Venture Capital Funding

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Abstract

The entrepreneur needs adequate funding at the four successive stages of establishment of his business, viz. development of an idea, start-up, fledging and establishment. The first stage of development of business is development of an idea. The entrepreneur needs seed capital for this purpose. Secondly, when the firm is set-up to carry out the business plan, to manufacture a product or provide a service the entrepreneur needs start-up finance which is provided by the venture capitalist. In the third stage, the firm has made some headway and entered the stage of manufacturing a product or rendering a service, but faces enormous teething problems. It may not be able to generate adequate funds and have access to external sources of finance because of inadequate assets and stock market quotations. To overcome this difficulty the entrepreneur would require large amount of fledging finance from the venture capitalist. Finally, the entrepreneur may need establishment finance to exploit the economies of scale and achieving stability. 'Venture capital funding' means providing a proper mix of medium and long-term investments in high-risk industrial projects with high reward possibilities. The objective of the study is to analyses the funding activities and returns to APIDC VCL from 1994 to 2006. The data for the study have been collected from secondary sources. The data are analyzed by using the statistical tools such as averages, percentages, linear growth rates and hypotheses formulated are tested using ANOVA test. Sector-wise net sanctions as percentage of gross sanctions was highest in IT sector and lowest at 39.50 per cent in service sector. In total disbursements early stage constituted 62 per cent. Instrument-wise equity dominated disbursement. The overall IRR of APIDC VCL was 27 per cent.

Key words: *Venture capital, Equity capital, Conditional loans, Stages of venture capital, Methods of funding*

INTRODUCTION

Venture Capital' is a child of the modern era, but has its fundamentals in the oldest of drives, the entrepreneurial skill. For decades, new ideas and capital remained on a parallel track, discouraging many entrepreneurs and killed thousands of potentially great business ideas. Then, had come the concept of venture capital, which is a fund-based financial service, had emerged the world over to fill gaps in the conventional financial system, focusing on new technologies and support to small, and medium-sized enterprises in the manufacturing and service sectors.

'Venture Capital' is long-term risk capital to finance high technology projects involves high risk but at the same time has strong growth potential. Venture capitalists (VCs) pool their resources as well as to assist new entrepreneurs in the early stages of the project. Once the project reaches the stage of profitability, they sell their equity holdings at high premium to yield maximum capital gains as a reward for taking higher risks for supplying seed capital.

CONCEPT

The concept of **venture capital** is not new and had its nurturing under the dictum "no innovative concept shall meet death in its womb for genuine need for finance for venturism".

The term "**venture capital financing**" comprises of three words viz., venture, capital and financing. The word **Venture** has several meanings, depending on the context of its usage. It means business or commercial deal involving a risk. The word **capital** is the resources to start an enterprise. From the functional point of view, capital to a company is what is blood to human body. Here capital refers to financial capital and not exactly 'produced means of production' in the version of economists. **Financing** is the process of organizing the flow of funds so that a business firm can carryout its objectives efficient by and meet its payment obligations as they fall due.

'**Venture capital funding'** means providing a proper mix of medium and long-term investments in high-risk industrial projects with high reward possibilities. It may be at any stage of implementation of the project or its production cycle viz., to start-up an economic activity or an industrial or commercial project or to improve a process or a product in an enterprise associated with both risk and reward. Medium-term refers to a period ranging between 3-5 years and 'long-term' covers a period of 5-15 years.

OBJECTIVES OF THE STUDY

The study specially aims at realizing the following objectives:

- to evaluate the nexus between operations of APIDC VCL and its corpus fund
- to study the year wise gross sanctions and disbursement of funds
- to appraise sector, stage and instrument-wise fund disbursements of APIDC VCL
- to analyze the sector, stage and instrument-wise returns to APIDC VCL

HYPOTHESIS

- There are no statistically significant differences between gross sanctions and disbursements by APIDC VCL across sectors
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SCOPE OF THE STUDY

The present study is a micro-level and area-specific study. The scope of the study is confined to the objectives of the study as outlined earlier.

SAMPLE DESIGN

The present study aims at evaluating the performance of APIDC VCL which is a state level Venture Capital Funding Organization in Andhra Pradesh.

