

**“IFCI’s Venture Capital Strategic Role, Nature and Investment Process for Scheduled Caste Entrepreneurs in India”**

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**Abstract:**

Generally, venture capital financing is very different from traditional sources of investing such as lending and borrowing. Venture capital financing fills a void left by the traditional financial institutions in high risk, high potential and innovative ventures. Management team in the business organization must be possessed the managerial skill, financial skill, marketing skill, technical skill and balanced team and the proportionate of human capital must be high than financial or venture capital because the human capital is important and playing a significant role in the business than venture capital. Optimal structure of human capital with venture capital investment in the business organization makes flourishing in the venture business.

The Indian Union Finance Minister in his interim Budget Speech for FY 2014-15 announced the setting up of a Venture Capital Fund for Scheduled Castes Entrepreneurs. “In order to promote entrepreneurship among the scheduled castes and to provide concessional finance to them, through Industrial Finance Corporation of India (IFCI) this was provided Rs. 200 crore on January 2015 by the “Minister of State for Social Justice and Empowerment. IFCI Venture Capital Funds Ltd, a subsidiary of IFCI Ltd, would act as the investment manager of the Fund and launched a Venture Capital Fund for Scheduled Castes Entrepreneurs. The purpose of this paper is to high light the IFCI’S Venture Capital Find’s strategic role for the scheduled caste entrepreneurs and its capital investment nature, process and status for scheduled caste venture enterprises in India.

KEYWORDS: High-risk, High-potential, Innovative, Traditional finance and Venture capital.

**Introduction**

Venture capital is an excellent source of funds for entrepreneurs and has become an increasingly important source of financing for new, start up and expansion companies of small and medium scale, particularly when such companies are operating on the frontier of emerging technologies and markets. It plays a significant role in the entrepreneurial development processes. The Indian Union Finance Minister in his interim Budget Speech for FY 2014-15 announced the setting up of a Venture Capital Fund for Scheduled Castes Entrepreneurs. “In order to promote entrepreneurship among the scheduled castes and to provide concessional finance to them, through IFCI Venture Capital Fund Ltd this is set up a Venture Capital Fund for Scheduled Castes. He proposes to provide an initial capital of Rs. 200 crore, which can be supplemented every year” The allocation of fund is under Social Sector Initiatives in order to promote entrepreneurship among the scheduled castes and to provide concessional finance to them. The main Objective of the Scheme: “Entrepreneurship” relates to entrepreneurs managing businesses which are oriented towards innovation and growth technologies. The spirit of the above mentioned fund is to support those entrepreneurs who will create wealth and value for society and at the same time promoting profitable business.

The venture capital concept was introduced in 1946 by “General Dariot” who established the ‘American Research Development Fund’ at Massachusetts Institute of Technology in 1946 to finance the commercial promotion of new technologies developed in USA (Singh J B 1996). Then in 1958 Small Business Industry Corporation (SBIC) program established to fund private organizations that make equity and debt investments in young firms was responsible for much of the initial formation of high technology firms. Companies such as Digital Equipment Corporation, Apple, Federal Express, Compaq, Sun Microsystems, Intel and Microsoft are successful examples of companies that received venture capital early in their development (Reddy YV 1998). In 1988 the World Bank organized a seminar in India to create awareness and stimulate interest in venture capital. This was followed by the announcement of venture capital guidelines in the parliament in November, 1988 (Varshney Vishnu 1999). In 1988, IFCI sponsored RCF was converted in to the Risk Capital and Technology Finance Corporation of India Ltd. (Reddy YV 1998).

Generally, venture capital financing is very different from traditional sources of investing such as lending and borrowing. Venture capital financing fills a void left by the traditional financial institutions in high risk, high potential and innovative ventures. Venture capital financing is commonly associated with provision of equity investment for a time period in small and medium scale business with high growth potential and high reward but which could entail high risk. Simply stated, venture capital is high-risk, high-return investing in support of business creation and growth. It is capital provided, often by professionals, who invest alongside innovative entrepreneurs in young, rapidly growing companies that have a reasonable, though not assured, potential to develop in to significantly profitable ventures. The development of scheduled caste entrepreneurship is a recent phenomenon in India. It is still in the infancy stage and requires proper entrepreneurial skills orientation to promote the scheduled caste people for the fast growth. In fact, venture capital business demands skills, attitudes and systems very different from those of traditional financial intermediaries. In brief, there are two main players in this venture business first one is venture capitalist who come forward with flexible financial arrangement and entrepreneur or Idea-person who come forward with high-risk, potential high-return innovative business opportunities to convert that particular idea into reality with optimal structure of human capital and venture capital for flourishing in the venture business. Stronger endowments of human capital with venture capital will perform better and survive longer.

