

Foreign Venture Capital Financing Vs. Domestic Venture Capital Financing In India: A Comparative Study

Himanshu Kumar

Research Scholar, Department of Applied Economics & Commerce, Patna University, Patna, Bihar

Corresponding Author: Himanshu Kumar

Abstract: *Objective of this study is to know the sector wise and yearly pattern of venture capital financing in India and a comparative study between Domestic Venture Capital Financing and Foreign Venture Capital Financing in India. Different hypothesis developed by researchers for this study. The period of study is 11 years (from Dec. 2006 to Dec. 2016). Data collected from the Statistical Handbook of SEBI. Data collected for 8 specified sectors namely Information Technology, Telecommunication, Pharmaceutical, Biotechnology, Media and Entertainment, Service Sector, Industrial Product, Real Estate and Other (unspecified) sectors. Data analysed through Pie chart, Multiple line graphs, One way ANOVA and Independent Samples t Test. Finding of this study shows that there is a significant difference between the average amount of foreign venture capital financing and domestic venture capital financing in different Industrial Sectors of India during the period of study. Unspecified (other) sectors are more attracted to the both type of venture capital investors i.e. domestic and foreign. IT and Telecommunication Sectors of India are more attracted to the foreign venture capital investors, whereas Biotechnology and Real Sector of India are more attracted to the domestic venture capital investors. Yearly investigation of data reveals that there is no statistical evidence of difference between the average amount of financing made under foreign venture capital and domestic venture capital during each period of study. Thus in each year almost equal investment is made under both type of venture capital financing. Some other important information also come out from this study, that is, during the period of 2006 to 2008 domestic venture capital financing is higher than the foreign venture capital financing and thereafter foreign venture capital financing increases over domestic venture capital financing.*

Key words: *Venture Capital, Domestic Venture Capital Financing, Foreign Venture Capital Financing*

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I. Introduction

Over the last few years, India has become one of the leading destinations for Venture Capital investments. Venture Capital financing plays an important role in promoting a more innovative economy by providing the investment and resources needed for high potential risky business to grow. Venture capital is associated with the positive image of scientific research, innovation, entrepreneurial start-ups, successful technology companies, and overall competitiveness of the economy. Famous success stories that are the pride of the American economy Though the concept of VC investment prevailed in the country in one form or the other since the 1960s, the growth in the industry was mainly after the economic reforms in 1991. Prior to that, most of VC funding were from public sector financial institutions, and was characterized by low levels of investment activity. In recent years, VC commitments and investments in India h, such as Microsoft, Intel, DEC, Genentech or, more recently Google and You Tube received venture capital in their early day. This is why in many countries, and notably in US, academic teams have undertaken studies to measure specific impact of venture capital on company growth and valuation, as well as on innovation, and venture capital associations have sponsored independent studies on the more general impact of venture capital on the global economy, especially on employment and GDP.

Venture capital is money provided by professionals who invest alongside management 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. Professionally managed venture capital firms generally are private partnership or closely held corporations funded by private and public pension funds, endowment funds, foundations, corporations, wealthy individuals, foreign investors, and the venture capitalists themselves.

In India Venture Capital Fund can be provided either by domestically based firms or by foreign based venture capital firms that have entered a particular market. In recent years, Venture Capital firms have increasingly turned to foreign countries in search of venture opportunity. The cross-border extension of Venture Capital firms presents an interesting case of internationalization, as they are at variance with both conventional

portfolio and direct investment model. VC firms invest in host countries characterized by technical, legal, monetary, and political institutions that create innovative opportunities, protect investor's rights, make easy exit, and promise regulatory stability, respectively. To gain more international experience, Governments often promote foreign investment.

This research is based on the comparative study of Domestic Venture Capital Financing and Foreign Venture Capital Financing. There are three Objectives of this research, namely, first, to know the venture capital financing pattern in different industrial sectors of India, second, to know the yearly pattern of venture capital financing in India and last is to make the comparative study of domestic venture capital financing and foreign venture capital financing in India.