DATA BASES

The data for the study have been collected from secondary sources. The secondary data have been gathered from various sources such as official reports of APIDC VCL, various websites, brochures, annual reports, journals, and magazines, various published and unpublished studies.

PERIOD OF THE STUDY

APIDC VCL came into existence in 1989 as a state government enterprise in the field of venture capital financing. From 1994 onwards, it became a joint venture with Dynam Venture East Private Limited, which holds 51 per cent share capital in APIDC VCL. The present study relates to the post-privatization period operations of APIDC VCL i.e., a 12- year period from 1994-95 to 2005-2006

TOOLS OF ANALYSIS

After tabulation of data, the data are analyzed by using the appropriate statistical tools such as averages, percentages, linear growth rates and hypotheses formulated are tested using ANOVA test. Financial Management tool such as capital budgeting techniques were also used.

NATURE OF VENTURE CAPITAL FUNDING

The entrepreneur needs adequate funding at the four successive stages of establishment of his business, viz. development of an idea, start-up, fledging and establishment. The first stage of development of business is development of an idea. The entrepreneur needs seed capital for this purpose. Secondly, when the firm is set-up to carry out the business plan, to manufacture a product or provide a service the entrepreneur needs start-up finance which is provided by the venture capitalist. In the third stage, the firm has made some headway and entered the stage of manufacturing a product or rendering a service, but faces enormous teething problems. It may not be able to generate adequate funds and have access to external sources of finance because of inadequate assets and stock market quotations. To overcome this difficulty the entrepreneur would require large amount of fledging finance from the venture capitalist. Finally, the entrepreneur may need establishment finance to exploit the economies of scale and achieving stability.

STAGES OF VENTURE FUNDING

The selection of investment by a venture capital company is closely related to the stage and type of investment. Based on the experiences of Venture Capital Companies (VCCs), the above mentioned stages can broadly be divided into two broad categories viz., (i) Early stage venture financing; and (ii) Later stage venture financing. Under each of these two broad stages venture financing is provided in sub-divisions, the time span of each of which depends on the degree of risk involved. This is illustrated in table 1

Table 1: STAGES OF GROWTH OF VENTURE CAPITAL FUNDING

S. No.	Stage Description	Lock-in Period(in years)	Degree of Risk	Expected Return (Indicative percentage)	Finance for the Activity Involved
1.	**Early Stage Investment**				
i	Seed	7-10	Extremely high	60	Manufacturing and research based business
ii	Start-up	5-10	Very high	40 - 60	Business commitment
iii	Second round	3-7	High	30 - 40	Marginal progress
2.	**Later Stage Investment**				
i	Development finance	1-3	Medium	25-35	Expansion of business
ii	Replacement finance	1-3	Low	20-30	Planned exit
iii	Buy-outs	1-3	Low	20-30	New management

iv	Turnaround	3-5	Medium to high	30-40	Rescue finance

Source: Adapted from S. Ramesh and Arun Gupta, Oxford University Press, Delhi, 1995, p. 66.

FORMS OF VENTURE CAPITAL FUNDING

The Indian venture capital industry has attempted to maintain the risk-reward sharing nature of the financial relationship through a variety of innovative instruments for structuring the investment. These instruments have been in response to :

- The constraints on pricing imposed by the securities pricing regulations;
- The Indian entrepreneurial ethos which lay considerable emphasis on ownership and control of the company; and
- The company law regulations.

The availability of a wide variety of financial instruments provides considerable flexibility in structuring a venture capital deal. However, venture finance is made available in the following forms:

Equity Capital

The basic instrument of investment is equity shares of assisted companies. The shares are purchased at par. Venture capital companies can hold upto 49 per cent of the total equity capital of the assisted companies. Such equity capital can also be a part of the promoter’s contribution.

Conditional Loans

This is an innovative financial instrument designed so that it does not impose a strain on the assisted companies during the initial periods and the repayment of this loan including its servicing is entirely linked to the success of the venture. These are repayable over a period of 5-8 years and may be converted into equity.