### **The Specific Objectives of the Venture Capital Scheme for Scheduled Caste Entrepreneurs:**

- It is a Social Sector Initiative to be implemented nationally in order to promote entrepreneurship among the scheduled caste population in India.
- Promote entrepreneurship amongst the Scheduled Castes who are oriented towards innovation and growth technologies.
- To provide concessional finance to the scheduled caste entrepreneurs, who will create wealth and value for society and at the same time will promote profitable businesses. The assets so created will also create forward/ backward linkage. It will further create chain effect in the locality.
- To increase financial inclusion for SC entrepreneurs and to motivate them for further growth of SC communities.
- To develop SC entrepreneurs economically.

- To enhance direct and indirect employment generation for SC population in India

### **IFCI'S Venture Capital Nature for Scheduled Caste Entrepreneurs**

#### **NATURE OF FINANCIAL ASSISTANCE:**

- Equity/ Optionally/ Compulsorily convertible preference shares (maximum up to 25% of the corpus);
- Equity linked debt instruments such as:
  - Compulsorily convertible debentures;
  - Optionally convertible debentures;
  - Non-Convertible debentures, etc;
- Debt / Subordinate Loans;

#### **TENURE OF FINANCIAL ASSISTANCE:**

- Up to 6 years in a company

#### **INVESTMENT SIZE:**

- Rs. 0.50 Crore to Rs. 15 Crore.

#### **EXPECTED RETURNS THROUGH INVESTMENT:**

- Equity instruments may yield returns at 15% p.a.
- Debt/Convertible Instruments may carry returns at 10% p.a.

#### **FUNDING PATTERN:**

- Financial assistance up to Rs 5 Cr. - Investment under this category shall be funded maximum up to 75% of the project cost and the balance 25% of the project cost will be funded by the promoters;
- Financial assistance above Rs. 5 Cr. –
  - Investment under this category shall be funded maximum up to 50% of the project cost. At least 25% of the project cost has to be financed by bank/other institutions. Balance 25% of the project cost will be funded by the promoters.
  - The proposals forwarded by Banks or other financial institutions with sanction of 25% of the total project shall be considered. In this case, the projects shall have to be compulsorily appraised by the Banks or other financial institutions.

#### **MONITORING:**

Periodic visits, inspection shall be carried out by the official of the AMC. The officials of AMC shall also be Nominee Directors on the board of these companies.

#### **EXIT MECHANISM:**

Exit through payments out of operations, buyback/ redemptions by promoters / companies, strategic investments, listing at Stock Exchanges or any other exit process.

#### **SECURITY:**

The following securities may be envisaged during the investment:

- The assets of the project being funded/ assisted under the scheme shall be charged for security. The project assets will include land, building, plant & machinery and rights on licenses/ patents.
- Pari-pasu charge on assets with the Banks/FIs in case of the companies applying for assistance of more than Rs. 5 Crore.
- 2nd charge of the assets created out of the investment where the 1st charge is held by the Bank/FIs.
- In addition to the charge on assets, post-dated cheques and promissory notes shall be taken.
- Personal guarantees of the promoters along with buyback agreement shall be entered.
- Pledge of Shares held by promoters and forming at least 26% stake and up to 51% of the Issued and Paid up capital shall be taken. However, the percentage of pledged shares would be decided on case to case basis.

Note: In case no mortgage is available, the borrower may arrange collateral and corporate guarantees from family / friends / associates / group companies.

