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FINANCIAL PERFORMANCE EVALUATION OF INDIAN BANKS FUNDED BY VENTURE CAPITAL FIRMS

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Abstract

Venture capital is financing that investors provide to startup companies and small businesses that are believed to have long-term growth potential. Venture capital generally comes from well-off investors, investment banks and any other financial institutions. Norwest Venture Partners and Chrysalis Capital are the major venture capital firms which they funded for banks. The objective of the study is to evaluate the financial performance of selected banks funded by venture capital firms in India. The study is confined to banks funded by venture capital firms. So the banks analyzed for the study are indus Ind bank, RBL bank & Karur Vysya Bank. The period of the study is confined to 5 financial years i.e from 2012-13 to 2016-17. Various ratios are used for to analyze the study to know the financial performance of banks. Ratios used are Basic EPS, Dividend per share, Net profit per employee, Net profit per branch, Net profit margin and Return on assets.

Keywords: Venture Capital, Financial Performance, Angel Funding.

Venture Capital

Venture capital is financing that investors provide to startup companies and small businesses that are believed to have long-term growth potential. Venture capital generally comes from well-off investors, investment banks and any other financial institutions. However, it does not always take just a monetary form; it can be provided in the form of technical or managerial expertise.

Though it can be risky for the investors who put up the funds, the potential for above-average returns is an attractive payoff. For new companies or ventures that have a limited operating history (under two years), venture capital funding is increasingly becoming a popular – even essential – source for raising capital, especially if they lack access to capital markets, bank loans or other debt instruments. The main downside is that the investors usually get equity in the company, and thus a say in company decisions.

In a venture capital deal, large ownership chunks of a company are created and sold to a few investors through independent limited partnerships that are established by venture capital firms. Sometimes these partnerships consist of a pool of several similar enterprises. One important difference between venture capital and other private equity deals, however, is that venture capital tends to focus on emerging companies seeking substantial funds for the first time , while private equity tends to fund larger, more established companies that are seeking an equity infusion or a chance for company founders to transfer some of their ownership stake.

Angel Investors

For small businesses, or for up-and-coming businesses in emerging industries, venture capital is generally provided by high net worth individuals (HNWIs) – also often known as 'angel investors' – and venture capital firms. The National Venture Capital Association (NVCA) is an organization composed of hundreds of venture capital firms that offer funding to innovative enterprises.

Angel investors are typically a diverse group of individuals who have amassed their wealth through a variety of sources. However, they tend to be entrepreneurs themselves, or executives recently retired from the business empires they've built.

Self-made investors providing venture capital typically share several key characteristics. The majority look to invest in companies that are well-managed, have a fully-developed business planed are poised for substantial growth. These investors are also likely to offer funding to ventures that are involved in the same or similar industries or business sectors with which they are familiar. If they haven't actually worked in that field, they might have had academic training in it. Another common occurrence among angel investors is co-investing, where one angel investor funds a venture alongside a trusted friend or associate, often another angel investor.

Norwest Venture Partners :

Norwest Venture Partners(Norwest) is a venture and growth equity (GE) investment firm with more than $7.5B in capital under management. The firm targets early to late-stage venture and growth equity investments across several sectors, including cloud computing and information technology, Internet, software as a service, business and financial services, consumer and healthcare. Headquartered in Palo Alto, California, Norwest has offices in San Francisco and subsidiaries in Mumbai and Bengaluru, India and Herzelia, Israel. The firm has funded more than 600 companies since inception. As of early 2018, the firm has approximately 140 active companies across its venture and growth equity portfolio.

Norwest Venture Partners traces its roots back to 1961 with the formation of the Northwest Venture Fund, a private equity and venture capital affiliate of Norwest Corporation, a midwestern bank based in Minneapolis that merged with Wells Fargo in 1998. In the late 1950s and early 1960s, Minneapolis was an early site for both venture capital and high-technology business.

The VC industry was active with the formation of the first Small Business Investment Company (SBIC) and First Midwest Capital Corporation. In 1957, Control Data Corporation, a pioneering supercomputer company, was founded by William Norris. Two years later Norris was instrumental in the formation of the Northwest Growth Fund and the firm was active in the Minneapolis high-tech industry.

The Northwest Growth Fund grew under the leadership of CEO Robert Zicarelli including the opening of an office in Silicon Valley. Zicarelli retired in 1988 and was succeeded by Daniel Haggerty who retired in the 1990s. George J, Still, Jr. (now partner emeritus) and Promod Haque took over as managing partners in 1994.

In January 2016, the firm announced Norwest Venture Partners XIII, a $1.2B fund. NVP XIII marked Norwest's third consecutive $1.2B fund raised in fewer than six years.

In 2017, Norwest had 17 liquidity events, including nine company acquisitions and two initial public offerings.