In addition to the above, venture capital companies are open to design and structure new financial instruments like Redeemable cumulative convertible preference shares, zero coupon bonds, fully convertible debentures etc., depending on the client’s requirements. A noteworthy feature of venture capital companies is that they usually design a financial assistance package specifically to the entrepreneur’s requirements.

APIDC VCL – A BRIEF PROFILE

APIDC Venture Capital Limited (APIDC VCL), initially promoted in 1989 by APIDC, is considered as a leading developmental/venture finance government undertaking in India. The approval of the government of India to commence operations was accorded in April, 1990. It was the brain-child of the current RBI governor, Dr. Y. Venugopal Reddy who was the first chairman and managing director of APIDC.

But, in 1994 it was privatized and Dynam Venture East Private Limited (DVEPL) was awarded control of APIDC VCL after a competitive selection process and it became the India's first public-private venture capital company. Since then, it became a joint venture undertaking wherein 51 per cent equity of APIDC VCL is held by DVEPL, while the rest 49 per cent by APIDC.

APIDC VCL is the first venture capital fund in India managed by owner-managers with strong entrepreneurial skills. The fund managers’ strength is their understanding of what conceiving and building a business or enterprise is all about, having gone through the process themselves. The company started implementing the strategy of its operations and activities with a mission: "To invest in companies with the ability to build unique competitive advantage over those others who will find it difficult to emulate".

APIDC VCL is a subsidiary of DVEPL, a firm promoted by professionals with a wealth of experience in entrepreneurship, consulting, equity investments, technology development, etc.

SIZE OF AND CONTRIBUTORIES TO THE FUND

There is a nexus between operations of APIDC VCL and its corpus fund. Its corpus consists of funds solely mobilized from different sources during pre- and post-privatization periods. Table 2 presents sources of funds of APIDC VCL in absolute and relative terms with reference to two dates.

Table 2

FUND MOBILIZATION BY APIDC VCL DURING PRE AND POST PRIVATIZATION PERIODS

Sources of Fund	As on 31-3-1994 (Rs. In lakhs)	As on 31-3-2002 (Rs. In lakhs)	Percentage change
Andhra Pradesh Industrial Development Corporation (APIDC)	150.00 (47.85)	75.00 (3.60)	(-)50.00
World Bank (WB)	-	1152.00 (55.21)	∞
Industrial Development Bank of India (IDBI)	51.00 (16.27)	249.00 (11.93)	388.23
Indian Overseas Bank(IOB)	25.00 (7.97)	-	(-)100.00
Andhra Bank (AB)	50.00 (15.95)	100.00 (4.79)	100.00
Small Industries Development Bank of India (SIDBI)	-	300.00 (14.38)	∞
Contributions from Private Sector	37.50 (11.96)	-	(-)100.00
Contributions from Non-resident Indians (NRIs)	-	210.50 (10.09)	∞
Total	313.50 (100.00)	2086.50 (100.00)	565.55

Note : Figures in parentheses are percentages to respective column totals.

Source: Records of APIDC VCL, Hyderabad.

As on 31st March 1994 the APIDC had lion's share of 47.85 per cent in total fund followed by IDBI with 16.27 per cent share. Two public sector commercial banks (Andhra Bank and Indian Overseas Bank) had a combined share of 23.92 per cent. Private sources accounted for 11.96 per cent. After 8-year period since 31st March 1994 there were additions and deletions to sources of funds. As on 31st March 2002 IOB and private source were no longer sources of funds. WB, SIDBI and NRIs emerged as new sources of funds. Coming to percentage shares of sources in total fund, WB had majority share of 55.21 per cent followed by SIDBI (14.38 per cent), IDBI (11.93 per cent) and NRIs (10.09 per cent). The percentage shares of AB (4.90 per cent) and APIDC (3.60 per cent) had turned out to be marginal. The initial fund registered 565.55 increases over 12-year period under review. From the foregoing analysis it can be concluded that WB, SIDBI and NRIs are the major sources of funds, while APIDC, IDBI and public sector banks are the marginal contributors of funds.