Like other study, this study has also some limitations. First limitation of this study is that it is based on secondary data. Second, data is related only to all those venture capital financing firms which are registered under SEBI. Third, only eight specified sectors and one residual sector covered in this study due to availability of data. Fourth limitation of this study is period of study. This study is only limited to 11 years on the basis of availability of data. Fifth and last limitation of this study is literature review has not included in this study due to unavailability of past study on this issue.

Rest of the paper classified under different sections like Hypothesis of Study, Material and Methods, Results & Discussion and finally conclusion, recommendation and suggestion.

II. Hypothesis of Study

This study is based on following five hypotheses.

H1: Domestic and Foreign Venture Capital Financing in different industrial sectors of India are uniform during the period of study.

H2: Domestic and Foreign Venture Capital Financing in India are uniform during the each period of study.

H3: There is no significant difference between the average amount of Foreign Venture Capital Financing and Domestic Venture Capital Financing in India during the period of study.

H4: There is no significant difference between the average amount of Foreign Venture Capital Financing and the Domestic Venture Capital Financing in Different Industrial sectors of India during the period of study.

H5: There is no significant difference between the average amount of Foreign Venture Capital Financing and the Domestic Venture Capital Financing in India during the every year of study period.

III. Material And Methods

For this study researcher has collected secondary data from SEBI website. The period of study was 11 years (from 2006 to 2016). Descriptive Statistics, Pie Chart, Multiple Line Graph, One way ANOVA and Independent Samples t Test have been used by the researcher for analyzing the data.

IV. Result And Discussion:

Definition of Important Abbreviations used in this study:

VCF	Venture Capital Financing
DVCF	Domestic Venture Capital Financing
FVCF	Foreign Venture Capital Financing
VCFIT	Venture Capital Financing in Information Technology Sector
VCFTC	Venture Capital Financing in Telecommunication Sector
VCFPHA	Venture Capital Financing in Pharmaceutical Sector
VCFBIO	Venture Capital Financing in Biotechnology Sector
VCFME	Venture Capital Financing in Media and Entertainment Sector
VCFSS	Venture Capital Financing in Service Sector
VCFIP	Venture Capital Financing in Industrial Product Sector
VCFRE	Venture Capital Financing in Real Estate Sector
VCFOTH	Venture Capital Financing in Other Sector
VCF06	Total Venture Capital Financing in the Year 2006
VCF07	Total Venture Capital Financing in the Year 2007
VCF08	Total Venture Capital Financing in the Year 2008
VCF09	Total Venture Capital Financing in the Year 2009
VCF10	Total Venture Capital Financing in the Year 2010
VCF11	Total Venture Capital Financing in the Year 2011
VCF12	Total Venture Capital Financing in the Year 2012
VCF13	Total Venture Capital Financing in the Year 2013
VCF14	Total Venture Capital Financing in the Year 2014
VCF15	Total Venture Capital Financing in the Year 2015
VCF16	Total Venture Capital Financing in the Year 2016

Average Yearly Investment (in crores rupees) of Domestic and Foreign Venture Capital Financing Companies in India:

Year	DVCF	FVCF
Dec. 2006	1038.89	806.22
Dec. 2007	1925.00	1709.33
Dec. 2008	2357.33	2200.00
Dec. 2009	2765.89	2980.89
Dec. 2010	2558.00	3693.56
Dec. 2011	3065.89	4303.44
Dec. 2012	3506.33	3752.78
Dec. 2013	3933.33	4987.89
Dec. 2014	4130.11	4962.33
Dec. 2015	4211.44	5042.89
Dec. 2016	3387.56	5038.56

From the above table we can see that the Domestic as well as Foreign Venture Capital Financing in India is almost increasing year by year during the whole period of study.