#### TIME LIMIT FOR COMPLETION OF THE PROJECT:

- The time for completion of the project would be as envisaged at the sanction stage, subject to maximum of 24 months period from the date of disbursement of the first installment of assistance under the scheme which may be extended by a further period of three months, if reasons for delay are considered justified by the AMC.
- In case of non-compliance to the implementation schedule, the further balance disbursements of sanctioned amount would be subject to approval by Investment Committee.

#### **IFCI'S Venture Capital Investment Process For Scheduled Caste Entrepreneurs**

- Screening Committee (Preliminary Stage): The venture proposals shall be put up before the screening committee for initial analysis to see whether the proposals are meeting the Eligibility Criteria & Preliminary Appraisal. After the clearance by the screening committee, the proposal shall be taken up for detailed appraisal, negotiations and structuring.
- Legal Documentation Stage: After the sanction by the Investment Committee, Letter of Intent along with the terms and conditions of sanction shall be issued to the investee company. The necessary legal documentations shall be prepared and executed by the AMC.
- Disbursement Stage: After the completion of above process the disbursement shall be made as per the terms and conditions of the sanction. The disbursement to the investee companies would be in tranches. For Companies with sanctioned assistance of above Rs. 5 Crore, the money released by the fund would be in proportion to the loan tranche released by the Bank.
- Investment Committee (Final Stage):
  - The detailed proposal shall be considered by the Investment Committee for sanction in case of eligible proposals.

- The proposals appraised by the financing Bankers/FIs may also submit their appraised proposal for references to AMC.
- The quantum of assistance shall be decided by this committee.

**IFCI'S Eligibility Criteria of Venture Capital for Scheduled Caste Entrepreneurs:**

- The projects/units being set up in manufacturing and services sector ensuring asset creation out of the funds deployed in the unit shall be considered;
- While selecting the SC entrepreneurs, women SC entrepreneurs would be preferred;
- Companies having at least 60% stake holding by Scheduled Caste entrepreneurs for the past 12 months with management control;
- Documentary proofs of being SC will have to be submitted by the entrepreneurs at the time of submitting the proposals;
- The SC promoters of Investee Company will not dilute their stake below 60% in the company till the exit under the scheme. However, in the event of any conversion of quasi-equity instrument under the scheme, strategic investments, buyouts etc, which result into dilution of stake of SC Entrepreneur, a prior written approval from Asset Management Company (AMC) would be required;
- The companies applying for assistance of more than Rs. 5 Crore, shall preferably get their project appraised by the banks / FIs before approaching for assistance under the scheme.
- For companies with sanctioned assistance of above Rs. 5 Crore, the money released by the Trust/ Fund Manager would be in proportion to the loan tranche released by the bank.

**IFCI Venture Company's Status of Venture Capital Fund for Scheduled Castes Entrepreneurs (VCF-SCE) Up To 13<sup>th</sup> May, 2016**

Table: 1 Scheduled Caste Entrepreneurs venture proposals sanctioned and disbursements of venture capital under the Scheme of Scheduled Castes Entrepreneurs venture capital fund:

<b>Particulars</b>	<b>No. of Beneficiaries</b>	<b>Amount in Rs. Crores</b>
Sanction	40	150.45
Disbursement	17	74.62

Source: *ifciventure.com (Modified)*

**Interpretation:**

It's a better performance of IFCI's venture capital fund for scheduled caste because there are 40 companies are sectioned the venture capital with the amount of Rs. 150.45 crores within a year and also 17 companies are already disbursed the venture capital fund of Rs. 74.62 crores.

Table: 2 List of venture proposals sanctioned to the following beneficiaries under the Scheme of Scheduled Castes Entrepreneurs venture capital fund:

<b>S. No.</b>	<b>Name and Address of the Company</b>	<b>Proposed Project</b>	<b>Sanctioned (In Rs Cr.)</b>
1	JANAGAL EXPORTS PVT. LTD. LUDHIANA, PUNJAB	For expansion of existing capacity by purchasing more machineries for manufacturing of garments.	4.9200
2	VERA NET SYNTHETICS PVT. LTD. BHAVNAGAR, GUJARAT	Setting up facility for manufacturing of fishing nets.	2.0010
3	PROWESS INDS. PVT. LTD. NAGPUR, MAHARASHTRA	Setting up of roller flour mill.	4.9000
4	ABHYUDAYA GREEN ECONOMIC ZONE PVT. LTD. TELANGANA/AP	Setting up Solar park of 20 units of 200Kw each with aggregate installed capacity of 4MW.	14.6800
5	TALENTICON CONSULTANCY PVT. LTD. NAGPUR, MAHARASHTRA	Launch of mobile app and web portal for gift card.	1.4200

