VENTURE CAPITAL FINANCE

(A study with special reference to Karnataka Information Technology Venture Capital Funds) (KITVEN Funds)

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ABSTRACT

‘Venture Capital’ has become the key topic of debate and is attracting more consideration at present than ever before due to fast varying technology, emergence of new technology industries, extremely competitive global markets. In the Indian context, the studies on ‘Venture Capital” are either macro in nature covering the entire country or micro confined to a few areas of venture capital companies. Supplementary, research studies made on venture capital finance confirming to State Level Venture Capital Companies are very tiny. Nurturing future global IT leaders is its tagline. True to this core investment philosophy, the Karnataka Information Technology Venture Funds (Kitven), and its principal promoters, have been silently boosting technology investments in the State. Hence, we made an attempt to study venture capital on state level with special reference to KITVEN Funds (Karnataka Information Technology venture capital funds) in Karnataka. The major aims of the study to know investments of Kitven funds in Karnataka.

Key words: Venture capital, venture capitalist, Small and Medium Enterprises

INTRODUCTION

Venture capital is a growing business of recent origin in the area of industrial financing in India. The various financial institutions set-up in India to promote industries have done commendable work. However, these institutions do not come up to the benefit of risky ventures when they are undertaken by new or relatively unknown entrepreneurs. Under this circumstances, the concept of ‘Venture Capital Fund” was born with a fundamental objective to provide initial capital and support in building capital-base to the entrepreneurs
having a sound background of professional education and expertise who take initiative to launch the business based on fast-changing technology. The venture capital sector is the most vibrant industry in the financial market today. Venture capital is money/finance provided by professionals who invest in young, rapidly growing companies that have the potential to develop into significant economic contributors. Venture capital is an important source of equity for start-up companies.

Venture capital can be visualized as “your ideas and our money” concept of developing business. Venture capitalists are people who pool financial resources from high net worth individuals, corporate, pension funds, insurance companies, etc. to invest in high risk- high return ventures that are unable mobilize funds from regular channels like banks and capital markets. The venture capital industry in India has really taken off recently. Venture capitalists not only provide monetary resources but also help the entrepreneur with guidance in formalizing his ideas into a viable business venture. With technology and knowledge based ideas set to drive the global economy in the coming millennium, and given the inherent strength by way of its human capital, technical skills, cost competitive workforce, research and entrepreneurship, India can unleash a revolution of wealth creation and rapid economic growth in a sustainable manner, however, this to happen, there is a need for risk finance and venture capital environment which can leverage innovation, promote technology and harness knowledge based ideas.

AIM OF THE PAPER

The major aims of the study to know investments of Kitven venture capital funds, which is functioning in Karnataka under SEBI registration.

Statement of the Problem: From the various review of literature it can be observed that studies have been carried-out by academicians, researchers, and others both in India and abroad on venture capital financing it is also understood that studies so far made have covered many venture capital companies lacking focus on specificity. Exclusive studies on specific venture capital companies are very tiny. Further, research studies made on venture capital finance confirming to State Level Venture Capital Companies are scanty. Hence, there is a need to conduct an in-depth study on venture capital on state level, so in this direction we done a study on investments of Kitven venture capital fund in Karnataka

SCOPE OF THE STUDY

The present study is confined to Kitven venture capital funds in Karnataka under the registration of SEBI and functioning in Karnataka. Fund is managed by Karnataka Asset Management Company Private Ltd.

OBJECTIVES OF THE STUDY

1. To study the total investments made by Kitven venture capital funds in Karnataka.
2. To study the sector wise investments made by Kitven venture capital funds.
3. To study the stages of investments made by Kitven venture capital funds.
4. To know the portfolios of Kitven venture capital funds in Karnataka.
5. To offer suggestions based on the findings of the study.
DATA COLLECTION
The data collected from 1999 to Nov 2012, for analysis and interpretation.

SOURCES OF DATA
Primary data collected through questionnaire, interview method and secondary data from venture intelligence, company website, company's magazines, and other relevant documents.