Average investment (in crores rupees) made by Domestic and Foreign Venture Capital Financing Companies in different industrial sector of India during the period of study:

Sectors	DVCF	FVCF
Information Technology	942.18	3238.00
Telecommunication	869.09	4709.91
Pharmaceutical	516.82	544.27
Biotechnology	276.27	112.18
Media & Entertainment	755.55	536.55
Service Sector	1980.55	1919.09
Industrial Product	1034.36	1049.09
Real Estate	7931.64	1650.91
Other	12595.18	18540.09

From the above table we can see that in specified sectors, the domestic venture capital financing is highest in Real Estate Sector during the period of study, whereas foreign venture capital financing is highest in Telecommunication Sector. In IT, Telecommunication,

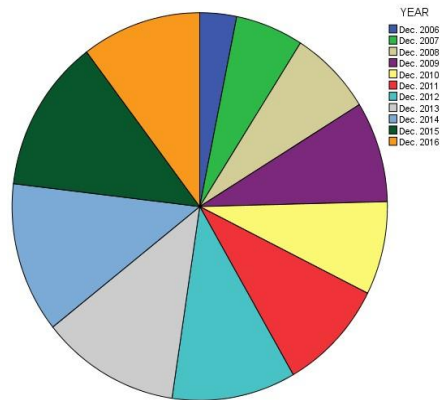
Pharmaceutical, Industrial Product and unspecified (other) sectors foreign venture capital financing is higher than the domestic venture capital financing. Domestic venture capital financing is higher in case of Biotechnology, Media and Entertainment, Service and Real Sectors of India.

Descriptive Statistics:

Descriptive Statistics					
	N	Minimum	Maximum	Mean	Std. Deviation
DVCF	99	42.00	18544.00	2989.0707	4426.51777
FVCF	99	8.00	29122.00	3588.8990	6234.41531
Valid N (listwise)	99				

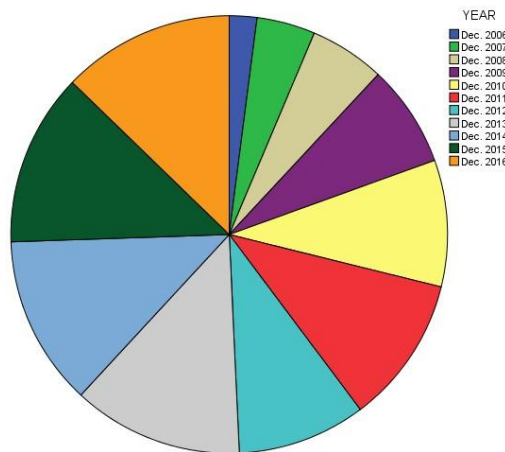
From the above table we can see that the average domestic venture capital financing in India made during the whole period of study is Rs. 2989 crores foreign venture capital financing is Rs. 3,589 crores. Maximum investment under DVCF and FVCF is Rs.18,544 crore and Rs.29,122 crores respectively during the period of study. Minimum investment is Rs.42 crores and Rs. 8 crores respectively under DVCF and FVCF in the whole period of study.

Pie Chart of Yearly Investment of Domestic Venture Capital Financing Companies in India during the 11 years of study:



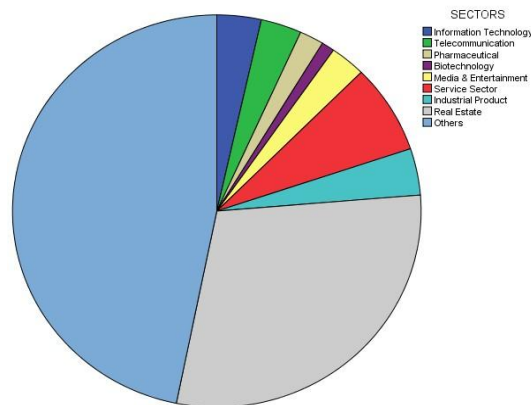
From the above pie chart we can see that the domestic venture capital financing is comparatively low during the period of 2006 and 2007 to the rest of the period of study.