YEAR-WISE GROSS SANCTIONS OF APIDC VCL

Gross sanctions of venture capital to portfolio enterprises (PEs) during post-privatization period by APIDC VCL are presented in table 3.

Sanctions in the initial year were Rs.60.00 lakhs, and the cumulative sanctions Rs.3170.70 lakhs. Lowest yearly sanctions were Rs.60.00 lakh in 1994-95 and the highest yearly sanctions Rs.820.00 lakhs in 1997-97. Yearly average sanctions amounted to Rs.317.07 lakhs. Yearly sanctions were above the annual average sanctions in only 3 out of 10 years. Cumulative sanctions were 53 times higher than the amount of sanctions in the initial year. From yearly percentage variations shown in the last column of the table, it can be observed that the percentage variations were negative in 5 out of 9 years, indicating the APIDC VCL could not sustain its sanctions on yearly basis.

Table 3
YEAR-WISE GROSS SANCTIONS OF APIDC VCL DURING POST-PRIVATIZATION PERIOD: 1994-1995 to 2003-2004

Year	Gross sanctions (Rs.in lakhs)	Cumulative gross sanctions (Rs. In lakhs)	Percentage increase/ decrease of gross sanctions over the previous years
1994-95	60.00	60.00	-
1995-96	422.34	482.34	603.90
1996-97	220.00	702.34	(-)47.90
1997-98	820.00	1522.34	272.72
1998-99	200.0	1772.34	(-)75.60
1999-00	578.00	2300.34	189.00
2000-01	296.81	2597.15	(-)48.65
2001-02	100.00	2697.15	(-)66.3
2002-03	248.55	2945.70	148.55
2003-04	225.00	3170.70	(-)9.47

Annual LGR: 14.13 per cent

Source : Annual Reports of APIDC VCL,Hyderabad.

YEAR-WISE DISBURSEMENTS OF APIDC VCL

A year-wise disbursement of APIDC VCL for 10 year period was set out in table 4. Starting with yearly disbursements of Rs.60.00 lakhs in 1994-95, the cumulative disbursements amounted to Rs.1969.28 lakhs with annual average disbursements of Rs.196.93 lakhs. In 5 out of 10 years the yearly disbursements were below the annual average. Cumulative disbursements were 32 times bigger than the amount of disbursement in the initial year. Yearly percentage change of disbursements reveal that these changes were negative in 3 out of 9 years, indicating that disbursements were not sustained in these years.

Table 4: YEAR- WISE DISBURSEMENTS OF APIDC VCL DURING POST-PRIVATIZATION PERIOD: 1994-1995 TO 2003-2004

Year	Disbursements (Rs.in lakhs)	Cumulative Disbursements (Rs. In lakhs)	Percentage increase/ decrease of Disbursements over the previous year
1994-95	60.00	60.00	-
1995-96	60.65	12065	1.08
1996-97	39.14	159.79	(-)35.46
1997-98	273.63	433.42	599.10
1998-99	310.00	743.42	13.29
1999-00	373.50	1116.92	20.48
2000-01	124.08	1241.00	(-066.78
2001-02	204.73	1445.73	64.99
2002-03	159.45	1605.18	(-)22.16
2003-04	364.10	1969.28	128.35

LGR :19.73 per cent

Source : Records and Annual Reports of APIDC VCL, Hyderabad.

SECTOR-WISE FUND SANCTIONS BY APIDC VCL

Sector-wise gross, cancelled, and net sanctions are shown in table 5. Average gross sanctions for all 26 PEs put together was Rs.121.95 lakhs. Sector-wise the average was highest at Rs.146.16 lakhs in Information Technology and Telecommunications (IT), and lowest at Rs.103.93 lakhs in Industrial Products and Electronics (IE). Average cancelled sanctions amounted to Rs.150.18 lakhs. Sector-wise the average was highest at Rs.201.06 lakhs in IE and lowest at Rs.100.00 lakhs in Food processing (FP). An average net sanctions was Rs.109.40 lakhs. Sector-wise it was highest at Rs.146.16 lakhs in