PROFILE OF KITVEN FUNDS

KITVEN Fund I:
Karnataka Information Technology Venture Capital Fund (KITVEN Fund) is a State & Central Government financial institutions backed Venture Capital Fund (VCF) operating in the State of Karnataka since 1999. KITVEN Fund is contributed by premier institutions namely Karnataka State Industrial and Infrastructure Development Corporation Limited – KSIIDC, Karnataka State Financial Corporation – KSFC, Small Industries Development Bank of India – SIDBI, Karnataka Bio-technology & Information Technology Services (KBITIS) etc. As a partner, KITVEN Fund invested in emerging companies with a long-term investment approach thereby to build commercial value to our investors/ contributors. They focused on investments in seed/ rapid growth opportunities within the State of Karnataka and assisted in wide spectrum of companies catering to the Information Technology, Bio-Technology and other high-end products/ solutions in the knowledge based sector. In many of their successful investments in the past, KITVEN Fund was the founding/ first investor and invested when the company was no more than a passionate team. They maintained a rigorous investment process and a commitment to work closely with our portfolio companies. They understand that promising companies need more than capital/ financial backing to succeed. On the road from seed to success we became the founding team’s trusted advisor and professional investor. The Fund has invested in companies which have both economic and developmental impact in the State of Karnataka.

Karnataka Information Technology Venture Capital Fund (KITVEN Fund) was an Rs.15.00 Crore, Information Technology specific, SEBI registered, Venture Capital Fund launched during the year FY 1999-2000. The Fund received subscriptions from premier financial institutions namely Karnataka State Industrial and Infrastructure Development Corporation Limited – KSIIDC (Rs.3.75 Crore), Karnataka State Financial Corporation - KSFC (Rs.3.75 Crore) and Small Industries Development Bank of India – SIDBI (Rs.7.50 Crore). The Fund has studied over 600 prospective units for likely VC assistance & invested only in 17 units aggregating to Rs.17.56 Crore typically during the early stage with investment size of Rs.50 Lakhs to Rs.150 Lakhs.

Investment objectives
KITVEN Fund’s primary objectives are to make available long-term funds to new/unlisted companies in the IT sector to:

- Develop competitive products and cutting-edge technology.
- Manufacture and commercialize the product development.
- Move up in the value chain.
- Expand and upgrade existing capabilities to cater to a wider clientele.

About 51% of the fund would be invested in small scale industry (SSI) in the IT sector.
KITVEN Fund would also cater to
- Growth and expansion of an established company including product diversification and forward/backing integration.
- Turnaround financing.

As a new avenue, KITVEN Fund is also open to exploring select growth oriented buy-out situations with modest leverage.

**Investment range:**
The fund will undertake investment in the range of Rs. 25 Lakhs to 150 Lakhs per company.

**Investment instruments:**
The preferred form of investment is equity. KITVEN Fund is also open to other forms of funding viz.
- Preference shares, both redeemable/convertible.
- Fully convertible/ non-convertible Debentures.
- Conditional loans (Quasi-equity instrument).

**Investment Horizon:**
The typical investment horizon would be 3-5 years although lower periods would also be considered.

**Investment Criteria’s:**
The parameters that would determine an investment decision include

- **Management:** A strong and dynamic management team with established track record / credentials along with other traits like integrity, commercial acumen & commitment.
- **Market:** Attractiveness of the market, which the investee company, seeks to serve. The market will have to be quantifiably large with excellent opportunities for growth. The preferred business opportunities include Internet Services, High-end Software Services, Innovative products and novel ideas that create real value for customers
- **Future Potential:** The investee company should have the deep understanding of specific markets & customers’ needs. This will have potential for substantial future earnings power and increased market share
- **Competitiveness:** The investee company should have demonstrated or posses the ability to develop significant competitive advantages

**KITVEN Fund II:**
Karnataka Information Technology Venture Capital Funds (KITVEN Fund) was conceptualized and set up by the State and the Central Government financial institutions in 1998-99. The success of KITVEN Fund has inspired the recent launch of KIRVEN Fund-2. KITVEN Fund-2 is also incorporated as a Trust under the Indian Trust Act, and is registered with the Securities and Exchange Board of India (SEBI).