Pie Chart of Yearly Investment of Foreign Venture Capital Financing Companies in India during the 11 years of study:



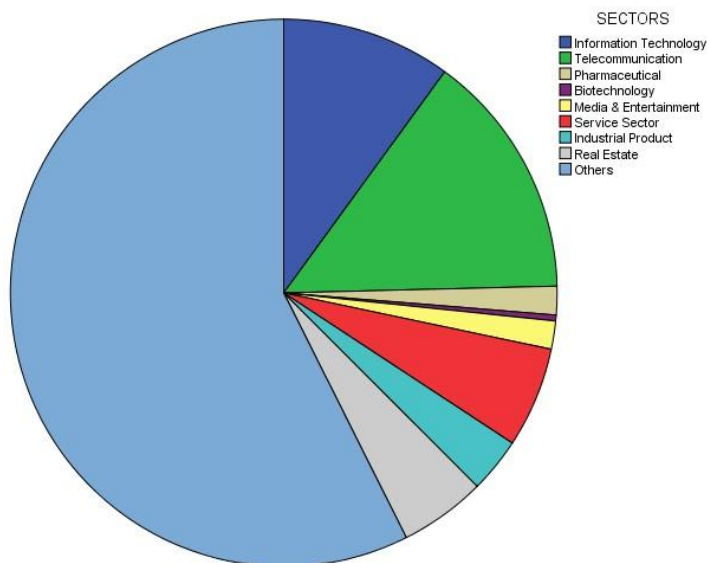
Above pie chart shows that the foreign venture capital financing in India is lowest during the period of 2006 and 2007 like domestic venture capital financing.

Pie Chart of Sector-wise Investment of Domestic Venture Capital Financing Companies in India during the 11 years of study:



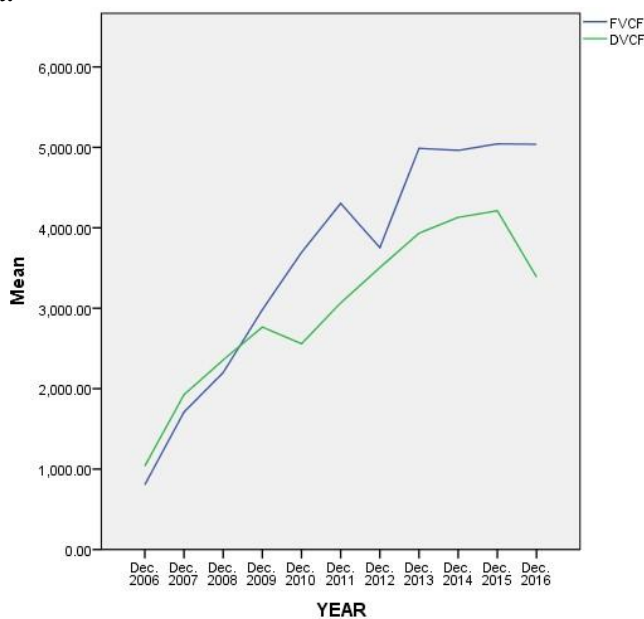
From the above pie chart we can see that the Domestic venture financing is highest in two sectors namely Real Estate and Other Sectors during the period of study.

Pie Chart of Sector-wise Investment of Foreign Venture Capital Financing Companies in India during the 11 years of study:



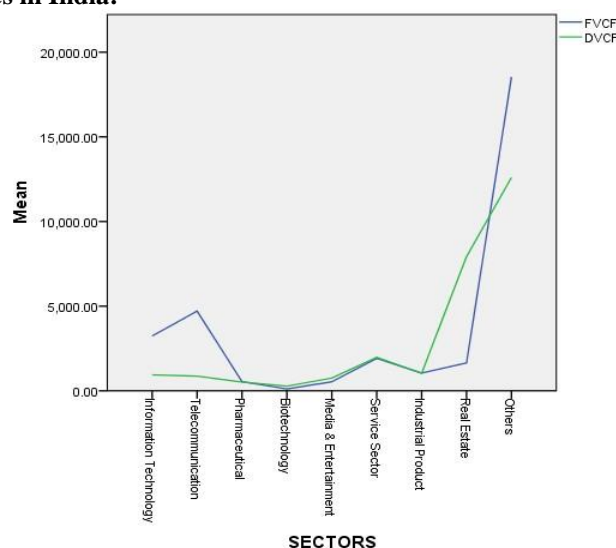
Above pie chart shows that the other sectors more attracted to the foreign venture capital investors. IT and Telecommunication sectors have also highly attracted to the foreign venture capital investors.

Multiple Yearly lines Graph of Investment made by Domestic and Foreign Venture Capital Financing Companies in India:



From the above lines graph we can see that up to Dec.2008 foreign venture capital financing was lower than the domestic venture capital financing, after that, the foreign venture capital financing has increased over the domestic venture capital financing.

Multiple Sector-wise lines Graph of Investment made by Domestic and Foreign Venture Capital Financing Companies in India:



From the above lines graph we can see that the foreign venture capital financing is higher than the domestic venture capital financing in IT, Telecommunication and Other Sector. **Hypothesis Testing:** In this study researcher has used one way ANOVA and Independent t Test for testing various hypotheses.

Testing of H1:

For testing the above hypothesis one way ANOVA test has used. Hypothesis is - Sector wise Domestic and Venture Capital Financing in India are uniform during the period of study. Test performed through SPSS. Output of SPSS is as follows:

ANOVA

	Sum of Squares	df	Mean Square	F	Sig.
DVCF	1635571715.960	8	204446464.495	64.642	.000
Between Groups	284646122.545	90	3162734.695		
Within Groups	1920217838.505	98			
Total					
FVCF	2954454755.899	8	369306844.487	38.892	.000
Between Groups	854602805.091	90	9495586.723		
Within Groups	3809057560.990	98			
Total					

From the above table we can see that we have sufficient statistical evidence to reject the above hypothesis. Thus domestic and venture capital financing in different industrial sectors of India are not uniform. Different sector attracted different amount of venture capital investment by the investors. The result is highly significant. P value is lesser than 0.05.

Testing of H2:

For testing the above hypothesis one way ANOVA test has used. Hypothesis is - Year wise Domestic and Venture Capital Financing in India are uniform. Test performed through SPSS. Output of SPSS is as follows:

ANOVA

	Sum of Squares	df	Mean Square	F	Sig.
DVCF	87212108.505	10	8721210.851	.419	.934
Between Groups	1833005730.000	88	20829610.568		
Within Groups	1920217838.505	98			
Total					
FVCF	199640192.545	10	19964019.255	.487	.895
Between Groups	3609417368.444	88	41016106.460		
Within Groups	3809057560.990	98			
Total					

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From the above table we can see that we have not sufficient statistical evidence to reject the above hypothesis. Thus domestic and venture capital financing in India in different year of study are uniform. P value of test is greater than 0.05.

Testing of H3:

For testing the above hypothesis Independent Samples t Test has used. The hypothesis is - there is no significant difference between the average amount of Foreign Venture Capital Financing and Domestic Venture Capital Financing in India during the whole period of study. The test performed through SPSS software. The output of SPSS is as follows:

Group Statistics

	DVORFVCF	N	Mean	Std. Deviation	Std. Error Mean
VCF	FVCF	99	3588.90	6234.415	626.582
	DVCF	99	2989.07	4426.518	444.882

t-test for equality of means

	t	df	Sig. (2tailed)	Mean Difference	Std. Error Difference
VCF Equal variances assumed	.781	196	.436	599.828	768.456
VCF Equal variances not assumed	.781	176.785	.436	599.828	768.456

From the above table we can see that we have not sufficient statistical evidence to reject the above hypothesis. Thus we may say that there is no statistically significant difference between the average foreign venture capital financing and domestic venture capital financing in India during the whole period of study.

