Profitability Analysis of Selected Venture Capital Financing Companies In India

*Dr. Pradhuman Adesra
**Ramit Beniwal

Abstract

The definition of venture capital and its evolution and position in a few countries with a specific emphasis on the industry. The current study is based on the measurement of venture capital financing provided by private financial institutions of India. A study design is a framework within which research methodologies and approaches are organized. Researchers can use research methodologies that are appropriate for a given topic because of the design, which increases the likelihood of the success of their investigation. This study depicts the profitability of selected venture capitals in India.

Keywords: venture capital, profitability, profit ratio, India.

Introduction

The dictionary meaning of "Venture" is a procedure involving risk, the outcome of which is uncertain. In the narrower sense of the word, venture capital refers to capital that is available to finance a new business. Venture capital financing can be defined as long-term capital investment in a business that depicts a business that shows the potential for significant growth and financial return. the objective of venture capital is to generate substantial capital appreciation by investing in early-stage companies capable of achieving rapid growth.

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 is an investment in the form of equity capital, quasi-equity capital and often direct or contingent, created according to a modern, untested definition, supported theoretically or by a professionally trained entrepreneur. Venture capital is the capital invested in a project in which there is a substantial element of risk, typically a new or expanding business. It refers to capital expenditure, including equity and debt, which carries great risk and uncertainty. The assumed risk can be very high, leading to total loss, or much less, leading to high profits. In India, venture capital plays a key role in creating and growing innovation businesses.

Profitability is measured by the return on total investment by the profitability ratio. The profitability of the production process could be enhanced and ensured by effective cost management and expansion of production units. Profitability analysis indicates whether a project is feasible or not. Profitability is a measure of the financial profit that is generated from a given investment. The company wants to generate the highest possible profit from the money it invests. He may want to compare the potential profits he can make from different businesses using profitability ratios.

Reviews of literature

Venture capital plays a vital role in boosting economic growth in developing countries, as entrepreneurs benefit greatly from an active venture capital market.

In the past, venture capital operations could be undertaken by emerging financial entities such as IDBI, ICICI and state finance corporations. These institutions also advocated debt-based private sector companies as a financial instrument. Funds received by the public have long been perceived as a source of investment capital. However, this resource was highly dependent on the vagaries of the market, and minimum paid-up capital thresholds were raised for inclusion in the equity markets; it became impossible for small companies with successful businesses to raise funds from the public. In India, the 7th Five Year Plan and the long-term fiscal strategy of the government recognized the need for venture capital. From India, man. In 1973, the Small and Medium Enterprise Growth Committee emphasized the need to strengthen venture capital as a means of financing new businesses and technologies. Venture capital funding really started in India in 1988 with the establishment of Technology Creation and Knowledge Company of India Ltd. – supported by Bank of India, Asian Development Bank and Commonwealth Development Corporation. Venture capital fund. Gujarat Investment Financial Ltd during the same period. And APIDC Venture Capital Ltd. was established by financial institutions at the state level. These assets came from financial companies, international portfolio investors or mutual funds and high net worth individuals.

Komala (2014) said that the venture capital sector is a new one that is continuously developing. It has been rapidly increasing since the 1990s. The future is expected to provide even more options as entrepreneurs create new legal and economic frameworks. In 2012, India's venture capital vision and objective shifted. Since 2013, new breakthroughs, many of the activities are expected to be driven by business models and information technology. in India's Venture Capital. An overview of the venture capital sector during the last 15 years is presented in this conceptual paper. The researcher utilized secondary data. This research is restricted to India. The growth of India's investor community, spent in local prospects bodes well for the next year.

Nahata et al. (2015) Cultural gap amongst the venture investor and the portfolio company's perspectives countries has a beneficial impact on VC investment performance. It reveals those cultural variations boost VC performance by promoting ex ante screening. A developed stock market also improves venture capital performance, supporting the Black and Gilson argument (1998). Local co-investors also enhance success rates. A short review of developing market predictors of venture capital performance emphasizes the legal and cultural distance and the growth of the stock market.

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.

Panda (2018) presented fascinating information. In the first place, the basis of the thesis was developed by developing various aspects of the theories and proof of capital structure in past literature. With this in mind, the researcher suggested many factors to analyse the capital structure of the companies. The key result was that VC funds are not identified as risk-takers. The essential essence or characteristic of VC companies is their desire to take chances and to engage in new projects. However, they have often been found to be restrictive, such as banks and other financial entities, which provide finance for new projects on the basis of their strict capital structure requirements.