Karnataka Information Technology Venture Capital Fund - 2 (KITVEN Fund - 2) is Rs.26.25 Crore, SEBI registered, Venture Capital Fund launched during the FY 2008-09 and undertakes investments in units catering to Information Technology, Bio-technology, Nano-technology and other knowledge based industries within the State of Karnataka. The Fund received subscriptions from premier financial institutions namely Karnataka State Industrial and Infrastructure Development Corporation Limited – KSIIDC (Rs.6.25 Crore), Karnataka State Financial Corporation - KSFC (Rs.7.50 Crore), Small Industries Development Bank of India – SIDBI (Rs.7.50 Crore) and Karnataka Bio-technology and Information Technology Services – KBITS (Rs.5.00 Crore).
Scope and Size of investments:
Although the KITVEN Fund had invested only in the Information Technology (IT) sector, KITVEN Fund – 2 proposes to invest not only in the IT sector but also in the Biotechnology (BT), Nanotechnology (NT) and other promising knowledge-based sectors. KITVEN Fund -2 undertakes investment in the range of Rs.100 to Rs.250 Lakhs per unit. The preferred form of investment is equity.

KARVEN Fund:
Karnataka Venture Capital Fund (KARVEN Fund) is a SEBI registered Venture Capital Fund launched during the FY 2012-13 with target corpus of Rs.10 Crore. The Fund proposes to undertake investments in units catering to agro processing, automobile components, aerospace engineering, clean energy, production of patented products and such other sectors within the State of Karnataka. The Fund received initial subscriptions from premier financial institutions namely Karnataka State Industrial and Infrastructure Development Corporation Limited – KSIIDC (Rs.2.00 Crore), Karnataka State Small Industries Development Corporation Limited – KSSIDC (Rs.2.00 Crore) and Karnataka Udyog Mitra– KUM (Rs.1.00 Crore). KARVEN Fund undertakes investment in the range of Rs.10 to Rs.100 Lakhs per unit.

The preferred form of investment is equity. KARVEN Fund will also invest in other forms of capital instruments like Preferential Capital (convertible/ redeemable), Debentures OR combination of any the above instruments. All the investments will be as per the guidelines issued by the Securities & Exchange Board of India (SEBI) from time-to-time. The typical investment horizon would be 3-5 years although lower periods would also be considered.

Management: A.R. Jayakumar, CEO and Manish Kumar B, Ass. Vice President.

Fund Managers: Karnataka Asset Management Company Private Limited (KAMCO) a company promoted by KSIIDC, KSFC and SIDBI manages all VC Funds (KITVEN Fund, KITVEN Fund - 2 and KARVEN Fund).

Analysis Part:

A) Investments Of Kitven (I. Ii And Karven) Fund As On 30th Nov 2012

<table>
<thead>
<tr>
<th>Year</th>
<th>No. of Companies</th>
<th>Amount(US $ Million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1999</td>
<td>1</td>
<td>0.1</td>
</tr>
<tr>
<td>2000</td>
<td>1</td>
<td>0.22</td>
</tr>
<tr>
<td>2001</td>
<td>3</td>
<td>1.27</td>
</tr>
<tr>
<td>2002</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>2003</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>2004</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>2005</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>2006</td>
<td>4</td>
<td>1.24</td>
</tr>
<tr>
<td>2007</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>2008</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>2009</td>
<td>1</td>
<td>0.52</td>
</tr>
<tr>
<td>2010</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>2011</td>
<td>2</td>
<td>1.1</td>
</tr>
<tr>
<td>2012</td>
<td>NA</td>
<td>NA</td>
</tr>
<tr>
<td>Total</td>
<td>13+NA</td>
<td>5.45+NA</td>
</tr>
</tbody>
</table>
Figure 1: Investments of KITVEN Fund

