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A COMPARATIVE STUDY OF SELECTED VENTURE CAPITAL FINANCING COMPANIES IN INDIA

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ABSTRACT

Venture Capital (VC) has emerged as the dominant source of finance for entrepreneurship and early-stage entrepreneurship, and the Indian venture capital industry has seen the fastest growth rate globally. Venture capital has gained importance especially after the liberalization of the Indian economy after1991. This industry includes both public sector units as well as private funds. This industry is under SEBI regulation. Considering that venture business is of particular importance in the processes of creating an efficient and competitive economy, the article is devoted to a comparative study of selected venture capital financing companies in India. 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. This article compares the performance of Capital Trust, Tata Capital, Sequoia and IFCI by comparing various ratios of these venture capitals. This study has used secondary data from the selected companies from 2013-14 to 2018-19.

Keywords: Venture Capital, Performance, Liquidity, Profitability, Capital Structure.

INTRODUCTION

A venture capital fund leads to the development of creative entrepreneurship in India. Venture capital has grown as a result of the desire to provide unconventional, risky financing for creative projects aimed at revolutionary business. Venture Capital (VC) has become an important and dominant source of funding for entrepreneurs and start-ups today. Many of the successful businesses we know today, such as Cisco, eBay, Apple, and Google, received VC funding at one point or another. Some of the companies in India that have received venture capital funding include Polaris, Biocon, Sasken, Shoppers' Stop and Landmark. VC-backed firms contribute to the economy through job creation, exceptional growth rates, their large investments, and their international expansion. In the process of their activities, venture investors pay special attention to the analysis and assessment of the risks of innovative projects, because the search and implementation of new ideas are always risks on the one hand, and on the other hand, with effective management and analysis, it is a high profit for the organization and the investor. 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.

REVIEW OF LITERATURE

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.

Parhankangas and Renko (2017) explored other influences on the crowd and study four linguistic styles and their effect on funding. The authors find that the four linguistic styles under investigation (concrete, interactive, precise, and psychological distancing) have a larger influence on social initiatives than they do on marketing campaigns. Specifically, Language patterns that are specific and exact have a favourable impact on the campaign outcomes for social campaigns but are insignificant for commercial ones. Furthermore, low psychological distancing and high interactive language driving social However, they are not relevant for commercial efforts in terms of campaign effectiveness. The authors therefore conclude that linguistic styles are more important for social entrepreneurs as they allow these entrepreneurs to communicate better with the crowd to bind the crowd to the venture. The findings highlight those linguistic styles are insignificant for commercial campaigns and that the heterogeneity between these crowdfunding campaign types is important, pointing to further avenues of research. This is yet another indication of the relevance of cognition in entrepreneurial finance research.

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.

Nigam (2020) the effectiveness of digital start-ups seeking outside funding? Using an Indian dataset, they investigate the influence of excellence signs (e.g., years of experience, previous business expertise) and interacting signs (e.g., degrees from famous enlightening institutions, reach of a commercial squad) on project admission. While interacting and digital signs increase admittance to wealth, they have minimal impact on operations.

RESEARCH METHODOLOGY

The study includes 4 venture capital companies i.e., Capital Trust Ltd., Tata Capital Limited, IFCI Limited, and Sequoia Capital Limited and the period of study is from 2013-14 to 2018-19. The sample of the present study represented the population as it is having a major share in the Indian venture capital market. For achieving the objective of this study and to conduct the investigation, data was collected from secondary sources. We have used various ratios to measure and compare the performance of this companies i.e. Current ratio, Debt-Equity ratio, Net Profit ratio, Total assets turnover ratio. 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 gathered from the annual report of the selected companies were analyzed with ANOVA test.