Testing of H4:

For testing the above hypothesis, again Independent Sample t Test has used in this study. The hypothesis is- There is no significant difference between the average amount of Foreign Venture Capital Financing and the Domestic Venture Capital Financing in Different Industrial sectors of India during the period of study. Sector wise test carried out by the researcher through SPSS software, Output of SPSS is as follows:

Group Statistics

	FINANCER	N	Mean	Std. Deviation	Std. Error Mean
VCFIT	DVCF	11	942.1818	390.60205	117.77095
	FVCF	11	3238.0000	1509.63532	455.17218
VCFTC	DVCF	11	869.0909	510.46909	153.91222
	FVCF	11	4709.9091	2687.59359	810.33996
VCFPHA	DVCF	11	516.8182	138.62959	41.79839
	FVCF	11	544.2727	253.46128	76.42145
VCFBIO	DVCF	11	276.2727	127.02448	38.29932
	FVCF	11	112.1818	78.35920	23.62619
VCFME	DVCF	11	755.5455	291.88332	88.00613
	FVCF	11	536.5455	335.64009	101.19930
VCFSS	DVCF	11	1980.5455	868.85400	261.96934
	FVCF	11	1919.0909	675.20448	203.58181
VCFIP	DVCF	11	1034.3636	262.88715	79.26346
	FVCF	11	1049.0909	284.01319	85.63320
VCFRE	DVCF	11	7931.6364	2942.26172	887.12529
	FVCF	11	1650.9091	721.24732	217.46425
VCFOTH	DVCF	11	12595.1818	4295.34555	1295.09541
	FVCF	11	18540.0909	8643.97612	2606.25686

t-test for equality of means

	t	df	Sig. (2tailed)	Mean Difference	Std. Error Difference	
VCFIT	Equal variances assumed	-4.883	20	.000	-2295.81818	470.16136
	Equal variances not assumed	-4.883	11.333	.000	-2295.81818	470.16136
VCFTC	Equal variances assumed	-4.657	20	.000	-3840.81818	824.82714
	Equal variances not assumed	-4.657	10.721	.001	-3840.81818	824.82714

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VCFPHA	Equal variances assumed	-.315	20	.756	-27.45455	87.10536
	Equal variances not assumed	-.315	15.492	.757	-27.45455	87.10536
VCFBIO	Equal variances assumed	3.646	20	.002	164.09091	45.00039
	Equal variances not assumed	3.646	16.648	.002	164.09091	45.00039
VCFME	Equal variances assumed	1.633	20	.118	219.00000	134.11330
	Equal variances not assumed	1.633	19.622	.118	219.00000	134.11330
VCFSS	Equal variances assumed	.185	20	.855	61.45455	331.77325
	Equal variances not assumed	.185	18.850	.855	61.45455	331.77325
VCFIP	Equal variances assumed	-.126	20	.901	-14.72727	116.68651
	Equal variances not assumed	-.126	19.882	.901	-14.72727	116.68651
VCFRE	Equal variances assumed	6.876	20	.000	6280.72727	913.39037
	Equal variances not assumed	6.876	11.197	.000	6280.72727	913.39037
VCFOTH	Equal variances assumed	-2.043	20	.054	-5944.90909	2910.30015
	Equal variances not assumed	-2.043	14.655	.059	-5944.90909	2910.30015

From the above table we can see that we have sufficient statistical evidence to reject the hypothesis in case of IT Sector. Result is highly significant. P value is less than 0.05. In other words we can say that average amount of foreign venture capital financing is not equal to the average domestic venture capital financing during the 11 years of study. Result also reveals that the Foreign Venture Capital Financing is higher than the Domestic Venture Capital Financing in Indian IT Sector during the period of study.

Like IT Sector, financing position of venture capital in Telecommunication Sector of India is same. Here we can also see that the investment under both heads is not equal. Result is also statistically significant. Like IT Sector, Telecommunication Sector also more attracted to Foreign Venture Capital Investors compare to the Domestic Venture Capital Investors.

