors which indirectly affect the investment decisions include availability of raw material and labor, pollution control measures undertaken, government policies, rules and regulations applicable to the business/industry, location of the industry etc.

EXIT MECHANISM

It is a contingency plan that is executed by an investor, trader, venture capitalist, or business owner to liquidate a position in a financial asset or dispose of tangible business assets once predetermined criteria for either has been met or exceeded.

It may be executed to exit a non-performing investment or close an unprofitable business. In this case, the purpose of the exit strategy is to limit losses.

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It may also be executed when an investment or business venture has met its profit objective.

For Example, an ***angel investor*** *in a startup company may plan an exit mechanism through an* ***initial public offering (IPO).***

THANK YOU…