DATA ANALYSIS

Current ratio

This ratio measures a corporation's ability to re-pay short-term or annual commitments. It demonstrates to investors and analysts how a company might use existing assets to pay down current loan and other creditors. A cash asset or an asset that will be transformed to cash in a year or less, as well as liabilities payable in a year or less.

$$\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

Table-1

Current ratio of VC Companies under study (2014 to 2019)

Year	Capital Trust	Tata Capital	IFCI	Sequoia
2013-14	1.18	0.92	1.54	1.02
2014-15	1.05	0.86	3.22	0.90
2015-16	3.34	0.79	2.57	0.70
2016-17	2.78	0.65	1.34	1.09
2017-18	1.85	0.11	2.12	1.08
2018-19	1.86	0.62	3.29	1.25
Mean	**2.01**	**0.66**	**2.35**	**1.01**
S.D.	**0.90**	**0.29**	**0.83**	**0.19**
C.V. (%)	**45%**	**45%**	**35%**	**19%**

Source: Annual Reports of the Companies under study

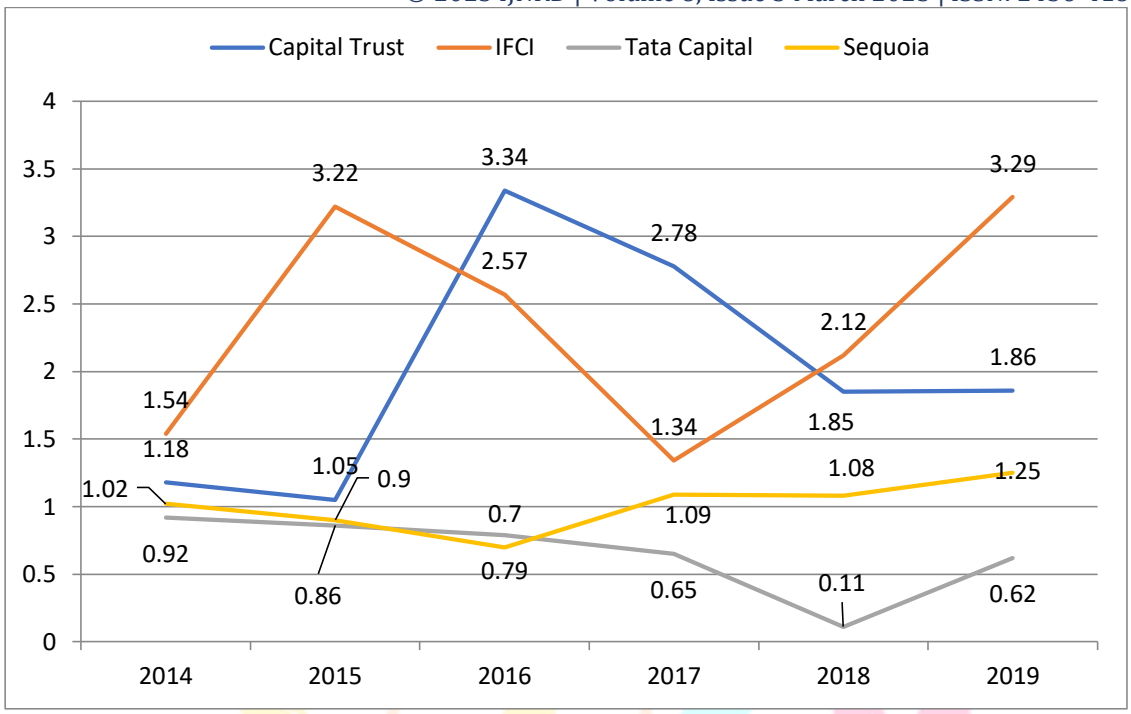

Figure-1: Current ratio of VC companies under study

From the above table and figure, it can be observed that the current ratio of Capital trust has fluctuative trend. Overall, the current ratio of the company varies between 1.18 in 2014 to 1.86 in 2019. This change is due to change in the liabilities of the company continuously increased from the period. For Tata Capital, the current ratio of has decreasing trend till 2018 it has increased in the last year. Overall, the current ratio of the company varies between 1.92 in 2014 to 0.62 in 2019. It can be revealed that the current ratio of IFCI has fluctuating trend till the year 2019. Overall, the current ratio of the company varies between 1.54 in 2014 to 3.29 in 2019. This change is due to change in the liabilities of the company. It can be observed that the current ratio of Sequoia has fluctuating trend till the year 2017. After 2017, the current ratio for the company has raised continuously till 2019. Overall, the current ratio of the company varies between 1.02 in 2014 to 1.25 in 2019. This change is due to change in the liabilities of the company continuously increased from the period.

