Who can act as Lead Managers?

Category-I Merchant bankers can only act as Lead Managers. SEBI has specified the maximum number of lead managers based on issue size. SEBI's specifications are:

The Lead Manager coordinates with the Registrar and ensures:

a. Collection of applications from collecting branches.

b. Processing of applications.

c. Fixing the terms of allotment and finalization of allotment.

d. Security of certificates dispatched.

e. Refund orders are sent within time.

f. Securities are listed.

Remuneration to lead managers

The remuneration to lead manager is in the form of commission. The ceiling on commission payable to lead managers is 0.5% upto Rs.25 crore of issue size and 0.2% in case the issue size is in excess of Rs.25 crore. Examples are-

- SBI Capital
- Anand Rathi Securities
- Karvy Investor Services
- ICICI Securities

Lead Managers Role in an IPO

Lead managers are the independent financial bodies appointed by the institution which is going public. The companies generally appoint more than one lead manager who can manage a big number of IPOs. These managers are also called as Book Running Lead Manager or Co-Book Running Lead Managers.

Their main role of lead managers includes initiating the processing of IPO, helping the company in road shows, creating the draft offer documents, and getting the drafts documents approved by stock exchanges and SEBI. These lead managers also help the company to list shares at stock market.

Lead managers are also known as **investment bankers**.

VENTURE CAPITAL

Venture Capital is a private institutional investment made to start-up companies at early stage. Venture capital funds are the investments made by the investors who seek private equity stakes in small to medium business which are potent enough to grow. These investments are generally high-risk/high-return opportunities. The ventures involve risk in the expectation of sizable gain. The people who invest this money become the financial partners are called venture capitalist (VCs). Venture capital is the most suitable option for funding a costly capital source for companies.

Venture capital financing is a type of financing by venture capital. It is private equity capital provided as seed funding to early-stage, high-potential, growth companies (start-up) or more often it is after the seed funding round as a growth funding round.

Venture Capital (VC) industry has 4 main entities, which are mentioned below

1. Entrepreneurs who need funding
2. Investors with an objective of securing very high returns.
3. Investment bankers who need companies to sell.
4. Venture Capitalists (VC) who make money for themselves by creating a market for the above 3 players in the industry.

Venture capital investments have the following **features**:

- It is a high risk investment made with an intention of making high profits
- The investment made are based on long term goals
- The investments are made in a start-up which are potential enough to grow
- The start-ups have lack of funding
- Money is invested by buying equity shares in the start-up company
- Investments are generally done in innovative projects like in the fields of technology and biotechnology
- Supplier of venture capital participate in the management of the company

Features of Venture Capital:
The main features of venture capital can be summarised as follows:
(i) High Degrees of Risk: Venture capital represents financial investment in a highly risk project with the objective of earning a high rate of return.
(ii) Equity Participation: Venture capital financing is, invariably, an actual or potential equity participation wherein the objective of venture capitalist is to make capital gain by selling the shares once the firm becomes profitable.
(iii) Long Term Investment: Venture capital financing is a long term investment. It generally takes a long period to encash the investment in securities made by the venture capitalists.
(iv) Participation in Management: In addition to providing capital, venture capital funds take an active interest in the management of the assisted firms. Thus, the approach of venture capital firms is different from that of a traditional lender of banker.

Process of Venture Capital

- Deal Origination
- Screening
- Evaluation
- Deal Negotiation
- Post Investment Activity
- Exit Plan

The above-mentioned steps are explained in details below;

1. **Deal origination**

Origination of a deal is the primary step in venture capital financing. It is not possible to make an investment without a deal therefore a stream of deal is necessary however the source of origination of such deals may be various. One of the most common sources of such origination is referral system. In referral system deals are referred to the venture capitalist by their business partners, parent organisations, friends etc.

2. **Screening**

Screening is the process by which the venture capitalist scrutinises all the projects in which he could invest. The projects are categorised under certain criterion such as market scope, technology or product, size of investment, geographical location, stage of financing etc. For the process of screening the entrepreneurs are asked to either provide a brief profile of their venture or invited for face-to-face discussion for seeking certain clarifications.

3. **Evaluation-** The proposal is evaluated after the screening and a detailed study is done. Some of the documents which are studied in details are projected profile, track record of the entrepreneur, future turnover, etc. The process of evaluation is a thorough process which not only evaluates the project capacity but also the capacity of the entrepreneurs to meet such claims. Certain qualities in the entrepreneur such as entrepreneurial skills, technical competence, manufacturing and marketing abilities and experience are put into consideration during evaluation. After putting into consideration all the factors, thorough risk management is done which is then followed by deal negotiation.
4. **Deal negotiation**- After the venture capitalist finds the project beneficial he gets into deal negotiation. Deal negotiation is a process by which the terms and conditions of the deal are so formulated so as to make it mutually beneficial. The both the parties put forward their demands and a way in between is sought to settle the demands. Some of the factors which are negotiated are amount of investment, percentage of profit held by both the parties, rights of the venture capitalist and entrepreneur etc.

5. **Post investment activity**- Once the deal is finalised, the venture capitalist becomes a part of the venture and takes up certain rights and duties. The capitalist however does not take part in the day to day procedures of the firm; it only becomes involved during the situation of financial risk. The venture capitalists participate in the enterprise by a representation in the Board of Directors and ensure that the enterprise is acting as per the plan.

6. **Exit plan-** The last stage of venture capital investment is to make the exit plan based on the nature of investment, extent and type of financial stake etc. The exit plan is made to make minimal losses and maximum profits. The

venture capitalist may exit through IPOs, acquisition by another company, purchase of the venture capitalists share by the promoter or an outsider.

Advantages and disadvantages of venture capital financing

The advantages and disadvantages of venture capital financing are various. Some of the advantages and disadvantages are given below.

- The autonomy and control of the founder is lost as the investor becomes a part owner.
- The process is lengthy and complex as it involves a lot of risk
- The object and profit return capacity of the investment is uncertain
- The investments made based on long term goals thus the profits are returned late
- Although the investment is time taking and uncertain, the wealth and expertise it brings to the investor is huge
- The sum of equity finance that can be provided is huge
- The entrepreneur is at a safer position as the business does not run on the obligation to repay money as the investor is well aware of the uncertainty of the project

Example-

Pepperfry.com

India's largest furniture e-marketplace, has raised USD100 million in a fresh round of funding led by Goldman Sachs and Zodius Technology Fund. Pepperfry will use the funds to expand its footprint in Tier III and Tier IV cities by adding to its growing fleet of delivery vehicles. It will also open new distribution centres and expand its carpenter and assembly service network. This is the largest quantum of investment raised by a sector focused e-commerce player in India

Conclusion- VC financing really started in India in 1988 with the formation of Technology Development and Information Company of India Ltd. (TDICI) – promoted by ICICI and UTI. The first private VC fund was sponsored by Credit Capital Finance Corporation (CFC) and promoted by Bank of India, Asian Development Bank and the Commonwealth Development Corporation viz. Credit

Capital Venture Fund. At the same time Gujarat Venture Finance Ltd. and APIDC Venture Capital Ltd. were started by state level financial institutions. Sources of these funds were the financial institutions, foreign institutional investors or pension funds and high net-worth individuals.