

Efficiency Analysis of Selected Venture Capital Financing Companies in India

*Dr. Pradhuman Adesra

**Ramit Beniwal

ABSTRACT

Considering that venture business is of particular importance in the processes of creating an efficient and competitive economy, the article is devoted to evaluating the effectiveness of selected venture capital financing companies in India. This article depicts the efficiency analysis of Capital Trust, Tata Capital, Sequoia and IFCI by comparing efficiency ratio of these venture capitals. The efficiency ratio is usually used to analyze how well a company is using its assets and liabilities internally. An efficiency ratio can calculate accounts receivable turnover, liability repayment, the amount and use of equity capital, and the general use of inventory and machinery.

Keywords: venture capital, efficiency, investments, efficiency criteria, efficiency ratio, India.

INTRODUCTION

Venture Capital (VC) has emerged as the dominant source of finance for entrepreneurship and early-stage entrepreneurship, and the Indian venture capital industry in particular has seen the fastest growth rate globally. 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, Sanken, 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. Every investor must also prepare for additional costs associated with large long-term investments. The validity of the adopted investment decision directly depends on how objectively and comprehensively not only the assessment of the effectiveness of the risky investment, but also the risk analysis is carried out.

REVIEWS OF LITERATURE

Venture capital is essential to the creation and growth of innovative businesses. The aim of this study was not to develop a new philosophy, but rather to explore questions and achieve research

Efficiency Analysis of Selected Venture Capital Financing Companies in India

Dr. Pradhuman Adesra & Ramit Beniwal

purposes through empirical inquiry and subordinate data collection and analysis. The aim of this study was not to develop a new philosophy, but rather to explore questions and achieve research purposes through empirical inquiry and subordinate data collection and analysis.

Azarmi (2016) carried out major studies concentrating on the important variables impacting the exit decision of VC companies. This analysis was focused on Spanish VC's, with whom he assembled a community of fifteen participants for implementing the Delphi process, creating grouped of key groups, i.e., founders, VC's, developers.

Kong et. al., (2016) performed survey at Canada. They report addressed the rising involvement of international investors, such as the US, Europe and Ireland, in the development of investment flows. They study illustrated the value of comparatively significant venture funding supported by international investors opposed to regional VCF. In addition, the performance rate of exit of international VCs was found to be higher relative to domestic VC funds. The consequences of exit by M&A have also been addressed. Researchers also highlighted several facets of the Canadian venture capital industry. The authors found five types of exits, i.e., IPO, industrial selling. They revealed that IPOs and commercial transactions were the two most favoured escape routes atnd e VC-backed companies gained most from the M&A whenever they were funded with the international VC syndication.

Cumming and Vismara (2017) conclude the research available to academics frequently partly demonstrates entrepreneurial equity financing segmentation. In recent studies, the authors stress the challenge of conducting entrepreneurial finance research. Also, many publications choose to focus on their own subjects rather than mention other specialists, extending this division. As a result, earlier results may be reviewed with fresh datasets to drive research development and focus on prospective interdisciplinary studies.

Hoegen, A., Steininger (2018) announced that crowdfunding 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 crowdfunding. 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.

Efficiency Analysis of Selected Venture Capital Financing Companies in India

Dr. Pradhuman Adesra & Ramit Beniwal

RESEARCH METHODOLOGY

The comparison of venture capital firms in terms of different ratios of their efficiency and performance in terms of their efficiency. If companies aren't perfect at sustaining their own growth, they can't provide enough funding. A comparison of the efficiency of venture capital firms is given below:

Operating Profit ratio

The operating profit ratio quantifies a company's profit after variable expenses of building, such as labor but before interest and taxes. Higher ratios indicate a company's efficiency and ability to convert revenues into profits. The ratio is computed as under:

$$\text{Net Operating Profit Ratio} = \frac{\text{Net Operating Profit}}{\text{Net Sales}} \times 100$$