F Test for Current ratio: For applying F Test for Current ratio, these assumptions were used:

1. There is no significant difference in the Current ratio of the companies.
2. The year-wise difference in the Current ratio of the companies is not significant.

Table-2

ANOVA Table-Total Asset Turnover ratio

Source	**SS**	**DF**	**Mean Square** $\left(\frac{SS}{d.f.}\right)$	**F Ratio**
SSC	11.57	3	3.86	F=8.68
SSR	1.38	5	0.28	F=0.62
Error	6.66	15	0.44	
Total	19.62	23		

1. F Test amongst the Companies

F ratio= 8.68

Critical F at 5% significance level and for d.f. (3,15) =3.28

Conclusion: The above ANOVA table reveals that computed F value is higher than the critical F value. Therefore, we conclude that alteration in the Current ratios of the companies are significant.

2. F Test within company

F ratio= 0.62

Critical F at 5% significance level for d.f. (5,15) =2.90

Conclusion: Since the F critical is more than the computed F, so the null hypothesis is accepted, and conclude that the year-wise difference in the Current ratios of the companies is found in-significant.

Net Profit ratio

This ratio measures net income or profit as a proportion of revenue. It is as under:

$$\text{Net Profit Ratio} = \frac{\text{Net Profit}}{\text{Net Sales}} X100$$

Table-3

Net Profit ratio of VC Companies under Study (2014 to 2019)

Year	Capital Trust	Tata Capital	IFCI Capital	Sequoia
2013-14	10.33	6.08	26.87	1.77
2014-15	25.40	8.09	31.76	1.24
2015-16	37.17	9.02	20.74	1.24
2016-17	32.28	8.19	22.36	1.64
2017-18	3.72	10.29	31.61	3.13
2018-19	22.88	11.51	10.08	-1.21
Mean	**22**	**9**	**24**	**1**
S.D.	**13**	**2**	**8**	**1.41**
C.V. (%)	**58.25**	**21.35**	**34.16**	**108.61**

Source: Annual Reports of the Companies under study

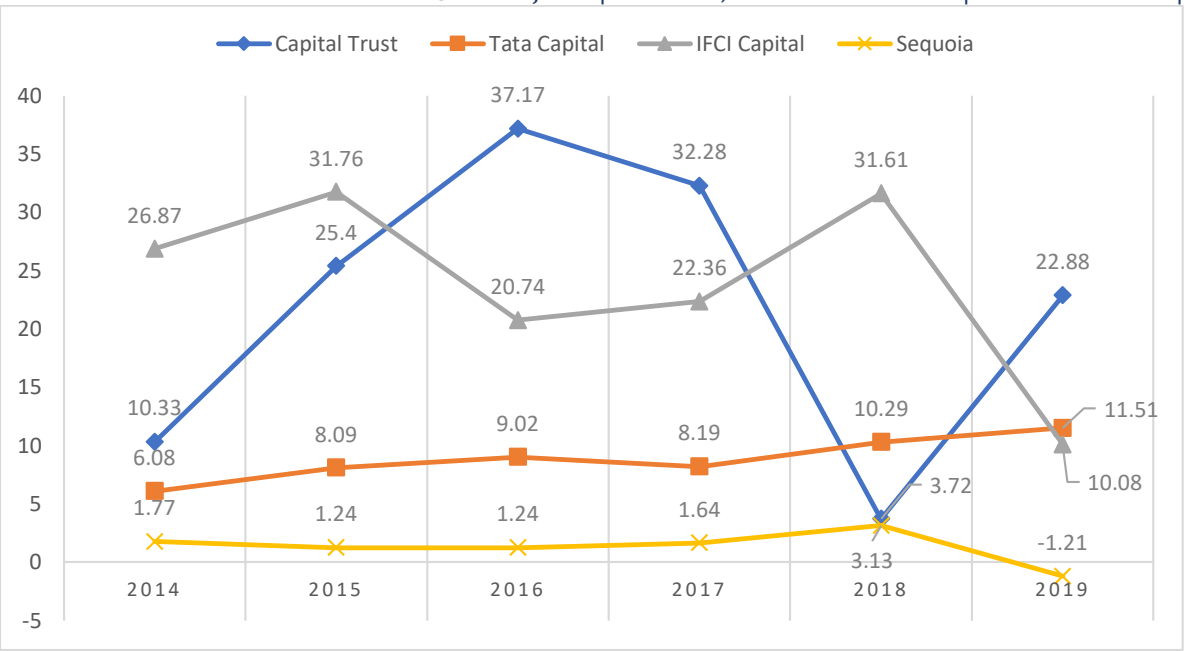

Figure-2: Net Profit Ratio of VC Companies under study (2014 to 2019)

