

A STUDY ON COMPARISON OF KITVEN AND
CANBANK VENTURE CAPITAL FUND IN PROMOTION
NEW ENTERPRISES IN KARNATAKA

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Abstract:

Venture Capital has become the key topic of debate and is attracting more consideration at present than ever before due to fast changeable technology, emergence of new technology industries, extremely competitive global markets. In the Indian context, the studies on Venture Capital are either macro in nature covering the entire country or micro confined to a few areas of venture capital companies. Supplementary, research studies made on venture capital finance confirming to State Level Venture Capital companies are very tiny. Hence, researcher made an attempt to study venture capital on state level with special reference to KITVEN and Canbank venture capital funds in promotion of new enterprises in Karnataka. The aims of the study to know the investment of venture capital fund in state of Karnataka and enterprises promoted by the above mentioned funds. The present study is found that KITVEN fund from its inception promoted 13 enterprises by financing 5.45 US \$ Million and Canbank venture Fund from its inception promoted 9 enterprises by financing 13.12 US \$ Million in the state of Karnataka as on Nov 2012.

Keywords: Venture Capital, venture capitalist, IT and ITES etc.

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Introduction:

The Venture Capital sector is the most vibrant industry in the financial markets today. Venture Capital is finance provided by professionals who invest in young, rapidly growing companies that have the potential to develop into significant economic contributors. Venture Capital is an important source of equity for start-up companies.

Venture Capital industry plays an important role in technological and economic growth through its direct involvement in the development of wide variety of enterprises. Presence of Venture Capital encourages efficient capital allocation by seeking out and nurturing high growth entrepreneurial companies in the innovative process,

The European Venture Capital Association describes: it is risk finance for entrepreneurial growth oriented companies. It is an investment for the medium or long-term seeking to maximize medium or long-term return for both the parties. It is a partnership with the entrepreneurs in which the investor can add value to the company because of his knowledge, experience and contract base.

Need for the study:

From the various review of literature it can be observed that studies have been carried-out by academicians, researchers, and others both in India and abroad on venture capital financing, it is also understood that studies so far made have covered many venture capital companies lacking focus on specificity. Exclusive studies on specific venture capital companies are very tiny. Further, research studies made on venture capital finance confirming to State Level Venture Capital Companies are scanty. Hence, there is a need to conduct an in-depth study on venture capital on state level, so in this direction made an attempt to study on investments of Kitven and Canbank venture capital funds in promotion of new enterprises in Karnataka.

Objectives of the study:

1. To study the total investment made by Kitven and Canbank venture capital funds in Karnataka
2. To compare investment made by Kitven and Canbank venture capital funds on different sector
3. To study the portfolios of Kitven and Canbank venture capital fund in Karnataka.
4. To study the stage of investment made by Kitven and Canbank venture capital fund
5. To offer suggestions based on the findings of the study

Data collection:

The data collected for a period of 13 years between 1998 to Nov 2012, from both the venture capital firms Registered under SEBI, functioning in Karnataka.

Scope of the Study:

The present study is confined to Kitven and Canbank venture capital firms of Karnataka under the registration of SEBI and functioning in Karnataka.

Sources of Data:

Primary data Collected through interview method and Secondary data from venture intelligence, company website, company's magazines, and other relevant documents.

Profile of KITVEN Fund:

Karnataka Information Technology Venture Capital Fund (KITVEN Fund) is a State & Central Government financial institutions backed Venture Capital Fund (VCF) operating in the State of Karnataka since 1999. KITVEN Fund is contributed by premier institutions namely Karnataka State Industrial and Infrastructure Development Corporation Limited (KSIIDC), Karnataka State Financial Corporation(KSFC), Small Industries Development Bank of India(SIDBI), Karnataka Bio-technology & Information Technology Services (KBITS) etc. As a partner, KITVEN Fund invested in emerging companies with a long-term investment approach thereby to build commercial value to their investors/ contributors. They have focused on investments in seed/ rapid growth opportunities within the State of Karnataka and assisted in wide spectrum of companies catering to the Information Technology, Bio-Technology and other high-end products/ solutions in the knowledge based sector. KITVEN Fund was Rs.15.00 Crore Fund, Information Technology specific, SEBI registered, Venture Capital Fund launched during the year FY 1999-2000.

Investment objectives: KITVEN Fund's primary objectives are to make available long-term funds to new/unlisted companies in the IT sector to:

Develop competitive products and cutting-edge technology.

Manufacture and commercialize the product development.

Move up in the value chain.