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

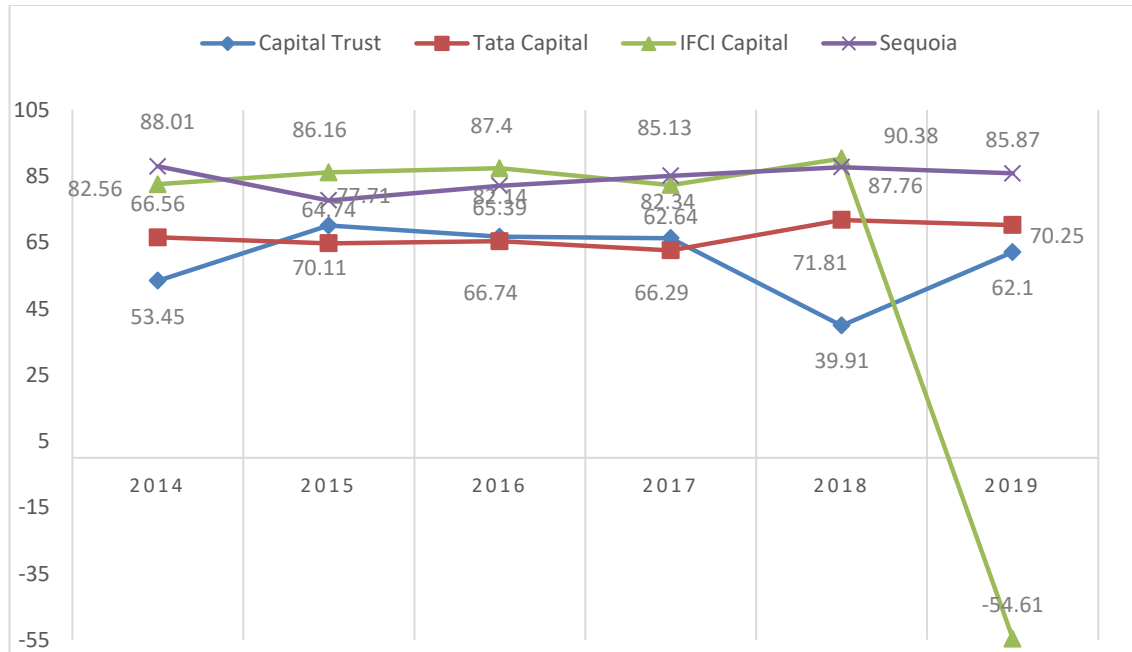
Net Operating Profit ratio of VC Companies under Study (2014 to 2019)

Year	Capital Trust	Tata Capital	IFCI Capital	Sequoia
2013-14	53.45	66.56	82.56	88.01
2014-15	70.11	64.74	86.16	77.71
2015-16	66.74	65.39	87.40	82.14
2016-17	66.29	62.64	82.34	85.13
2017-18	39.91	71.81	90.38	87.76
2018-19	62.10	70.25	-54.61	85.87
Mean	59.77	66.90	62.37	84.44
S.D.	11.29	3.48	57.39	3.92
C.V. (%)	18.90	5.20	92.01	4.64

Annual Reports of the Companies under study

Efficiency Analysis of Selected Venture Capital Financing Companies in India

Dr. Pradhuman Adesra & Ramit Beniwal



Net Operating Profit ratio of VC Companies

There is a fluctuating trend shown in the ratio of selected companies during the period from 2014 to 2019. For company Capital Trust, in year 2015 it has shown the maximum percentages. The mean of the Net Operating Profit ratio of Capital Trust is 59.77 percent with the standard deviation of 11.29 percent. The Net Operating Profit ratio of Tata Capital has a fluctuating trend with the mean of 66.9 percent and the SD of 3.48 percent. For IFCI Venture Net Operating Profit ratio shows a fluctuative trend during study period, with the highest negative value in year 2019. The mean of IFCI's Net Operating Profit ratio is 62.37 percent with the standard deviation of 57.39 percent. The Net Operating Profit ratio of the last company Sequoia has shown fluctuative trend in its Net Operating Profit ratio with the mean value of 84.44 percent with standard deviation of 3.92 percent. Out of the above four VC firms IFCI has the maximum amount of Net Operating Profit ratio. The fluctuation in the Net Operating Profit ratio is revealed by coefficient of variation, shows that the minimum fluctuation is in Sequoia's Net Operating Profit ratio while the maximum variation shown in the Net Operating Profit ratio is for the IFCI Capital.

F Test for Total finance: For applying F Test for Operating Profit ratio provided, these assumptions were used:

- (i) There is no significant difference in the Operating Profit ratio of companies.
- (ii) The year-wise difference in the Operating Profit ratio of companies is not significant.

Efficiency Analysis of Selected Venture Capital Financing Companies in India

Dr. Pradhuman Adesra & Ramit Beniwal

ANOVA Table-Operating Profit ratio

Source	SS	DF	Mean Square $\left(\frac{SS}{d.f.}\right)$	F Ratio
SSC	2221.81	$(C-1)=(4-1)=3$	740.60	F=0.80
SSR	3647.29	$(R-1)=(6-1)=5$	729.45	F=0.81
Error	13595.69	$(C-1)(R-1)=15$	906.37	
Total	19464.8	$(N-1)=23$		

(i) F Test amongst the Companies

F ratio= 0.80

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 below F critical. So, we accept the null hypothesis and infer that the change in Operating Profit Ratio amongst the firms is negligible.

(ii) F Test within company

F ratio= 0.81

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

Conclusion: Because the critical F-Value is smaller with estimated value, the null hypothesis is recognized, and that state the year-to-year variance in the Operating Profit ratio of firms is unimportant.

