

# Untie the adventurers

**Venture capitalists are seeking a few breaks from the government to give them the required boost**

The world over, they are known to venture where others fear to tread. Venture capitalists, in the developed world, have made megabucks on the Apples and Microsofts. In contrast, their Indian counterparts seemed to have been saddled with lemons. They have by and large had a staid existence for the past decade and a half. And, thanks to the state of the primary market, they could not realise much from their investments.

However, the players see the light at the end of the tunnel and are hoping that the action picks up. "Lack of regulatory framework (venture capital funds come under the Indian Trust Act 1882, which restricts redemption) and the difficulty in raising domestic funds pose major hurdles to the industry. But now, the growing awareness about the industry should change things for the better," says Vishnu Varshney, CEO of Gujarat Venture Fund. Already, the government has eased the rules of the game by doing away with the three-year lock-in period in ventures invested in and expanded the scope of infrastructure investments.

Hitherto, infrastructure sectors such as manufacturing, power, telecom, and also computer software were exempt from tax. Now the definition of infrastructure has been enlarged to include roads, highways, airports, rail systems or any other public facility. But venture capitalists are not too happy with just these changes and are hoping that in the ensuing budget the government would relax the tax norms. Sudhir Sethi, director Walden India, feels that the government should "broadband" venture capital investments in areas beyond information technology and facilitate formation of venture funds by encouraging high net worth individuals, pension funds and trusts to invest in them. "The absence of this is a major obstacle for venture capitalists in India," he says.

Over the years, venture funds have



*Varshney is looking for easier norms*

witnessed a change in dimension. Before the reforms were initiated on the Indian landscape, there were about a dozen-odd domestic players, the bulk of whom were from the financial institutions. They together totted up Rs200 crore of investments. Post-reforms, the number of funds has grown to 31 and the kitty has burgeoned to Rs4,000 crore. Today, about two-third of the players constitute international funds. Most of the money has come from FIIs, NRIs and private and foreign banks.

According to Varshney, the change in composition of players is because domestic fund raising has become difficult. "Bringing us on par with mutual funds in terms of the tax structure would help the industry," says he. According to Abhay Havaladar, Draper International chief, one reason why the venture capital business is largely driven by international funds rather than domestic is the lack of tax breaks to the investors in the fund. "It is

important for the investor to have incentives like the erstwhile Section 80cc break that the investor in a public issue was offered. Until such tax breaks are offered, Indian investors will shy away from venture capital funds," says he.

Currently, to avail of tax breaks, venture capitalists have to be registered with Sebi and CBDT and have to follow a lot of restrictions like not being able to invest more than 40 per cent in an unlisted company. Varshney recommends that pension funds and provident funds be permitted to invest in venture capital companies. These restrictions, according to him, have led to the venture capital industry shifting attention to private equity.

The difference between a venture capitalist and a private equity player is that while the former has "a build view of life" the latter has "a buy view", according to Havaladar. Which means that the former has to do with a longer investment horizon than the latter. Another development that has surfaced over the years is that there are fewer number of funds supporting small and medium enterprises. "Most of these enterprises look upon venture capitalists as project financiers or loan providers. Their attitude has to change and look up to us as partners," says Varshney. Besides, he feels that because of the high risk-reward ratio that venture capital brings with it, the "capital market has become myopic by creating industry-specific funds thereby curtailing fund flow to other important industries". Not to lose out, he too is floating a third fund with a corpus of Rs40 crore together with Sidbi, to fund small and midsize infotech companies. "It's a fad which cannot be ignored," says he.

But Varshney, who is also the chairman of the Indian Venture Capital Association, sees tremendous opportunities lying untapped, if only the government relaxes the norms for the industry. "In a competitive environment where over-leveraged companies are financially restructuring, there is vast potential in turnaround and LBO financing," says he. The moot question is will the government oblige?