Table 5

SECTOR- WISE FUND SANCTIONS BY APIDC VCL DURING POST-PRIVATIZATION PERIOD: 1994-1995 TO 2005-2006

Sectors	Gross sanctions		Cancellations		Net sanctions		%ge
	Units	Amount (Rs. In lakhs)	Units	(Rs. In lakhs)	Units	(Rs. In lakhs)	
Information Technology and Telecommunications (IT)	05 (19.23)	730.81 [146.16] (23.05)	-	-	05 (27.78)	730.81 [146.16] (37.11)	100.00
Industrial Products and Electronics (IE)	08 (30.77)	831.50 [103.93] (26.22)	02 (25.00)	402.12 [201.06] (33.47)	06 (33.33)	429.38 [71.56] (21.80)	51.64
Pharmaceuticals	05	612.50	02	302.50	03	310.00	50.61

and Chemicals (PC)	(19.23)	[122.50] (19.31)	(25.00)	[151.25] (25.18)	(16.67)	[103.33] (15.74)	
Food Processing (FP)	03 (11.54)	340.00 [113.33] (10.72)	01 (12.50)	100.00 [100.00] (8.32)	02 (11.11)	240.00 [120.00] (12.19)	70.58
Service Sector (SS)	05 (19.23)	655.89 [131.18] (20.69)	03 (37.50)	396.80 [132.27] (33.03)	02 (11.11)	259.09 [129.54] (13.16)	39.50
Total	26 (100.00)	3170.70 [121.95] (100.00)	08 (100.00)	1201.42 [150.18] (100.00)	18 (100.00)	1969.28 [109.40] (100.00)	62.10

Notes: 1. Percentages are calculated for figures other than in parentheses.

- Figures in parentheses are percentages to column total.
- Figures in flower brackets are average amounts.

Source: Records and Annual Reports of APIDC VCL, Hyderabad.

IT and lowest at Rs.71.56 lakhs in IE. Net sanctions as percentage of gross sanctions was highest at 100 in IT and Telecommunications and lowest at 39.50 in service sector (SS). For all sectors this percentage was 62.10, which means 38 per cent of gross sanctions were cancelled. From the foregoing it can be concluded that the gap between gross and net sanctions was seen in all sectors, except IT. This gap was huge in Pharmaceuticals and Chemicals (PC) and small in FP sector.

TESTING OF HYPOTHESIS

ANOVA results are shown in table 5A. This test is conducted to test the null hypothesis that there are no statistically significant differences between gross sanctions and disbursements by APIDC VCL across sectors. Since calculated F-value, 3.85 is less than table value, 5.31 at 5 per cent level of significance, the hypothesis is accepted. The implication of accepting the hypothesis is that there is no statistically significant variation in gross sanctions and disbursements across sectors.

Table 6A
ANOVA RESULTS

Source of variation	Sum of squares	Degrees of freedom	Mean sum of square	F-calculated value	F-critical value
Between Groups	144341.00	1	144341.00		
Within Groups	299421.10	8	37427.63	3.85	5.31
Total	443762.10	9			

Source: Compiled from table 5.

STAGE-WISE DISBURSEMENTS BY APIDC VCL

Stage-wise disbursements are set out in table 6. Early stage claims major share in total disbursements. It shows number of units, number of disbursals, and amount of disbursals were 56, 71 and 62 per cent respectively. Unit average disbursal was Rs. 51.01 lakhs in the early stage which is lower than Rs.74.50 lakhs in the later stage.

Table 6

STAGE- WISE DISBURSEMENTS OF APIDC VCL DURING POST-PRIVATIZATION PERIOD: 1994-1995 TO 2005-06

Stages	No. of Units	% to total	No. of Disbursals	% to total	Amount of Disbursals [Rs. In Lakhs]	% ge to total
Early stage	10	55.56	24	70.59	1224.24 [51.01]	62.17
Later stage	08	44.44	10	29.41	745.00 [74.50]	37.83
Total	18	100.00	34	100.00	1969.28	100.00

Notes: 1. Number of disbursals in column 5 exceeds the number of units in column 3, since to a single unit disbursements have been made at different times.

2. Figures in flower brackets are average amount of disbursals

Source : Records and Annual Reports of APIDC VCL, Hyderabad.