Turnover ratio

The turnover ratios are ratios are the ratios-based turnover and efficiency of the company. The following primary hypothesis was created to quantify the differences in the performance of the VC firms:

Account Receivable Turnover

The accounts receivable turnover ratio assesses a company's ability to recover debtors. The ratio demonstrates how successfully a business utilizes and achieves the credit it gives to consumers, as well as how fast that short-term debt is recovered. The formula for the same is as follows:

$$\text{Account Receivable Turnover} = \frac{\text{Net Credit sales}}{\text{Average Account Receivable}}$$

Efficiency Analysis of Selected Venture Capital Financing Companies in India

Dr. Pradhuman Adesra & Ramit Beniwal

The year-to-year growth of the Account Receivable Turnover ratio is presented in the table below:

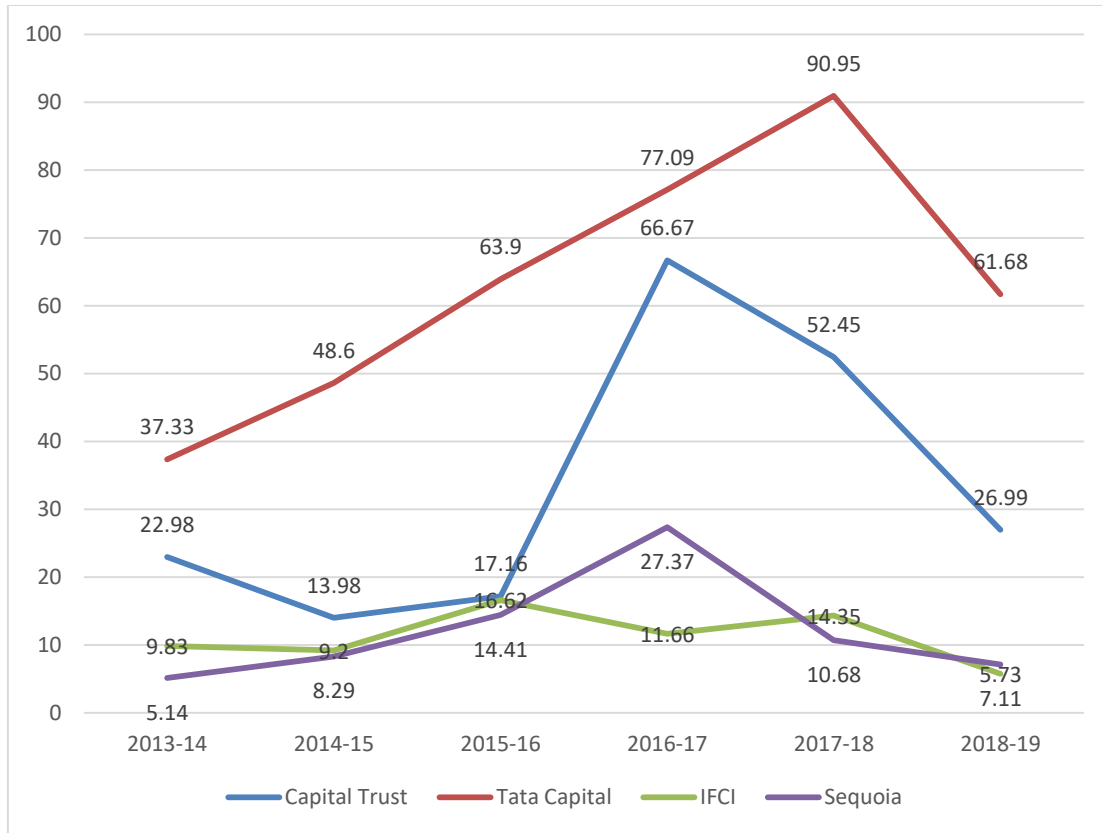
Accounts Receivable Turnover ratio of VC Companies under study (2014 to 2019)

Year	Capital Trust	Tata Capital	IFCI	Sequoia
2013-14	22.98	37.33	9.83	5.14
2014-15	13.98	48.60	9.20	8.29
2015-16	17.16	63.90	16.62	14.41
2016-17	66.67	77.09	11.66	27.37
2017-18	52.45	90.95	14.35	10.68
2018-19	26.99	61.68	5.73	7.11
Mean	33.37	63.26	11.23	12.17
S.D.	20.61	19.23	3.88	8.10
C.V. (%)	64%	30%	35%	67%