Analysis and Inference:
Karnataka Information Technology Venture Capital Fund (KITVEN Fund) started its operations in Karnataka in 1999. Its fundamental objective was to provide early stage capital to companies of Information Technology, Bio-Technology and other high-end products/ solutions in the knowledge based sector. It all started with an initial investment of 0.1 million US $ in one company. Next year it ventured into another company with capital of 0.22 million US $. Inspired by the first two years success, in 2001, KITVEN invested in three companies with an outstanding investment of 1.27 million US $. But from 2000 to 2005, KITVEN didn’t venture even in one company also. Decline in the growth of service sector especially during 2001 and 2002, the Indian G D P growing at the rate of merely 3.8 has adversely affected the major contributor i.e., service sector. Hence there were meager opportunities for Venture capital during that period. But the recovering Market Scenario after 2005 provided ample opportunities for IT and ITES sector. Hence, KITVEN invested in four new ventures with an amount of 1.24 million US $. Due to Global recession, the Venture capital started experiencing a set back during 2007 and 2008. Trade Cycles recovery measures undertaken by the government again started yielding its results. Hence after 2009, again venture capital started gaining momentum. In 2009 and 2010, KITVEN invested in one company each and in 2011 it ventured in two companies. Hence as on 30th November 2012, KITVEN has invested in 13+NA companies with an investment of 5.45+NA million US $.

Note: This analysis is based on information provided by venture intelligence.

<table>
<thead>
<tr>
<th>Sector</th>
<th>Amount(US $ Million)</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>IT and ITES</td>
<td>3.85</td>
<td>70.64</td>
</tr>
<tr>
<td>Telecom</td>
<td>0.6</td>
<td>11.01</td>
</tr>
<tr>
<td>HealthCare and Life Science</td>
<td>1</td>
<td>18.35</td>
</tr>
<tr>
<td>Total</td>
<td>5.45</td>
<td>100</td>
</tr>
</tbody>
</table>

B) Sector Wise investment of Kitven Fund as on 30th Nov 2012
Figure 2: Sector Wise investments of KITVEN Fund

![Sector Wise investments of KITVEN Fund](image)

**Analysis and Inference:**
As the name itself suggests KITVEN (Karnataka Information Technology Venture Capital Fund), the main focus has been IT and ITES sector, which received the lion’s share in the total investment. Totally 70.64% of the investment has been for IT and ITES sector. Health care and Life Science sector stands next to it, with a total share of 18.35%. Telecom sector stands third in the list having received 11.01% of the total investment. KITVEN specializes itself only in these three sectors. As far as Indian economy is considered, Service Sector is the major contributor and also the fastest growing sector. Hence it is popularly said; Indian Economy is emerging to be a Third Wave economy. Venture capital plays a decisive role in funding such new enterprises in IT and ITES sector.

a) **Stage wise Investment of Kitven Fund as on 30th Nov 2012**

<table>
<thead>
<tr>
<th>Stage</th>
<th>Amount(US $ Million)</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Early</td>
<td>4.63</td>
<td>84.95</td>
</tr>
<tr>
<td>Growth</td>
<td>0.82</td>
<td>15.05</td>
</tr>
<tr>
<td>Total</td>
<td>5.45</td>
<td>100</td>
</tr>
</tbody>
</table>

Figure 3: Stage Wise Investment of KITVEN Fund

![Stage Wise Investment of KITVEN Fund](image)
Analysis and Inference:
Looking into the performance history of KITVEN right from 1999 to 2012, Venture capital investment is generally made during the Early Stage. Almost 85% of the total investment is directed towards Early Stage. Venture Capitalists also take a role in managing entrepreneurial companies at an early stage, thus adding skills as well as capital. Remaining 15% is invested during the Growth Stage. Hence the growing company needs working capital, which is supplied by Kitven Venture Capitalist by financing in growth stage for business expansion.