INSTRUMENT-WISE DISBURSEMENTS BY APIDC VCL

Instrument-wise disbursements in terms of their number, amounts and unit average are presented in table 7. EQs, RCCPSs and FCDs were 71, 23 and 6 per cent of total number of disbursements, and 69, 26 and 5 per cent in total amount of disbursements. Focusing on the last column of the table it can be seen that average RCCPSs disbursement was highest at Rs.64.19 lakhs, followed by average EQs investment at Rs. 56.49 lakhs and average FCDs investment at Rs.50.00 lakhs. Overall average disbursement for all securities put together was Rs.57.92 lakhs. Based on the above analysis it can be concluded that average disbursement was highest in RCCPSs, followed by EQs and FCDs.

Table 7

INSTRUMENT- WISE DISBURSEMENTS BY APIDC VCL DURING POST-PRIVATIZATION PERIOD: 1994-1995 to 2005-2006

Instruments	No. of Disbursements	Total Amount of Disbursements (Rs.in lakhs)	Average Amount of Disbursement [Rs. In lakhs]
EQs	24 (70.59)	1355.80 (68.85)	56.49
RCCPSs	08 (23.53)	513.48 (26.07)	64.19
FCDs	02 (5.88)	100.00 (5.08)	50.00
Total	34 (100.00)	1969.28 (100.00)	57.92

Legend : EQs = Equity shares; RCCPSs = Redeemble cumulative convertible preference shares; and FCDs = Fully convertible debentures.

Note : Figures in parentheses are percentages to respective column totals.

Source: Records and Annual Reports of APIDC VCL, Hyderabad

SECTOR-WISE IRR TO APIDC VCL

During the study period, the disbursements (or cash outflows) in IT sector were Rs.730.81 lakhs; dis-investments and exit/fair value (or cash inflows) Rs.1869.42 lakhs, leaving net cash inflows of Rs.1138.16 lakhs. The calculated IRR in IT sector was 49 per cent.

The aggregate disbursements (or cash outflows) in Industrial Products and Electronics sector were 429.38 lakhs, and disinvestments and exit/fair values (or cash inflows) Rs.496.43 lakhs, resulting in net cash inflows of Rs.67.05 lakhs. The calculated IRR was 4 per cent in Industrial Products and Electronics sector.

During the period, aggregate disbursements (a cash outflows) in PC sector were Rs.310.00 lakhs, and disinvestments and exit/fair values Rs.1578.79 lakhs, with a resultant net cash inflow of Rs.1,268.79 lakhs. The IRR was found to be 23 per cent in PC sector.

The aggregate disbursements (or cash outflows) in FP sector were Rs.240.00 lakhs, and dis-investments and exit/fair values Rs.641.07 lakhs, leaving Rs.401.07 lakhs as net cash inflows. The calculated IRR was 17 per cent in FP sector.

The aggregate disbursements in SS sector were 259.09 lakhs, and disinvestments and fair/exit values Rs.2265.08 lakhs, with a resulting net cash inflow of Rs.2006.00 lakhs. The calculated IRR, in SS sector was 37 per cent.

Table 8

S.NO.	Sector	IRR (Per cent)
1	Information Technology	49
2	Industrial Products and Electronics	4
3	Pharmaceuticals and Chemicals	23
4	Food Processing	17
5	Service Sector	37

SECTOR WISE INTERNAL RATE OF RETURN TO APIDC VCL

Source: Records and Annual Reports of APIDC VCL, Hyderabad

Sector-specific IRR to APIDC VCL, are presented in table 8. IRR was higher in IT at 49 per cent, followed by 37 per cent in SS, 23 per cent in PC, 17 per cent in FP, and 4 per cent in IE sectors. It is obvious from the preceding analysis that investment in IT sector was most profitable whereas investment in IE sector was unprofitable. Attracting of investments in other sectors fall in between these two extreme points.

STAGE-WISE IRR TO APIDC VCL

For 12-year period the aggregate disbursements (a cash out flows) in early stage were Rs.1224.28 lakhs, and disinvestments and exit/fair values Rs.4483.98 lakhs, with a resultant net cash inflows of Rs.3259.70 lakhs. APIDC VCL investments in early stage of venture capital financing were found lucrative, since its IRR was found to be 25 per cent.