In February 2018, the firm announced Norwest Venture Partners XIV, a $1.5B fund. It is the firm's largest fund to date. Notable investments for Norwest includes Dairy Queen, Spotify, Casper Matresses and Kendra Scott.

Banks fudnded by Norwest Venture Partners: Indus Ind bank

Chrysalis Capital:

Ashish Dhawan (born March 10, 1969) is an Indian private equity investor and philanthropist who co-founded and ran one of India's leading private equity funds, Chrysalis Capital (ChrysCapital). He has served on the company's board since 1999, but left his full-time position at ChrysCapital in 2012 after twenty years in the investment management business to found Central Square Foundation (CSF), a grant-making organization and policy think tank focused on transforming the quality of school education in India. In 2014, he spearheaded the launch of India's first liberal arts university, Ashoka University, a philanthropic effort of over forty leaders in education and industry.

In 2012, Dhawan was recognized as the NextGen Leader in Philanthropy by Forbes India for his charitable work. He also placed 15th on the 2014 Hurun India Philanthropy List, a ranking of the most generous individuals in India produced by China-based Hurun Research Institute. His net worth is approximated at $350 million.

Review of Literature

M Haritha et al (2012) explored the Venture capital is the life blood of new industry in the financial market today. Venture capital is the 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. Venture capital can be visualized as “your ideas and our money” concept of developing business. The venture capital industry in India has really taken off in. Venture capitalists not only provide monetary resources but also help the entrepreneur with guidance in formalizing his ideas into a viable business venture. In order to promote innovation, enterprise and conversion of scientific technology and knowledge based ideas into commercial production, it is very important to promote venture capital activity in India. India’s success story in the area of information technology has shown that there is a tremendous potential for growth of knowledge based industries. The recent economic slowdown of IT Sector is provided a chance to Venture capitalist to consider investment opportunities in other sectors such as Manufacturing and Service Industry which will be necessary to have overall economic development and to reduce the economic dependency on a single sector. The current paper will concentrate on the different opportunities in Non-IT Sector as well the investment opportunities available for Venture capitalist which ensures better perspective for Indian economy.

Paul Gompers et al (2005) are well documented that the venture capital industry is highly volatile and that much of this volatility is associated with shifting valuations and activity in public equity markets. This paper examines how changes in public market signals affected venture capital investing between 1975 and 1998. We find that venture capitalists with the most industry experience increase their investments the most when public market signals become more favorable. Their reaction to an increase is greater than the reaction of venture capital organizations with relatively little industry experience and those with considerable experience but in other industries. The increase in investment rates does not affect the success of these transactions adversely to a significant extent. These findings are consistent with the view that venture capitalists rationally respond to attractive investment opportunities signaled by public market shifts.

G. Sabarinathan (2017) explained The Indian Venture Capital and Private Equity (VC and PE) industry have witnessed a dramatic increase in terms of the number of enterprises funded as well as the volume of capital committed. 850 funds have supported 3699 enterprises across a wide range of industries, across the Northern, Southern and Western regions of the country predominantly. They have provided 5545 rounds of funding resulting in around 8800 transactions. These are large volumes even by international standards. Yet the industry remains under-researched. This paper builds on and significantly extends some prior work in this area. It finds that through the analysis that the industry has evolved into being a source of growth financing for innovative and technology led businesses. The analysis also reveals that the market for managing VC funds is highly competitive with fairly high rates of entry and exit of fund management entities.

Prem Chand Gupta (2017) explained the Startup India is a dream project of our Hon’ble prime minister Shri Narendra Modi, this scheme “Startup India” is a flagship initiative of Government of India intend to create a strong ecosystem for nurturing innovation and startup in the country that will drive a sustainable economic growth and will generate a large scale of employment opportunities. With this action plan government hopes to accelerate spreading of startups movement, this action plan based on funding support and incentives, industry academic partnership and incubation, simplification and handholding. This scheme provides a supporting plate form for entrepreneur for startup the business with simplifying process with recognition, tax benefits , advertisement, training support by experience and industry expert. There are various Venture Capitalist, Banks, SIDBI, and States are committed to participate and supporting towards establishment of startups.

Objective of the Study

The objective of the study is to evaluate the financial performance of selected banks funded by venture capital firms in India.

Scope of the study:

The study is confined to banks funded by venture capital firms. So the banks analyzed for the study are IndusInd bank, RBL bank & Karur Vysya Bank

Period of the study:

The period of the study is confined to 5 financial years i.e from 2012-13 to 2016-17.