Ma et al. (2020) took a survey of Korean companies to research alternate exit roots taken from start-ups. Data were obtained for this reason from 2000-2010. The research concentrated on the optimal path for start-ups to be classified on the stock exchange. To this end, companies were challenged to pick between IPOs, sales and reverse takeovers as their chosen route of exit. The researcher also found out that the companies that opted for the reverse acquisition were poorer off relative to those who chose IPO to the exit decision. The authors have defined the potential direction of the study by analysing the effect of the mixture of reverse type of merger with PIPE (private involvement in the public entity) to make start-ups public.

Research methodology

The performance of venture finance companies is measured in terms of their contribution in the form of the availability of funds for new ventures. The Profitability ratio are used first to analyze the profitability of the selected venture capital companies. The profitability ratios are presented as under:

Gross Profit ratio

Analysts use gross profit margin to analyze a company's fiscal well-being by deducting cost of goods sold from revenues (COGS). The GPR is often stated as a % of sales. The formula for calculating this ratio is:

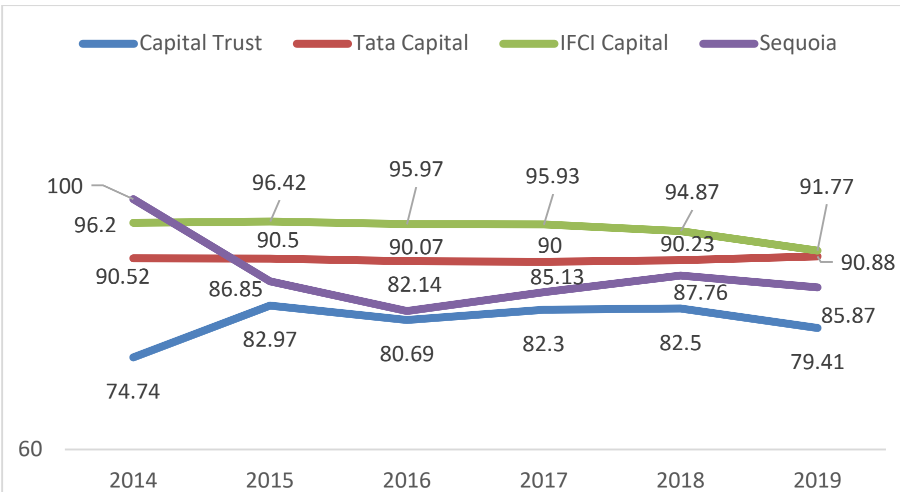
$$Gross\ Profit\ Ratio = \frac{Gross\ Profit}{Net\ Sales} X100$$

The Gross Profit ratio for the companies is presented as under:

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

Year	Capital Trust	Tata Capital	IFCI Capital	Sequoia
2013-14	74.74	90.52	96.20	100.00
2014-15	82.97	90.50	96.42	86.85
2015-16	80.69	90.07	95.97	82.14
2016-17	82.30	90.00	95.93	85.13
2017-18	82.50	90.23	94.87	87.76
2018-19	79.41	90.88	91.77	85.87
Mean	80.43	90.37	95.19	88.00
S.D.	3.09	0.33	1.76	6.00
C.V. (%)	3.84	0.37	1.85	7.05

Source: Annual Reports of the Companies under study



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

There is a fluctuative change the Gross Profit ratio of Capital Trust which has fluctuating and decreased during the period from 2016 with the maximum decrease in 2019. The mean of the Gross Profit ratio of Capital trust is fluctuating increased with the mean of Rs. 80.43 with the standard deviation of Rs. 3.09. The Gross Profit ratio of Tata Capital has decreased continuously till 2017 and later it has increased with the mean of Rs. 90.37 with the standard deviation of Rs. 0.33. For IFCI Venture Gross profit shows a fluctuative trend during study period. The mean of IFCI's

Gross Profit ratio is Rs. 95.19 with the standard deviation of Rs. 1.76. The Gross Profit ratio of the last company Sequoia has shown fluctuative trend in its Gross Profit ratio with the mean value of Rs. 88.00 with standard deviation of Rs. 6.00. Out of the above four VC firms IFCI capital has the maximum percent of GPR. The fluctuation in the GPR is revealed by coefficient of variation, shows that the minimum fluctuation is in Tata Capital company's Gross Profit ratio while the maximum variation shown in the Gross Profit ratio is for the Sequoia.

F Test for Total finance: For applying F Test for Gross Profit ratio (GPR) provided, these assumptions were used:

(i) There is no significant difference in the GPR of companies under study.

(ii) The year-wise difference in the GPR of companies under study is not significant.