S. No.	Name and Location of the Company	Proposed Project	Sanctioned (In Rs Cr.)
6	OMEGA ROOFING INDS. PVT. LTD. TELANGANA, AP	Setting up of new unit for fabrication of roofing sheets.	1.1183
7	20TH MARCH VENTURE PVT. LTD. PUNE, MAHARASHTRA	Setting up of Packaged drinking water facility.	4.5567
8	COGENT LOGISTICS PVT. LTD. DELHI NCR	Setting up of ware house and providing transporting services.	0.9400
9	CHANDAN AND CHANDAN INDUSTRIES PVT. LTD. DELHI NCR	Expansion of manufacturing unit for plastic meter cover and junction boxes.	2.1000
10	MGM INFRA DEVELOPMENT SOLUTIONS PVT. LTD. ROPAR, PUNJAB	Setting up of manufacturing facility for fly ash based bricks, blocks and pavers.	8.5000
11	KUCHEKAR FITNESS MANAGEMENT PVT. LTD. PUNE, MAHARASHTRA	Setting up of fitness Centre.	0.7500
12	PALNADU SOLAR POWER PVT. LTD. VIJAYAWADA, A.P.	Setting up of 5.5 MW Solar Power Plant.	15.0000
13	SHEVANTABAI DISTILLERY AND FABRICATIONS PVT. LTD. SOLAPUR, MAHARASHTRA	To manufacture corrugated paper Boxes	0.7800
14	GD FOODS & BEVERAGES PVT. LTD. ARIYALUR, TAMILNADU	Expansion of business of Coffee Manufacturing.	4.6100
15	METAL TECH CONSTRUCTION PVT. LTD. PONDICHERRY	Expansion of existing fabrication unit.	1.5000
16	HARSHAMITRA ONCOLOGY PVT. LTD. TRICHY, TAMILNADU	Setting up of a cancer treatment facility through radiation therapy	5.0000
17	TGN CORPORATE ADVISORS PVT. LTD. NAGPUR, MAHARASHTRA	Setting up of IRM (Infrastructure Revenue Model) project for TCS.	0.8900
18	RATHNAM PHARMACEUTICALS PVT. LTD. TIRUPATI, ANDHRA PRADESH	Setting up of medicine manufacturing facility for manufacturing tablets for curing malaria and other generic products	4.1800
19	RAINBOW PACKAGING PVT. LTD. AHMEDABAD, GUJARAT	Expansion of manufacturing facility for milk packaging products.	2.4200
20	AABON SMIT ALLOYS PVT. LTD. CHENNAI, TAMIL NADU	Manufacturing of welding electrodes and weir plates.	2.3500

<b>S. No.</b>	<b>Name and Location of the Company</b>	<b>Proposed Project</b>	<b>Sanctioned (In Rs Cr.)</b>
21	MILLENIUM GATEWAY INFRA PVT. LTD. AURANGABAD, MAHARASHTRA	Setting up Manufacturing facility for Ready Mix concrete.	5.0000
22	MALLUR FLORA AND HOSPITALITY PVT. LTD. BANGALORE, KARNATAKA	Setting up manufacturing facility for production of Ayurveda medicines.	10.1000
23	NISARGA INFORMATION TECHNOLOGY SOLUTIONS PVT. LTD. TELENGANA, AP	Setting up of facility for supporting Digitization of Records and IT Infrastructure Management.	0.8000
24	HARSHRAJ OIL AND FOODS INDUSTRIES PVT. LTD. AURANGABAD, MAHARASHTRA	Setting up of Edible Oil Extraction mill	1.1250
25	LIVEN HEALTH CARE PVT. LTD. KOLHAPUR, MAHARASHTRA	Company Plans to set up Health Care Institute	0.5250
26	UGAN AGRO FARMING PVT. LTD. DELHI	Setting up poultry and hatchery unit.	2.6100
27	DUKU INNOVATES PVT. LTD. LUCKNOW, UP	Setting up Infrastructure for developing web and mobile bases software applications to serve various industries	0.5200
28	SUNFIELDS ENERGY PVT. LTD. TELENGANA, AP	Expansion of Solar PV Module Manufacturing Unit	1.1226
29	AMIN STEEL PVT. LTD. AHMEDABAD, GUJARAT	Procuring machines for optimization of existing capacity and takeover of Bank term loan.	3.2500
30	BP SONS PVT. LTD. LUCKNOW, U.P.	Setting up an Amusement Park.	3.2500
31	YASH COTTYARN PVT. LTD. AKOLA, MAHARASHTRA	Setting up a Spinning Mill.	9.8350
32	PAYOD INDUSTRIES PVT. LTD. SANGLI, MAHARASHTRA	To expand production of cotton gloves meant for industrial purposes for protection of workmen.	4.0500
33	MML MEDICAL AND HEALTH SERVICES INDIA PVT. LTD. HYDERABAD, TELANGANA	To set up a Blood Bank & Pathological Laboratory to render services to the hospitals.	3.6300