Research Methodology:

Tools: various ratios are used for to analyze the study to know the financial performance of banks. Ratios used are

- Basic EPS
- Dividend per share
- Net profit per employee
- Net profit per branch
- Net profit margin
- Return on assets

Data Analysis & Interpretation:

Financial performance of RBL Bank

	2012-13	2013-14	2014-15	2015-16	2016-17
Basic EPS (Rs.)	4.21	3.63	7.23	9.60	12.59
Dividend/Share (Rs.)	0.60	0.90	1.20	1.50	1.80
Employee (in Cr)	499483.59	331200.86	597907.65	755579.95	909925.54
Branches (in Cr)	7428320.00	5387790.70	11321038.25	14846954.31	18662991.63
Net Profit Margin (%)	10.55	6.85	10.60	10.65	12.01
Return on Assets (%)	0.71	0.50	0.76	0.74	0.91

Source: Annual reports RBL Bank

From the above table it is observed that earning per share of RBL bank is less in the financial year 2013-14 with 3.63 and there is a consistent increase in EPS from 2014-15 to 2016-17 with 7.23 to 12.59. Dividend per share is increased continuousy from 2012-13 to 2016-17 with 0.60 to 1.80.

Net profit per employee of RBL bank less in the year 2013-14 with Rs. 331200.86 crores and it is increased continuously till 2016-17 with Rs. 909925.54 crores . Net profit per branch less in the year 2013-14 with Rs. 5387790.70 crores and it is increased continuously till 2016-17 with Rs. 18662991.63 crores.

Net profit margin of RBL bank is less in the year 2013-14 with 6.85 and it is continuously increased till 2016-17 with 12.01. Return on assets also less in the year 2013-14 with 0.50 and it is continues increased till 2016-17 with 0.91.

Financial performance of IndusInd Bank

	2012-13	2013-14	2014-15	2015-16	2016-17
Basic EPS (Rs.)	21.83	26.85	33.99	39.68	48.06
Dividend/Share (Rs.)	3.00	3.50	4.00	4.50	6.00
Employee (in Cr.)	922607.20	903157.15	938086.55	991522.16	1132927.51
Branches (in Cr.)	21223656.00	23389069.77	22393449.44	22864501.00	23899105.83
Net Profit Margin (%)	15.19	17.05	18.50	19.74	19.90
Return on Assets (%)	1.44	1.61	1.64	1.63	1.60

Source: Annual reports IndusInd Bank

From the above table it is observed that earning per share of IndusInd bank is continuously increasing from the financial year 2012-13 to 2016-17 with 21.83 to 48.06. Dividend per share is also increased from 2012-13 to 2016-17 with 3.0 to 48.06.

From the above table it is observed that Net profit per employee of IndusInd bank less in the year 2013-14 with Rs. 903157.15 crores and it is increased continuously till 2016-17 with Rs. 1132927.51 crores. Net profit per branch increased continuously from 2012-13 to 2016-17 with Rs.21223656 crores to Rs. 23899105.83 crores.

From the above table it is also observed that Net profit margin of IndusInd bank increased continuously from 2012-13 to 2016-17 with 15.19 to 19.9. Return on assets also increased continuously from 2012-13 to 2016-17 with 1.44 to 1.60.

Financial performance of Karur Vysya Bank

	2012-13	2013-14	2014-15	2015-16	2016-17
Basic EPS (Rs.)	51.35	40.08	39.86	46.59	49.75
Dividend/Share (Rs.)	14.00	13.00	13.00	14.00	13.00
Employee (in Cr.)	817716.05	585285.42	645108.52	787178.75	818895.41
Branches (in Cr.)	9987711.43	7510480.77	7381313.20	8510263.87	8522962.03
Net Profit Margin (%)	12.97	8.39	8.60	10.42	10.77
Return on Assets (%)	1.17	0.83	0.87	0.98	0.98

Source: Annual reports RBL Bank

From the above table it is observed that earning per share of RBL bank is less in the financial year 2013-14 with 3.63 and there is a consistent increase in EPS from 2014-15 to 2016-17 with 7.23 to 12.59. Dividend per share is also increased from 2012-13 to 2016-17 with 0.60 to 1.80.

Net profit per employee of RBL bank less in the year 2013-14 with Rs. 331200.86 crores and it is increased continuously till 2016-17 with Rs. 909925.54 crores . Net profit per branch less in the year 2013-14 with Rs. 5387790.70 crores and it is increased continuously till 2016-17 with 18662991.63 crores.

Net profit margin of RBL bank is less in the year 2013-14 with 6.85 and it is continuously increased till 2016-17 with 12.01. Return on assets also less in the year 2013-14 with 0.50 and it is continues increased till 2016-17 with 0.91.

Conclusion

From the above analysis it is observed that venture capital funded banks are performing well but the management of the these banks should focus on improving the quality of service and try to give best customer service so that the performance can be improved and as a result more investment can come from these venture capital firms.

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