There is a fluctuating trend in the Net Profit ratio (NPR) of Capital Trust during the period from 2014 to 2019. In year 2016 it has shown the maximum percentages. The mean of the Net Profit ratio of Capital Trust is 22 percent with the standard deviation of 13 %. The Net Profit ratio of Tata Capital has increased continuously except in year 2017, with the mean of 9 percent and the SD of 2 percent. For IFCI Venture Net Profit ratio shows a fluctuating trend during study period. The mean of IFCI's Net Profit ratio is 24 percent with the SD of 8 %. The Net Profit ratio of the last company Sequoia has shown fluctuating trend in its NPR with the mean value of 1 percent with standard deviation of 1.41 percent. Out of the above four VC firms IFCI Capital has the maximum amount of NPR. The fluctuation in the NPR is revealed by coefficient of variation, shows that the minimum fluctuation is in Tata Capital's Net Profit ratio while the maximum variation shown in the Net Profit ratio is for the Sequoia Capital.

F Test for Net Profit ratio: For applying F Test for Net Profit ratio provided, these assumptions were used:

(i) There is no significant difference in the Net Profit ratio of companies.

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

Table-4

ANOVA Table-Net Profit ratio

Source	**SS**	**DF**	**Mean Square** $\left(\frac{SS}{d.f.}\right)$	**F Ratio**
SSC	2094.74	3	698.24	F=10.33
SSR	166.16	5	33.23	F=0.49

Error	1013.57	15	67.57	
Total	3274.47	23		

(i) F Test amongst the Companies

F ratio= 10.33

The Critical F at 5% significance level and for d.f. (3,15) =3.28

Conclusion: The ANOVA table reveals that the computed F-Value is above F-critical. Thus, the null hypothesis is forbidden and the NPR difference between the firms studied is significant.

(ii) F Test within company

F ratio= 0.49

The Critical F at 5% significance level for df (5,15) =2.90

Conclusion: Since the critical F-Value is above the computed value, hence the null hypothesis is accepted, and reveled that the year-wise alteration in the NPR of companies is found not significant.

Total Assets Turnover ratio

It compares a company's sales to its assets. The ratio may be used to assess a company's revenue-generating efficiency. Less capital is needed to generate income, hence higher asset turnover ratios are better. A low ratio indicates a business is not successfully using its properties to generate money. The ratio is computed as under:

$$\textbf{Total Assets Turnover Ratio} = \frac{\textbf{Total Revenue (Sales)}}{\textbf{Total Assets}}$$

Table-5

Total Asset Turnover ratio of VC Companies under Study

(2014 to 2019)

Year	Capital Trust	Tata Capital	IFCI	Sequoia
2013-14	0.25	0.24	0.27	0.44
2014-15	0.31	0.26	0.32	0.62
2015-16	0.23	0.28	0.29	0.81
2016-17	0.20	0.31	0.31	0.68
2017-18	0.21	0.1	0.28	0.66
2018-19	0.22	0.11	0.17	0.86
Mean	**0.24**	**0.22**	**0.29**	**0.68**
S.D.	**0.04**	**0.09**	**0.02**	**0.15**
C.V. (%)	**16%**	**41.35%**	**6%**	**22%**