The aggregate disbursements (or cash out flows) in later stage were Rs.745.00 lakhs, and disinvestments and exit/fair values Rs.2366.81 lakhs, giving a net cash inflow amount of Rs.1621.81 lakhs. The later stage venture capital financing of projects across sectors was a profitable investment proposition, since the calculated IRR was 25 per cent.

S.NO.	Sector	IRR (Per cent)
1	Early stage	25
2	Later stage	25

Table 9

STAGE- WISE INTERNAL RATE OF RETURN TO APIDC VCL

Source: Records and Annual Reports of APIDC VCL, Hyderabad

Stage-specific IRR to APIDC VCL, are presented in table 9. IRR was same in both the stages of investment.

INSTRUMENT-WISE IRR TO APIDC VCL

For the entire period from 1994-95 to 2005-06, the aggregate disbursements through equity were Rs.1355.80 lakhs, and disinvestments and exit/fair values Rs.5769.80 lakhs, leaving Rs.4,414.00 lakhs as net cash-inflows. The calculated IRR was 28 per cent to APIDC VCL through equity instrument.

For the entire period the aggregate disbursement through RCCPs were Rs.513.48 lakhs, and disinvestments and exit/fair values Rs.1,804.01 lakhs, with a net cash inflow amount of Rs.490.53 lakhs. The calculated IRR was 14 per cent across sectors using RCCPSs as investment.

During study period, the aggregate disbursements through FCDs were Rs.100 lakhs, and disinvestments and exit/fair values 100, with a resultant net cash inflow of zero amount. It is found not worth while to make investments in projects using FCDs as investment, since the IRR was zero per cent.

Table 10: INSTRUMENT-WISE INTERNAL RATE OF RETURN TO APIDC VCL

S.NO.	Sector	IRR (Per cent)
1	Equity shares	28
2	RCCPs	14
3	FCDs	00

Source: Records and Annual Reports of APIDC VCL, Hyderabad

Instrument-specific IRR to APIDC VCL, are presented in table 10. IRR was highest through equity instrument at 28 per cent, followed by 14 per cent through RCCPs, zero per cent through FCDs. It is obvious from the preceding analysis that investment through equity was most profitable whereas investment through FCDs was unprofitable.

CONCLUSION

Source of fund mobilization of APIDC VCL indicates that between 1994-2002 there was an additional fund mobilization of Rs.1773 lakhs to an initial fund amount of Rs.314 lakhs. The major source of additional fund was WB (Rs.1152 lakhs), SIDBI (Rs.300 lakhs), NRIs (Rs.211 lakhs) and IDBI (Rs.198 lakhs). Between 1994-95 to 2004-05 APIDC VCL gross sanctions registered annual linear growth rate of 14.13 per cent. Its gross sanctions cumulated from Rs.60.00 lakhs in 1994-95 to Rs.3170 lakhs in 2003-04. Its disbursements recorded annual linear growth rate of 19.73 per cent. Its disbursements cumulated from Rs.60 lakhs in 1994-95 to Rs.1969.28 lakhs in 2003-04. During the period under review disbursements as percentage of gross sanctions was highest at 204.73 in 2001-02 and lowest at 14.37 in 1995-96. Sector-wise net sanctions as percentage of gross sanctions was highest in

IT sector and lowest at 39.50 per cent in service sector. IT had larger share of 47 per cent in early stage disbursements, whereas PC sector had highest share of 33.55 percent in total disbursements in later stage. In total disbursements early stage constituted 62 per cent. Instrument-wise equity dominated disbursement. Sector-wise internal rate of return (IRR) to APIDC VCL was highest at 49 per cent in IT sector and lowest at 4 per cent in IE sector. IRR was 25 per cent on investment in both early and later stage financing by APIDC VCL. IRR was 28 per cent for equity, 14 per cent for RCCPSs and zero percent for FCDs. Overall IRR of APIDC VCL was 27 per cent.

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