S. No.	Name and Location of the Company	Proposed Project	Sanctioned (In Rs Cr.)
34	WAKEN INDIA NETWORK ADVERTISING PVT. LTD. HYDERABAD, TELANGANA	To provide end to end solutions of advertising, social awareness and solid waste management through innovative product called "Smart Bin".	0.7875
35	DARTYENS POWER PVT. LTD. HYDERABAD, TELANGANA	To set up 1 MW solar power plant at Nalgonda,	4.0000
36	KRISPYLICIOS FOODS PVT. LTD. DELHI	Expand the existing manufacturing facility of Namkeens, Puffs, Rusk/ toast and Fryms.	1.2488
37	DONA DONI FASHION PVT. LTD. JHAJJAR, HARYANA	To integrate and Modernize existing Capacity of footwear manufacturing facility	4.0000
38	GREEN BELT INDUSTRIES PVT. LTD. GUWAHATI, ASSAM	Setting up of 10 MT per day multi food processing unit	6.6200
39	SVJ ELECTRICALS PVT. LTD. THANE, MAHARASHTRA	Expansion of existing manufacturing facility of CRGO core lamination for transformers.	3.8000
40	COEVAL CRAFTS PVT. LTD. KOLKATA	Setting up new facility for digital textile printing on handloom fabrics and handicrafts.	1.5569
Total			150.4468

Source: *ifcventure.com (Modified)*

### Conclusion

According to Kuttappan and Subramanyan (1998), failure of a venture capital can be attributed to the following reasons:

- The team more often does not possess the required breadth and depth in top management. It is usually a two or three man team.
- The team is often found to have technical skills but does not possess the overall organization building skills.
- They often restrict themselves to niche market and thus restrict market opportunities. The market turns out to be smaller than earlier envisaged.
- They are often short sighted and go from one opportunity to another, or we can say that long term planning is missing.

- The growth is not focused and hence loss of resources.
- There are very few exit options.
- They are often ignorant of international standards.

Entrepreneur is the leader in the management team he must possess the high entrepreneurial qualities and experiences. High qualities of entrepreneur are integrity, ability to evaluate and react to risk, urge to grow, attention to detail, long-term vision, articulate in discussing venture, compatible personality and a good experience with the demonstrated leadership ability in the past, track record relevant to venture, referred by trust worthy source, competes against self-imposed standards and well-thought out strategy to remain ahead of competition. Management team must be possessed the managerial skill, financial skill, marketing skill, technical skill and balanced team. Which entrepreneur and management team possesses the above mentioned qualities, experiences and skills would be termed the superior human capital. The proportionate of human capital must be high than financial or venture capital because the human capital is important and playing a significant role in the business than venture capital or any other capital. Optimal structure of human capital with venture capital investment in the business organization makes flourishing in their business. Ultimately, venture capitalists main objective and expectation in their venture business is capital gains in their venture capital investment of venture business through disinvestment of equities within the gestation period. Venture capitalists are evaluating the proposals using their evaluation criteria for judging whether particular venture is having potential or not.

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