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Venture funds withdraw registration applications

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Mumbai The prevailing global economic downturn and new guidelines issued by the central bank have forced venture capital funds to rework their India strategy.

Over ten India-focused venture capital (VC) funds withdrew their registration applications with the market regulator, Securities and Exchange Board of India (Sebi), during 2008. The total investment proposed by these funds is estimated at Rs 1,000-1,200 crore. Among the funds that withdrew applications, five are foreign venture capital investors, while seven are domestic venture capital funds.

"In the wake of the continuing global financial crisis, investors have started defaulting on their outstanding commitments or are pressurising fund managers to return their existing contributions. These developments may be forcing several funds to reconsider or withdraw their existing venture capital fund applications," said Vikram Shroff, a funds lawyer at law firm Nishith Desai Associates.

Further, the liquidity crisis has prompted some of the existing Sebi-registered venture capital funds to exit from their earlier investments.

In fact, in a first after venture capital funds were allowed to register with Sebi to invest in Indian companies, the cumulative investment made by VC funds during a quarter has dropped by Rs 833 crore.

VC funds invested Rs 33,939 crore for the quarter ending December 31, 2008, against Rs 34,772 crore during the previous quarter.

"Venture capital investment became extremely difficult during the fourth quarter of 2008, post the Lehman Brothers crisis," said Arun Natarajan, CEO, Venture Intelligence, an organisation that tracks venture capital investments in Indian companies.

In addition to the liquidity crisis, the new guidelines issued by the Reserve Bank of India (RBI) have also discouraged foreign VC funds from investing in the Indian market. The RBI had, in October 2008, restricted the number of sectors that foreign venture capital investors could fund to ten. The sectors in which foreign venture capital investors are allowed to invest include infrastructure, biotechnology, and nanotechnology, among others.

Meanwhile, experts are not very optimistic about venture capital activity in the Indian market even in the current quarter. "At the moment, there is a significant gap between the valuation that promoters are seeking and the amount that funds are willing to give. We can expect VC investment to pick up only when the valuations demanded by promoters come to a rational level, in line with the reality", said K Srinivas, vice chairman and managing partner, BTS Investment Advisors.

Among the major domestic venture capital funds that have withdrawn their application with Sebi are Raas Capital Trust, Emerging Sector Fund (Anand Rathi), and Media Ventures Spark Co - Investment India fund. Tiger Global Four Holdings, IFVCI and IL&FS India Realty Fund are among foreign VC funds that have withdrawn their application.