In case of Biotechnology Sector, we may see that we have sufficient statistical evidence to reject the above hypothesis. Result is highly significant. P value is less than 0.05. In other words we can say that average amount of foreign venture capital financing is not equal to the average domestic venture capital financing during period of study. Result also reveals that the Domestic Venture Capital Financing is higher than the Foreign Venture Capital Financing in Indian Biotechnology Sector during the period of study.

In case of Real Estate Sector, we may also see that we have sufficient statistical evidence to reject the above hypothesis. Result is highly significant. P value is less than 0.05. In other words we can say that average amount of foreign venture capital financing is not equal to the average domestic venture capital financing during period of study. Result also discloses that the Domestic Venture Capital Financing is higher than the Foreign Venture Capital Financing in Indian Real Estate Sector during the period of study.

In case of Pharmaceutical, Media and Entertainment, Service, Industrial Product and Other Sectors we have not sufficient statistical evidence to reject the above hypothesis. Thus we may say that there is no statistically significant difference between the average investment made by domestic and foreign venture capital investors in these Industrial Sectors of India during the period of study.

Testing of H5:

For testing this hypothesis, again Independent Samples t Test used is this study. The hypothesis is - there is no significant difference between the average amount of Foreign Venture Capital Financing and the Domestic Venture Capital Financing in India during the every year of study period. Year wise test carried out through SPSS software. Output of SPSS is as follows:

Group Statistics

	TYPEOFFIN	N	Mean	Std. Deviation	Std. Error Mean
VCF06	DVCF	9	1038.8889	1319.30185	439.76728
	FVCF	9	806.2222	867.11155	289.03718
VCF07	DVCF	9	1925.0000	2882.40577	960.80192
	FVCF	9	1709.3333	2411.95854	803.98618
VCF08	DVCF	9	2357.3333	3415.58469	1138.52823
	FVCF	9	2200.0000	3991.30305	1330.43435
VCF09	DVCF	9	2765.8889	3699.66943	1233.22314
	FVCF	9	2980.8889	4991.14657	1663.71552
VCF10	DVCF	9	2558.0000	3744.89536	1248.29845
	FVCF	9	3693.5556	4811.22422	1603.74141
VCF11	DVCF	9	3065.8889	4494.03545	1498.01182
	FVCF	9	4303.4444	6337.51401	2112.50467
VCF12	DVCF	9	3506.3333	5053.75813	1684.58604

	FVCF	9	3752.7778	5958.12395	1986.04132
VCF13	DVCF	9	3933.3333	5717.30286	1905.76762
	FVCF	9	4987.8889	8248.16077	2749.38692
VCF14	DVCF	9	4130.1111	6117.02978	2039.00993
	FVCF	9	4962.3333	8609.79198	2869.93066
VCF15	DVCF	9	4211.4444	6175.04798	2058.34933
	FVCF	9	5042.8889	8786.95475	2928.98492
VCF16	DVCF	9	3387.5556	5072.00486	1690.66829
	FVCF	9	5038.5556	9251.12151	3083.70717