Portfolio units of KITVEN Fund I:
KITVEN Fund has liquidated its entire investment and returned the corpus of Rs.15.00 Crore along with substantial profits to subscribers in proportion to their subscription. The portfolio units assisted by KITVEN Fund are as under:-
- RelQ Software (P) Limited
- Logix Microsystems Limited
- Cerebra Integrated Technologies Limited
- iLantus Technologies (P) Limited
- ECAD Technologies Limited
- Internet Component Management Group (P) Limited
- iTwine Technologies (P) Limited
- Winfoware Technologies Limited
- Indegene Life systems (P) Limited
- InKnowTech (P) Limited
- Opus ABS India (P) Limited
- Comat Technologies (P) Limited
- 24x7 learning (P) Limited
- Brickwork India (P) Limited
- Telibrahma Convergent Comm. (P) Limited
- Proteans Software Solutions (P) Limited
- 17. Thrulogic ITECH (India) Pvt. Limited

Portfolio units of Kitven fund II
Till date, the Fund has made investment in 5 units aggregating to Rs.11.39 Crore in SME units during early stage. The portfolio units assisted by KITVEN Fund – 2 are:-
- Pawaa Software Pvt. Ltd.
- Mitra Biotech Pvt. Ltd.
- Sloka Telecom Pvt. Ltd.
- VidTeq (India) Pvt. Ltd.
- ILANTUS Technologies Pvt. Limited.

FINDINGS
1. Kitven Fund is contributed by premier institutions namely KSIIDC, KSFC SIDBI and KBITS.
2. Kitven Fund was an Rs.15.00 Crore, Information Technology specific, SEBI registered, Venture Capital Fund launched during the year FY 1999-2000.
3. Kitven, about 51% of the fund would be invested in small scale industry (SSI) in the IT sector.
4. Kitven undertakes investment range of Rs. 25 Lakhs to 150 Lakhs per company.
5. Kitven fund preferred form of investment is equity.
6. The typical investment horizon by Kitven fund would be 3-5 years.
7. The most important investment criteria are considered by Kitven fund is Management, Market, Future Potential and Competitiveness.
8. Kitven Fund - 2 was Rs.26.25 Crore, SEBI registered, operating in Karnataka. Contributed by KSIIDC, KSFC SIDBI, and KBITS.
9. Karven Fund is a SEBI registered Venture Capital Fund launched during the FY 2012-13 with target corpus of Rs.10 Crore. Therefore at present three funds comes under Kitven fund.
10. KITVEN fund has invested in various companies with an investment of 5.45+NA million US $ as on 30th Nov 2012.
11. KITVEN Fund the main focus has been IT and ITES sector, which received the lion’s share in the total investment. Totally 70.64% of the investment has been for IT and ITES sector.
12. Health care and Life Science sector stands next to after IT and ITES, with a total share of 18.35%.
13. Telecom sector stands third in the list having received 11.01% of the total investment.
14. Venture capital investment is generally made during the Early Stage. Almost 85% of the total investment is directed towards Early Stage of business.
15. KITVEN fund remaining 15% of investments is invested during the Growth Stage of the business.

SUGGESTIONS

For balanced regional development of the state, there is need to have sustainable growth in all the sectors of the state. So Kitven funds should finance not only to IT and ITES, health care and life science, but also others sectors of business which are knowledge based, so that balanced regional development is achieved in Karnataka enabling it to become developed state in India.

CONCLUSION

Karnataka Information Technology Venture Capital funds, is not simply an injection of funds into a new firm, IT and ITEs and SSI, it synchronized input of skill needed to setup the firm, design its marketing strategy and organize and manage it to add value to the firm. The financing and mentoring work done Karnataka Asset Management Company Private Ltd. through KITVEN funds is creditable and its role to promote new enterprises in Karnataka is praiseworthy.

REFERENCES


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info@indiavca.org
www.sebi.gov.org