**B.Com 4th Semester, 2020**

**SUB: Financial Services**

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**UNIT 5: Innovations in Financial Services**

**Venture Capital**

**Q. What do you understand by the term ‘Venture Capital’? What are the areas where Venture Capitalists would like to undertake investments? 4+6=10 marks.**

**Or**

**What is Venture Capital? What are the factors taken into account by the venture capitalists while making investments?**

**Answer:** The term ‘Venture Capital’ represents financial investment in a highly risky project with the objective of earning a high rate of return. Venture capital is e capital provided by firms of professionals who invest alongside management in young, rapidly growing or changing companies that have the potential for high growth. It is a form of equity financing especially designed for funding high risk and high reward projects.

A young, high tech company that is in the early stage of financing and is not yet ready to make a public offer of securities may seek venture capital. Such a high risk capital is provided by venture capital in the form of long-term equity finance with the hope of earning a high rate of return primarily in the form of capital gain. In fact, the venture capitalist acts as a partner with the entrepreneur.

Thus, a venture capitalist (VC) may provide the seed capital for unproven ideas, products and technology oriented or start up firms. The venture capitalist may also invest in a firm that is unable to raise finance through conventional means.

The venture capitalists usually take into account the following factors while making investments:

1. **Strong management team:** Venture capital firms ascertain the strength of the management team in terms of adequacy of level of skills, commitment and motivation hat creates a balance between members in area such as marketing, finance and operations, research and development, tax issues, etc. Track record of promoters is also taken into account.
2. **A Viable Idea:** Before making 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.
3. **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, business projections and forecasts. The promoters experience in the proposed or related businesses is an important consideration.
4. **Project cost and returns:** A venture capitalist would like to undertake investment in a venture only if future cash inflows are likely to be more than the present cash outflows. The project costs, scheme of financing, sources of finance, cash inflows for the next five years are closely studied by the venture capitalist.
5. **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.
6. **Existing technology:** Existing technology used and any technical collaboration agreements entered into by the promoters also to a large extent affect the investment decision.
7. **Miscellaneous factors:** Other factors which indirectly affect the investment decisions include availability of raw materials and labour, pollution control measures undertaken, government policies, rules and regulations applicable to the business/industry, location of the industry, etc.