Annual Reports of the Companies under study

Efficiency Analysis of Selected Venture Capital Financing Companies in India

Dr. Pradhuman Adesra & Ramit Beniwal



Accounts Receivable Turnover ratio of VC Companies under study

From the above table and figure, it can be observed that the Account Receivable Turnover ratio of Capital Trust has fluctuative trend. Overall, the Account receivable turnover ratio of the company varies between 22.98 in 2014 to 26.99 in 2019. This ratio is an accounting metric used to assess a company's ability to recover receivables or money owed by customers. It can be revealed that the Account receivable turnover ratio of Tata Capital has shown increase till 2018 and reduced in the last year Overall, the Account receivable turnover ratio of the company varies between 37.33 in 2014 to 61.68 in 2019. IFCI also has fluctuating trend. Overall, the Account receivable turnover ratio of the company varies between 9.83 in 2014 to 5.73 in 2019. It can be observed that the Account receivable turnover ratio of Sequoia has fluctuating trend. The ratio for the company has raised continuously till 2017. Overall, the ratio of the company varies between 5.14 in 2014 to 7.11 in 2019. A low ratio might indicate that a firm has a weak clearance procedure, inadequate credit policies.

Efficiency Analysis of Selected Venture Capital Financing Companies in India

Dr. Pradhuman Adesra & Ramit Beniwal

F Test for Accounts receivable turnover ratio: - For applying F Test for Accounts receivable turnover ratio, these assumptions were used:

- (i) There is no significant difference in the Accounts receivable turnover ratio of the companies.
- (ii) The year-wise difference in the Accounts receivable turnover ratio of the companies is not significant.

ANOVA Table- Accounts receivable turnover ratio

Source	SS	DF	Mean Square $\left(\frac{SS}{d.f.}\right)$	F Ratio
SSC	10726.58	(C-1)=(4-1)=3	3575.52	F=27.63
SSR	2571.694	(R-1)=(6-1)=5	514.33	F=3.97
Error	1940.485	(C-1)(R-1)=15	129.3657	
Total	15238.76	(N-1)=23		

(i) F Test amongst the Companies

F ratio= 27.63

Critical F at 5% significance level and for d.f. (3,20) =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 Accounts receivable turnover ratios of the companies is significant.

(ii) F Test within company

F ratio= 3.97

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

Conclusion: Since the critical F-value is less than the computed value, hence the null hypothesis is rejected, and it revealed that the year-wise alteration in the Accounts receivable turnover ratio of the companies is found significant.

Efficiency Analysis of Selected Venture Capital Financing Companies in India

Dr. Pradhuman Adesra & Ramit Beniwal

CONCLUSION

Venture capital is a financial link of the innovation infrastructure that connects capital holders and it is he who solves the problem of financial insufficiency in the sector initiation of innovative projects. Development of the venture capital and private equity industries in India is currently one of the priority areas of state innovation policy and a prerequisite for strengthening innovation and increasing the competitiveness of domestic industry. Investments in venture capital companies are the most important source of off-budget funding for applied scientific research and innovation. The funds of risk investors are mainly invested in approved capital of newly established small and medium-sized enterprises, which are usually oriented towards developing new technologies or creating new scientifically demanding products. In fact, the principle of risk investing is a mechanism for selecting innovative projects built into economy. This means that a wide variety of scientific ideas receive a market evaluation potential at a very early stage. This "early" selection of innovations allows for limited focus investment resources in those areas that correspond to real economic demand. Evaluation the effectiveness of the venture capital companies, especially in the preparatory phase, will require improve the profitability and reduce the riskiness of the risky investment.

***Assistant Professor**

****Research Scholar**

**Department of Accountancy and Business Statistics
University of Rajasthan
Jaipur (Raj.)**

References

- Nigam, N., Benetti, C., & Johan, S. A. (2020). Digital start-up access to venture capital financing: What signals quality? *Emerging markets review*, 45, 100743.
- Panda, S. (2018). Constraints faced by women entrepreneurs in developing countries: Review and ranking. *Gender in Management: An International Journal*.
- Hoegen, A., Steininger, D. M., & Veit, D. (2018). How do investors decide? An interdisciplinary review of decision-making in crowdfunding. *Electronic Markets*, 28(3), 339-365.
- Cumming, D., Vismara, S. 2017. De-segmenting Research in Entrepreneurial Finance. *Venture Capital* 19, no. 1-2: 17-27.
- Park, H. D., & Tzabbar, D. (2016). Venture capital, CEOs' sources of power, and innovation novelty at different life stages of a new venture. *Organization Science*, 27(2), 336-353.
- Kong, S., Nitani, M., & Riding, A. (2016). Cross-border VC investment in Canadian firms: implications for exit patterns. *Venture Capital*, 18(1), 63-93.
- Azarmi, D. (2016). *Advantageous attributes of coinciding venture capital and high-tech entrepreneurial clusters: an in-depth study* (Doctoral dissertation).

Efficiency Analysis of Selected Venture Capital Financing Companies in India

Dr. Pradhuman Adesra & Ramit Beniwal