ANOVA Table-Gross Profit ratio

Source	SS	DF	Mean Square $\left(\frac{SS}{d.f.}\right)$	F Ratio
SSC	681.73	(C-1)=(4-1)=3	227.24	F=15.21
SSR	32.14	(R-1)=(6-1)=5	6.42	F=0.43
Error	224.09	(C-1)(R-1)=15	14.94	
Total	937.96	(N-1)=23		

(i) F Test amongst the Companies

F ratio= 15.211

The Critical F at 5% significance level and for d.f. (3,20) =3.28

Conclusion: The ANOVA table reveals that the designed F-Value is more than F-critical. Therefore, we reject the null hypothesis and it may be argued that the difference in the GPR the firm under review is significant.

(ii) F Test within company

F ratio= 0.43

The Critical F at 5% significance level for df (3,23) =2.90

Conclusion: In conclusion, the year-to-year variation in the Gross Profit Ratio of firms is determined to be insignificant since the crucial F-Value is smaller than the estimated value.

Net Profit ratio

Measures net income or profit as a proportion of revenue. A company's or business segment's net profit to revenue ratio. It is as under:

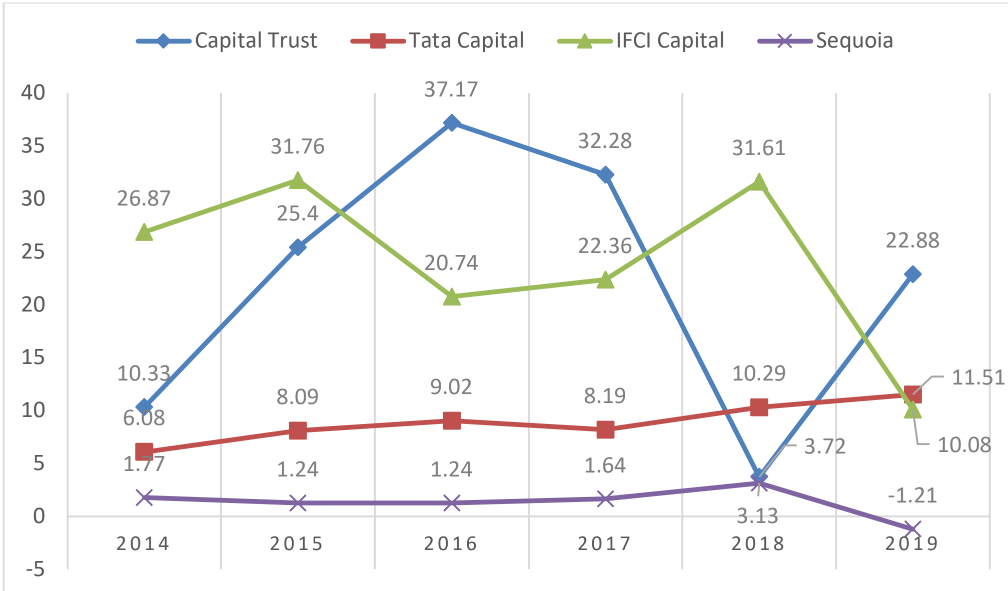
$$\text{Net Profit Ratio} = \frac{\text{Net Profit}}{\text{Net Sales}} X100$$

The year-to-year growth of the Net Profit ratio is presented in the table below:

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



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 fluctuative 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 fluctuative 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 Total finance: 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.

ANOVA Table-Net Profit ratio

Source	SS	DF	Mean Square $\left(\frac{SS}{d.f.}\right)$	F Ratio
SSC	2094.74	(C-1)=(4-1)=3	698.24	F=10.33
SSR	166.16	(R-1)=(6-1)=5	33.23	F=0.49
Error	1013.57	(C-1)(R-1)=15	67.57	
Total	3274.47	(N-1)=23		

(i) F Test amongst the Companies

F ratio= 10.33

The Critical F at 5% significance level and for d.f. (3,20) =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 (3,23) =2.90

Conclusion: Since the critical F-Value is above the computed value, hence the null hypothesis is rejected, and reveled that the year-wise alteration in the NPR of companies is found significant.

CONCLUSION

Venture capital as a financial instrument has been very active in promoting creativity, entrepreneurship, and start-ups in our region. Venture capital funding is largely seen by many researchers and corporate finance professionals as the best viable patient capital for survival in emerging economies. This thesis cantered on assessing the effectiveness of venture investors for potential uses and confirmed the potential to manage their assets for possible and maximum wealth. In venture capital financing, profitability is a key element and it is important to recognize the strategic elements that underlie the success of the selected company.

***Assistant Professor**
****Research Scholar**
Department of Accountancy and Business Statistics
University of Rajasthan
Jaipur (Raj.)

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