Source: Annual Reports of the Companies under study

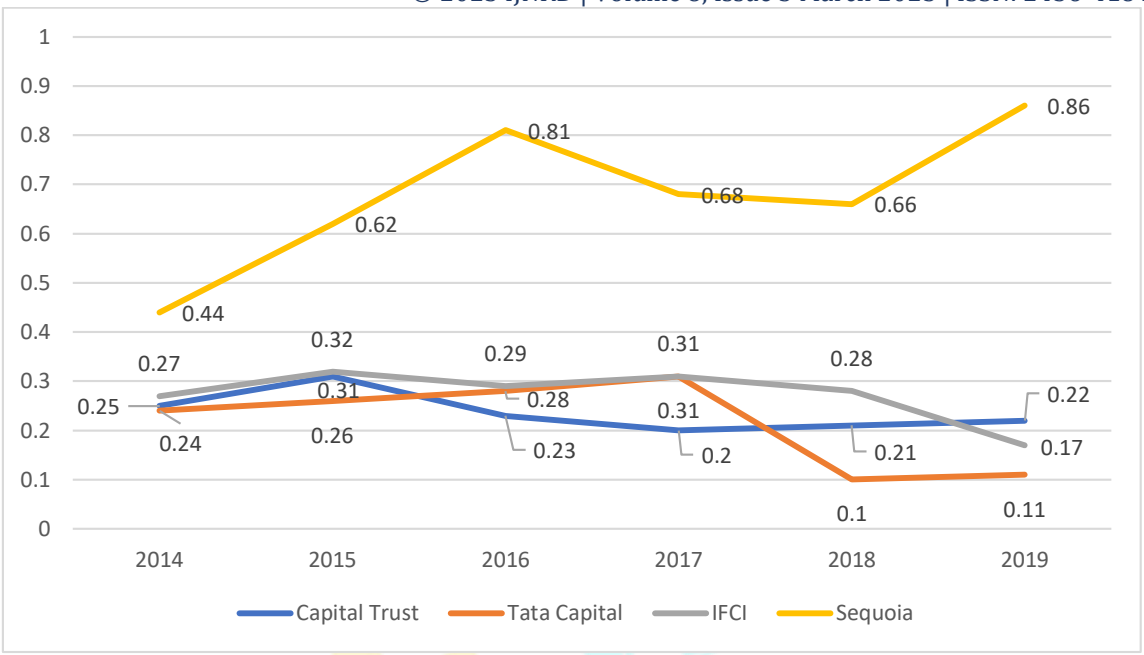

Figure-3: Total Asset Turnover ratio of VC Companies under study

The Total Asset Turnover ratio for Capital Trust has fluctuating trend till the year 2018, after that for 2019, it has increased. Overall, the Total Assets ratio of the company varies between 0.25 in 2014 to 0.22 in 2019. For Tata Capital, the Total Assets ratio of has risen till the year 2017. Overall, the Total Assets ratio of the company varies between 0.11 in 2014 to 0.11 in 2019. A high value indicates that a corporation professionally uses its TA to produce trades. As these comparisons are only meaningful when they are made for different companies within the same sector, thus it is used in our study too. It can be revealed that the Total Assets ratio of IFCI has fluctuative trend till the year 2019. Overall, the Total Assets ratio of the company varies between 0.27 in 2014 to 0.30 in 2019. It can be observed that the Total Assets Turnover ratio of Sequoia has fluctuating trend till the year 2019. The Total Assets Turnover ratio for the company has raised continuously till 2016. Overall, the ratio of the company varies between 0.44 in 2014 to 0.86 in 2019.

F Test for Total Asset Turnover ratio: For applying F Test for Total Asset Turnover ratio, these assumptions were used:

1. There is no significant difference in the Total Asset Turnover ratio of the companies under study.
2. The year-wise difference in the Total Asset Turnover ratio of the companies under study is not significant.

Table-6

ANOVA Table-Total Asset Turnover ratio

Source	**SS**	**DF**	**Mean Square** $\left(\frac{SS}{d.f.}\right)$	**F Ratio**
SSC	0.86	3	0.28	F=30.71
SSR	0.03	5	0.0065	F=0.69
Error	0.14	15	0.0094	
Total	1.03	23		

(i) F Test amongst the Companies

F ratio= 30.71

Critical F at 5% significance level and for d.f. (3,15) =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 ratio of the companies is significant.

(ii) F Test within company

F ratio= 0.69

Critical F at 5% significance level for d.f (5,15) =2.90

Conclusion: Since the F critical is more than the computed F, so the null hypothesis is accepted, and conclude that the year-wise change in the ratio of the 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.

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

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.

