

VENTURE CAPITAL FUND

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Context:

Union Finance Minister Nirmala Sitharaman announced the proposal to set up a venture capital fund of Rs 1,000 crore dedicated to the space economy.

Background:

The announcement, made during the Union Budget presentation for the fiscal year 2024-25, highlights the government's commitment to advance the Indian space sector.

What is a Venture Capital Fund?

A venture capital fund is a pooled investment vehicle that manages the money of investors seeking private equity stakes in startups and small- to medium-sized enterprises with strong growth potential.

Key Characteristics:

1. High Risk, High Return: VC funds target high-growth firms that are also quite risky. The potential for high returns is what attracts investors.
2. Long-Term Engagement: Investments are usually long-term, as it takes time for startups to grow and become profitable.
3. Active Involvement: VC funds often take a hands-on approach, providing not just capital but also guidance and managerial expertise.

How private venture funds work?

1. Raising Capital: VC funds raise capital from external investors, which can include wealthy individuals, investment banks, and other financial institutions.
2. Investment Process: Fund managers review numerous business plans to identify potential high-growth startups. They then create a prospectus, a formal document outlining the investment details, which is shared with potential investors.
3. Stages of Investment: VC investments can be categorized into seed capital, early-stage capital, or expansion-stage financing, depending on the maturity of the business at the time of investment.

Benefits for Startups

1. Financial Support: Startups receive the necessary funds to grow their operations.
2. Expertise and Guidance: In addition to financial support, startups benefit from the technical and managerial expertise of the venture capitalists.