Expand and upgrade existing capabilities to cater to a wider clientele. And about 51% of the fund would be invested in small scale industry (SSI) in the IT sector.

Portfolio Units of KITVEN Fund I

Enterprises
RelQ Software (P) Limited
Logix Microsystems Limited
Cerebra Integrated Technologies Limited
iLantus Technologies (P) Limited
ECAD Technologies Limited
Internet Component Management Group (P) Limited
iTwine Technologies (P) Limited
Winfoware Technologies Limited
Indegene Life systems (P) Limited
InKnowTech (P) Limited
Opus ABS India (P) Limited
Comat Technologies (P) Limited
24x7 learning (P) Limited
Brickwork India (P) Limited
Telibrahma Convergent Comm. (P) Limited
Proteans Software Solutions (P) Limited
Thrulogic ITECH (India) (P) Limited

Source: Survey data

KITVEN Fund II:

Karnataka Information Technology Venture Capital Funds (KITVEN Fund) was conceptualized and set up by the State and the Central Government financial institutions in 1998-99. The success of KITVEN Fund has inspired the recent launch of KIRVEN Fund-2. KITVEN Fund-2 is also incorporated as a Trust under the Indian Trust Act, and is registered with the Securities and Exchange Board of India (SEBI).

Karnataka Information Technology Venture Capital Fund - 2 is Rs.26.25 Crore, SEBI registered, Venture Capital Fund launched during the FY 2008-09 and undertakes investments in units catering to Information Technology, Bio-technology, Nano-technology and other knowledge based industries within the State of Karnataka

Portfolio Unites of KITVEN Fund 2

Enterprises
Pawaa Software Pvt. Ltd.
Mitra Biotech Pvt. Ltd.
Sloka Telecom Pvt. Ltd.
VidTeq (India) Pvt. Ltd.
ILANTUS Technologies Pvt. Limited

Source: Survey data

KARVEN Fund:

Karnataka Venture Capital Fund (KARVEN Fund) is a SEBI registered Venture Capital Fund launched during the FY 2012-13 with target corpus of Rs.10 Crore. The Fund proposes to undertake investments in units catering to agro processing, automobile components, aerospace engineering, clean energy, production of patented products and such other sectors within the State of Karnataka.

Profile of Canbank Venture Capital Fund Limited:

Canara Bank is a state-owned commercial bank with headquarter in Bangalore. The Bank operates in four segments, namely treasury operations, retail banking operations, wholesale banking operations and other banking operations. The Bank provides a range of products and services to the customers. The subsidiaries of the Bank include Canbank Financial Services Ltd, Canbank Venture Capital Fund Ltd, Canbank Factors Ltd, Canara Robecco Asset Management Company Ltd, Canbank Computer Services Ltd, Canara Bank Securities Ltd and Canara HSBC Oriental Bank of Commerce Life Insurance Company Ltd.

Canbank Venture Capital Fund Ltd (CVCFL) is a wholly owned subsidiary of Canara Bank. Canbank Venture Capital Fund (CVCF) is a Trust set up by Canara Bank on 21st October, 1989, for undertaking Venture Capital activities. Canara Bank is the first Public Sector Bank to set up a Venture Capital Fund, duly registered with SEBI. Canbank Venture is a premier domestic Venture Capital Fund. An experienced fund management company, Canbank Venture believes in adopting a General Fund philosophy and has a good portfolio of investments in several promising sectors. The fund's corpus is contributed by Public Sector Banks and Financial Institutions and Insurance Companies. CVCF has so far setup five funds with a total corpus of Rs. 6200 million, of which two are closed. The portfolio investments are spread across diverse industrial segments.

Constitution

CVCF I – Set up in 1989 with a corpus contributed by Canara Bank, Onfina and World Bank. The Fund is closed.

CVCF II – Set up in 1998 with a corpus solely contributed by Canara Bank and the fund is in the final stages of divestment.

CVCF III – Set up in 2001 with a corpus contributed by Canara Bank and SIDBI. The Fund is closed.

CVCF IV – Set up in 2005 with a corpus contributed by Canara Bank, leading Public Sector Banks and SIDBI and is presently in divestment mode.

CVCF V - launched on June 15, 2010 with a corpus of Rs.500 crore. Canara Bank is the Anchor investor and rest of the contributions by Domestic PSU Banks / Financial Institutions and Insurance Companies.