t-test for equality of means

		t	Df	Sig. (2tailed)	Mean Difference	Std. Error Difference
VCF06	Equal variances assumed	.442	16	.664	232.66667	526.24876
	Equal variances not assumed	.442	13.825	.665	232.66667	526.24876
VCF07	Equal variances assumed	.172	16	.865	215.66667	1252.81048
	Equal variances not assumed	.172	15.518	.866	215.66667	1252.81048
VCF08	Equal variances assumed	.090	16	.930	157.33333	1751.08597
	Equal variances not assumed	.090	15.627	.930	157.33333	1751.08597
VCF09	Equal variances assumed	-.104	16	.919	-215.00000	2070.93908
	Equal variances not assumed	-.104	14.753	.919	-215.00000	2070.93908
VCF10	Equal variances assumed	-.559	16	.584	-1135.55556	2032.29809
	Equal variances not assumed	-.559	15.091	.585	-1135.55556	2032.29809
VCF11	Equal variances assumed	-.478	16	.639	-1237.55556	2589.73268
	Equal variances not assumed	-.478	14.422	.640	-1237.55556	2589.73268
VCF12	Equal variances assumed	-.095	16	.926	-246.44444	2604.26386
	Equal variances not assumed	-.095	15.585	.926	-246.44444	2604.26386
VCF13	Equal variances assumed	-.315	16	.757	-1054.55556	3345.30696
	Equal variances not assumed	-.315	14.246	.757	-1054.55556	3345.30696
VCF14	Equal variances assumed	-.236	16	.816	-832.22222	3520.52034
	Equal variances not assumed	-.236	14.436	.816	-832.22222	3520.52034
VCF15	Equal variances assumed	-.232	16	.819	-831.44444	3579.90986
	Equal variances not assumed	-.232	14.352	.820	-831.44444	3579.90986
VCF16	Equal variances assumed	-.469	16	.645	-1651.00000	3516.76118
	Equal variances not assumed	-.469	12.411	.647	-1651.00000	3516.76118

From the above table we may see that we have not sufficient statistical evidence to reject the above hypothesis. P value is higher than 0.05 in each year. Thus we may say that there is no statistically significant difference between the amount of investment made under foreign venture capital financing and domestic venture capital financing in every year of the study.

V. Conclusion, Recommendation and Suggestion:

The main objective of this study was to know the sector wise and yearly pattern of venture capital financing and a comparative study between Domestic Venture Capital Financing and Foreign Venture Capital Financing in India. For the fulfilment of these objectives 11 years data (Dec.2006 to Dec.2016) collected from the SEBI's Hand Book of Statistics. Data for Domestic and Foreign both type of venture capital financing taken for this study. Nine Industrial Sectors (Eight specified and One Residual Sector) covered under this study namely- Information Technology, Telecommunication, Pharmaceutical, Biotechnology, Media and Entertainment, Service Sector, Industrial Product, Real Estate and Other Sector.

Data analyzed through graphical as well as statistical techniques. Pie Chart, Multiple Lines Graph, One Way ANOVA and Independent Samples t Test have been used in this study for analysing the data and testing the hypothesis. Finding of this study shows that there is a significant difference between the average amount of foreign venture capital financing and domestic venture capital financing in different Industrial Sectors of India during the period of study. No any significant statistical evidence found to verify that, there is difference between the average investment made under foreign venture capital financing and domestic venture capital financing during the 11 years of study period. Result also shows that there is significant difference between the average amount of foreign venture capital financing and domestic venture capital financing in IT Sector,

Telecommunication Sector, Biotechnology Sector and Real Estate Sector of India during the period of study. IT and Telecommunication

Sectors of India more attracted to the foreign venture capital investors whereas Biotechnology and Real Sector of India more attracted to the domestic venture capital investors. Yearly investigation of data reveals that there is no statistical evidence of difference between the average amount of financing made under foreign venture capital and domestic venture capital during each period of study. Thus each year almost equal investment made under both head of venture capital financing. Some other important information also come out from this study, that is, during the period of 2006 to 2008 domestic venture capital financing was higher than the foreign venture capital financing and thereafter foreign venture capital financing increased over domestic venture capital financing. During the period of study, real estate and service sectors more attracted to the domestic venture capital investors while telecommunication, IT and other (unspecified) sectors more attracted to the foreign venture capital investors.

It is recommended by the researchers to the domestic venture capital investors to invest in IT, Telecommunication, and Other Sectors. These sectors highly motivated to the foreign venture capital investors. IT sectors is more growing sectors in India.

It is suggestion from the researchers for the academicians to conduct more research in the area of venture capital financing from different perspectives. There is lacking of empirical study form India on this issue.

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