Book Reviews : J.C. Verma, Venture Capital Financing in India, New Delhi: Response Books, 1997, pp. 374

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environmental debate from taking extreme positions and getting further polarised.

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J.C. Verma, *Venture Capital Financing in India*, New Delhi: Response Books, 1997, pp. 374.

By extending assistance to entrepreneurs who lack access to conventional modes of funding industrial ventures, venture capitalists play a critical role in accelerating the pace of industrial growth. India, with its vast pool of technically qualified people with skills but not the capital for making an entrepreneurial movement, probably requires the infusion of venture finance more than most other countries. Moreover, the formal banking system operates under various constraints and is not able to satisfy fully the credit needs of entrepreneurs.

A venture capitalist differs essentially from the conventional financier in that he combines the role of banker and entrepreneur. A banker is typically risk-averse, looking to hedge the risk involved in lending with tangible securitisation. This means that a number of projects with future potential are denied financial support as the entrepreneur is unable to reinforce his proposal with collaterals. On the other hand, a venture capitalist provides funds to ventures which are typically technology-based, and with a high risk profile, but where potential returns are high, if successfully managed. He comp'ements the efforts of the entrepreneur by contributing his expertise in the areas of marketing and technology management besides providing funds. The time horizon involved in the investment is also typically medium to long term, and during the time the fund is invested in the project, it is not uncommon to find the venture capitalist being actively involved in day-to-day management. Thus, far from being involved in a passive activity like moneylending, where the lender is unconcerned with the performance of the investee's business, the venture capitalist acts as a 'co-partner in the investee's business, sharing success and failures, the gains and losses'.

In more mature economies like those of the USA, Great Britain and Japan, venture capitalists have fuelled the growth of small and medium enterprises. In fact, in the USA, there is a vast, thriving community of informal venture capitalists, euphemistically called 'business angels', in addition to the venture capitalist firms. Despite its critical importance, however, the venture capital industry in India has not achieved even a fraction of its potential. Most of the firms in the field are offshoots of development financing institutions. The entry of corporate houses and foreign venture capital firms is a comparatively recent phenomenon.

A part of the blame for this state of affairs could be attributed to the highly regulated environment in which the industry was operating until recently. The many misconceptions about what constitutes venture capital and general ignorance about how its unique features could be leveraged for rapid industrial growth is another contributing factor. The author has attempted to address these shortcomings to make the concept intelligible to students and practitioners alike, and the effort deserves to be complimented. It is also intended to be a road-map for the new entrants into the industry.

The book is divided into two sections, the apparent intention of the author being to segregate the conceptual discussions from the purely informational. The concept of venture capital is explained through attempting a flexible definition and by distinguishing it from conventional financing, seed capital, bought out deals, etc. The various stages of venture financing like seed, start-up, expansion, mezzanine, buy-out and turnaround are then elaborated on, in order to bring conceptual clarity. The succeeding chapters in the first section deal with the history of the venture capital industry in India, global experiences, venture capital practices and procedures in India, structuring a deal, the regulatory framework, documentation, portfolio evaluation, exit strategies, and the opportunities in India for overseas venture investors, in this sequence. This is followed by a concluding chapter where the author attempts to present a realistic model for the industry in India after analysing the Asian and American models. Even a cursory look reveals that the sequencing of the chapters leaves much to be desired. The chapters on structuring a deal, portfolio evaluation and exit strategies belong to the realm of venture financing theory, while those on history, global experiences, current practices, regulatory framework, etc., deal with the environment. Interspersing these two discrete aspects makes for cumbersome reading, considerably reducing the effectiveness of the book.

The elucidation of the external environment is quite comprehensive and informative, and the vast experience of the author in the field is reflected in the range of the data presented. However, to the student looking for a conceptual exposition of the theoretical aspects, the book contains precious little. The crucial matters of negotiating, structuring and pricing a deal, as well as the methods of portfolio evaluation, have received, at best, cursory treatment. For a book counting students among its target group, this is a serious lapse. To be fair, the discussion on exit strategy alternatives is lucidly presented, and provides concrete suggestions on a neglected topic.

In his suggested model for venture financing for India, the author comes out with some useful suggestions. He advocates that venture finance companies operate in three distinct areas, viz., technology-oriented start-up companies, expansion finance through private equity and finance for corporate restructuring. In the normally accepted definition, venture finance is normally associated with only the first area. In the Indian context, the other two areas are of equal importance. The author, however, could have elaborated on this.

The second part of the book gives brief profiles of the existing players on the venture capital scene in India. One is sceptical about the relevance of devoting separate chapters to each venture finance firm, especially when nothing more than a documentation of their current activities is attempted. A comparative analysis of their strategies, operating methods, client portfolio, etc., would have lent some justification to their inclusion and added value to the book. Even if the objective was to profile the venture finance firms operating in India, the list should have included foreign firms already active in the field in India, like Ind Ocean Venture, Alliance DLJ, ING Barings, Schroder, etc. The chapter on opportunities in India for overseas venture investors could have drawn on the experiences of these firms.

There is an acute shortage of literature on the subject of venture capital financing, particularly in the Indian context. Any addition to the genre, therefore, is to be welcomed with open arms. The book under review, however, seems to be a classic case of missed opportunities. The book is a mine of data. The problem with data on a constantly evolving discipline such as venture finance is that there is a risk of rapid obsolescence in the absence of analysis. A more lasting contribution could have been made by utilising the wealth of data generated to draw meaningful conclusions about the status of the venture capital finance industry and to chart a road-map for its future growth.

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