Table-7

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 under study

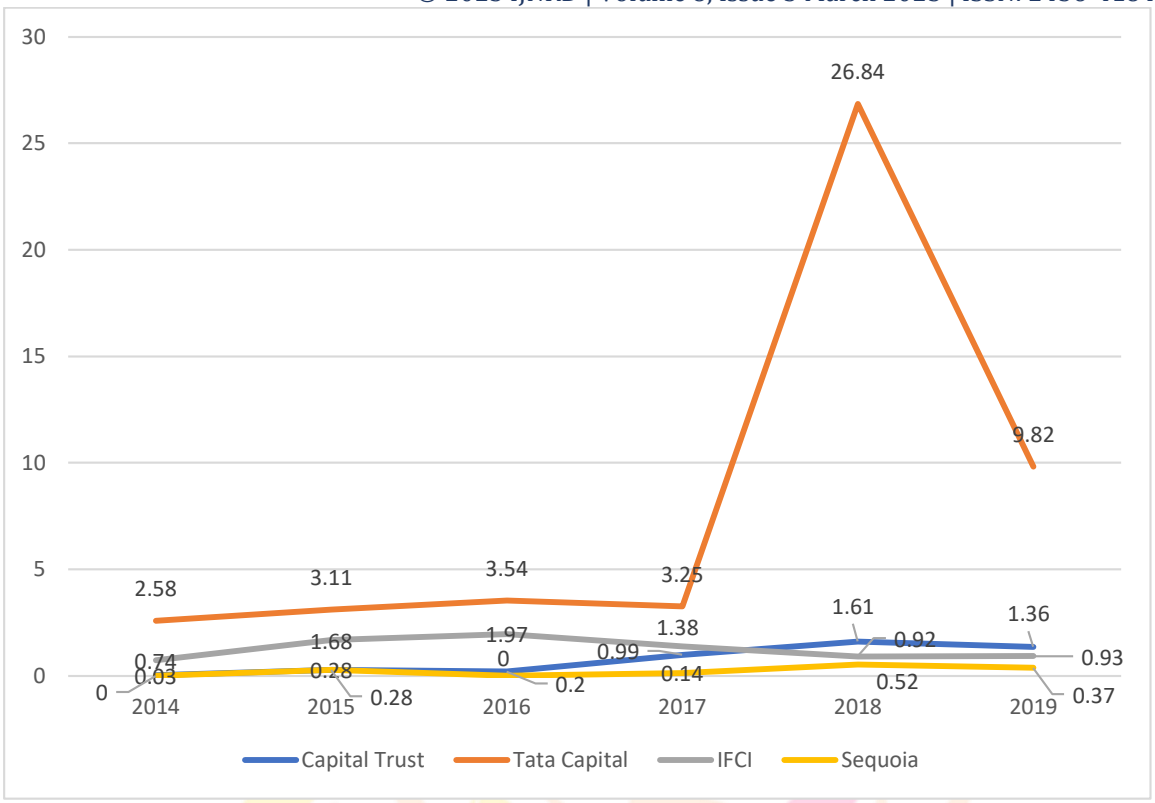

Figure-4: Debt/Equity ratio of VC companies under study

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:

1. There is no significant difference in the Debt/Equity ratio of the companies.
2. The year-wise difference in the Debt/Equity ratio of the companies is not significant.

Table-8

ANOVA Table- Debt/Equity ratio

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

1. **F Test amongst the Companies**

F ratio= 3.81

Critical F at 5% significance level and for df. (3,15) =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.

2. F Test within company

F ratio= 1.14

Critical F at 5% significance level for df (5,15) =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 analyze the financial performance of Venture Capital Financing Companies. In this paper, the Liquidity, Capital structure and Profitability of selected Venture Capital Financing Companies operating in India are analyzed and their performance is compared. From the standpoint of liquidity, IFCI is performing better as the current ratio were higher in case of IFCI in comparison to other ports. The Debt-Equity Ratio was lower in case of Sequoia, so Sequoia is less exposed to financial risk in comparison to others. From the profitability measures, especially for Net Profit ratio, IFCI has performed better in comparison to other selected ports. For the Total Assets Turnover Ratio, the Sequoia has performed better in comparison to other selected ports.

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