Objectives of the Fund

To focus on expansion and growth capital investment in companies owned/ managed by experienced entrepreneurs/ management teams

Investment in mid-stage to late-stage enterprises

Preference for companies in the MSME sector

Portfolio Units of Canbank Venture Capital fund

Enterprises
Asiatic Electrical & Switchgear Pvt Ltd
Merchem Ltd
Colour Roof (India) Ltd
Avasarala Technologies Ltd
Rt Outsourcing Services Limited
Prathista Industries Limited
Omnitech Info solutions Limited
M-Tech Innovations Ltd
Unitherm Engineers Ltd
Polygel Technologies (I) Pvt.
Iteamic Private Ltd:
Klt Automotive & Tubular Products Ltd

Source: Survey data

Data Analysis:**Table No: 1**

Year - wise Investment of KITVEN and Canbank Venture Capital Funds as on Nov 2012

Year	KITVEN fund		Canbank Venture Fund	
	No. of Companies	Amount(US \$ Million)	No. of Companies	Amount(US \$ Million)
1999	1	0.10	-	-
2000	1	0.22	-	-
2001	3	1.27	2	1.14
2002	0	00	0	00
2003	0	00	3	2.98
2004	0	00	0	00
2005	0	00	0	00
2006	4	1.24	0	00
2007	0	00	1	NA
2008	0	00	0	00
2009	1	0.52	0	00
2010	1	1.00	0	00
2011	2	1.10	1	2.00
2012	0	00	2	7.00
Total	13	5.45	9	13.12

*Source: Survey data***Interpretation:**

The above table depicts the number of enterprises promoted and investment of Kitven and Canbank Venture capital in state of Karnataka .KITVEN Fund started its operations in Karnataka in 1998. Its fundamental objective was to provide early stage capital to companies of Information Technology, Bio-Technology and other high-end products/ solutions in the knowledge based sector. It all started with an initial investment of 0.1 million US \$ in one company. Next year it ventured into another company with capital of US \$ 0.22 million. Inspired by the first two years of success, in 2001, KITVEN invested in three more companies with an outstanding investment of 1.27 million US \$. But from 2000 to 2005, KITVEN didn't venture even in one company also. Decline in the growth of service sector especially during 2001 and 2002, the Indian G D P growing at the rate of merely 3.8 has adversely affected the major contributor i.e., service sector. But the recovering Market Scenario after 2005 provided ample opportunities for IT and ITES

sector. Hence, KITVEN invested in four new ventures with an amount of 1.24 million US \$. Due to Global recession, the Venture Capital started experiencing a set back during 2007 and 2008. After 2009, again Venture Capital started gaining momentum. In 2009 and 2010, KITVEN invested in one company each and in 2011 it ventured in two companies. Hence as on Nov 2012, KITVEN has invested in 13 companies with an investment of US \$ 5.45 million. Canbank Venture Capital Fund is a Trust set up by Canara Bank on 21st October, 1998 for undertaking Venture Capital activities. In 2001, CVCF invested in two companies, with an investment outlay of 1.14 Million US\$. In 2003, it invested in 3 companies with an investment of US \$ 2.98 million. Canara Bank is the first Public Sector Bank to set up a Venture Capital Fund, duly registered with SEBI. Canbank Venture Capital fund is investing from Emerging India Growth Fund (EIGF). Again due to decline in the growth of service sector and Indian GDP growing at the rate of merely 3.8 has adversely affected Venture Capital during 2004 to 2006. But in 2007, CVCF took up the risk of funding another company. Global recession and high inflationary pressures affected the growth of enterprises between 2008 to 2010. In 2011, venture investment in one more company took place with an outlay of US \$ 2 million. In 2012, CVCF invested in two companies with an investment of US\$ 7 million. Hence till date, CVCF has invested in 9 companies in Karnataka, totaling an investment of US \$ 13.12 Million. CVCF has so far setup five funds with a total corpus of Rs. 6200 million, of which two are closed.

Table No: 2

Sector - wise Investment of KITVEN and Canbank Venture Capital Fund as on Nov 2012

Sector	KITVEN Fund		Canbank Fund	
	Amount(US \$ Million)	Percentage	Amount (US \$ Million)	Percentage
IT and ITES	3.85	70.64	2.84	21.65
Telecom	0.60	11.01	-	-
HealthCare and Life Science	1.00	18.35	4.00	30.45
Manufacturing	-	-	5.43	41.39
Other Services	-	-	0.85	6.47
Total	5.45	100	13.12	100

Source: Survey data

Interpretation:

The above table depicts the sector wise investments of Kitven and Canbank Venture Capital fund in Karnataka. As the name itself suggests KITVEN (Karnataka Information Technology Venture Capital Fund), the main focus has been IT and ITES sector, which received the lion’s share in the total investment. Totally 70.64% of the investment has been for invested in IT and ITES sector. Health care and Life Science sector stands next to it, with a total share of 18.35%. Telecom sector stands third in the list having received 11.01% of the total investment. KITVEN specializes itself only in these three sectors. As far as Indian economy is considered, Service Sector is the major contributor and also the fastest growing sector. Hence it is popularly said; Indian Economy is emerging to be a Third Wave economy. KITVEN Venture Capital plays a decisive role in funding such new enterprises in IT and ITES sector. The above table also depicts the Sector - wise investment of Canbank Venture Capital Fund to different sectors of the economy, out of US \$ 13.12Million, 21.65% of the investment on IT and ITES, 41.39% of the investment on Manufacturing sector, 30.45% on health care and Life Science, and remaining 6.47% on other services

Table No: 3

Stage - wise Investment of KITVEN and Canbank Venture Capital Fund as on Nov 2012

Stage	KITVEN Fund		Canbank Fund	
	Amount(US \$ Million)	Percentage	Amount (US \$ Million)	Percentage
Early	4.63	84.95	2.42	18.45
Growth	0.82	15.05	1.70	12.96
Late	-	-	9.00	68.59
Total	5.45	100	13.12	100

Source: Survey data

Interpretation:

The above table depicts the stage at which Kitven and Canbank Venture capital funds financed for promotion of new enterprises in the state of Karnataka. Looking into the performance history of KITVEN right from 1999 to 2012, Venture Capital investment is generally made during the Early Stage. Almost 85% of the total investment is directed towards Early Stage. Venture

Capitalists also take a role in managing entrepreneurial companies at an early stage, thus adding skills as well as capital. Remaining 15% is invested during the Growth Stage. Since the growing company needs working capital, it is supplied by KITVEN Venture Capitalist by financing in growth stage for business expansion. Looking into the performance history of Canbank, Venture Capital investment is generally made during the late stage. Almost 68.59% of the total investment is directed towards late stage i.e. for means for further financing for expansion and diversification of business. 18.45% of the total investment is directed toward early stage of the enterprises. Remaining 12.96% at growth stage of the enterprises.

Findings of the study:

1. KITVEN funds has promoted 13 companies with an investment of US \$ 5.45 million in the state of Karnataka
2. Canbank Venture Capital fund has promoted 9 companies in Karnataka, totaling an investment of US \$ 13.12 Million in the state of Karnataka.
3. KITVEN fund out of its total fund 70.64% of the investment has been invested in IT and ITES sector. Health care and Life Science sector stands next to it, with a total share of 18.35%. Telecom sector stands third in the list having received 11.01% of the total investment.
4. Canbank Venture Capital out its total fund of US \$ 13.12Million, 21.65% of the investment on IT and ITES, 41.39% of the investment on Manufacturing sector, 30.45% on health care and Life Science, and remaining 6.47% on other services
5. KITVEN Fund almost 85% of the total investment is directed towards Early Stage and Canbank almost 68.59% of the total investment is directed towards late stage

Suggestions

KITVEN and Canbank Venture Capital Fund are concentrating on selected sectors, which are aggressive in nature. This concentrated investment pattern should be monitored; ceiling should be imposed to diversify their fund to overall development of neglected sectors.

Government of Karnataka should also promote Venture Capital funds in the State of Karnataka in line with other leading States of the country. When such State funds are created, State government initiate investments of such funds in semi-urban locale, so that economic concentration of wealth as well as people can be diversified. Over all balanced growth of

economy could be witnessed to have balance growth of the state. This mechanism certainly encourages rural and semi urban young brain to come to the main stream

Conclusion:

Venture Capital funding has manifested as an instrument to fund innovative projects. Most of the Venture Capital funds are being managed by young, energetic, dynamic and high calibered and risk bearing minds. Irrespective of the operational legal barriers Venture Capital fund have gained momentum and further these funds are having many more opportunities to invest in the days to come.

India is one and only country in the world to have human capital in the age group of 25-45 for the next 25 years. During these periods certainly India can emerge as one of the leading and advanced nation in the world. In this stage India may need innovative funding practices and strategies to develop the economy and also to cater the ignited minds.

It can be conclude, that performance of KITVEN Fund and Canbank Venture Capital fund in promoting new enterprises in the state of Karnataka is commendable. At last, any state required balanced regional development, it is the need of the day for Venture Capital Funds to concentrate on all the sectors of the economy and all the region of the society, so that balanced regional development can achieved.

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