

Venture capital- The rise of Meru cabs

¹R Gayathiri, ² Vishnu Priya Ravi, ³ Yamini V, ⁴ Yamuna Gayathri, ⁵ Vishnupriya R

¹ Assistant Professor, Department of B.Com (PA), PSGR Krishnammal College for Women, Coimbatore, Tamil Nadu, India

²⁻⁵ Students of III B.Com PA, Department of B. Com (PA), PSGR Krishnammal College for Women, Coimbatore, Tamil Nadu, India

Abstract

Venture Capital is one of the fastest growing businesses in the investment industry helping young entrepreneurs with new and potential ideas of business which may have a significant impact on the Indian economy in future. Venture Capitalists in India are biased toward technology companies with 68.0% of investments made in this sector. It has now begun to be popular in India mainly focusing on the industrial sector with investments backing entrepreneurs with ideas and technology. The study examines the venture capital and private equity in the transport industry with main focus on radio cabs that use a technological aggregator to run and develop the business. The financial performance of Meru Cabs Private Limited is analyzed, the investment made, the replacement of conventional transport with radio cabs and the competition between similar radio cab companies in the industry.

Keywords: venture capital, venture capitalists, radio cabs

Introduction

The term “Venture” means a journey to process an idea and “Capital” means the resource to develop the enterprise. We define venture capital as “an activity by which investors support entrepreneurial talent with finance and business skills to exploit market opportunities and thus obtain long term capital gains” (Shilson, 1984).

Venture capital is a type of equity financing that addresses the funding needs of entrepreneurial companies that cannot seek funding from conventional sources such as banks and other financial institutions. Start-up companies who have a potential to grow for success require a certain amount of investment that depend on angel investors to invest capital in their businesses helping them to have a long-term growth. This capital is known as venture capital and the investors are called venture capitalists. Venture Capital is usually high risk financing as it is relatively high risk but if the enterprise picks up after the initial stages of venture the returns are usually are very high. After initial investment the investors usually join the company on the board as one of the directors. In India most venture investment is made in the technological industry with 68% in this sector.

Statement of the Problem

Venture capital is an emerging global scenario where competitiveness has put immense pressure to improve of business quality with minimum cost while using the latest technological skills. The venture capital and private equity invest only in ideas with potential and growth with experienced management since innovative ideas usually involve high risk and better returns if leading to success. Start-ups like Meru cabs have invested in tangible assets with a return on investment being slow; hence every start-up and venture capital firm should have a balanced portfolio of assets, liabilities and investment. This study, with help of various tools helps in the better understanding of venture companies in the field of transport and the impact it has had in the industry.

Objectives of the Study

- To analyse the financial performance of MERU Cabs in the second stage of Venture.
- To see how it has replaced conventional mode of transport.

Research Methodology

The study was mainly based on secondary data. The data has been collected from various articles on Venture Capital and websites such as mca.gov.in.

Sample Size

The sample taken here is the radio cab company called as Meru Cab Company Private Limited.

Tools used for the Study

- Ratio Analysis
- Trend Analysis

Review of Literature

Venkateshand *et al.* (2016) ^[1], “The benefits & future prospects of venture capital”, Venture Capital is emerging as an important source of finance for small and medium-sized firms, especially for starting the business and business expansion. An entrepreneur usually starts the business with his own funds, and those borrowed from banks. It is during expansion that they find it difficult to raise funds. SMEs have traditionally been dependent on Bank finance for expansion and working capital requirements. Venture capital is a means of equity financing for rapidly-growing MSMEs. Venture capitalists provide funds after carefully scrutinizing projects. They take active part in the management of the company as well as provide the expertise and qualities of good bankers, technologists, planners and managers. Venture or Risk capital funding is ideal for newly emerging ventures like bio-tech, food processing, IT, pharmaceutical and other knowledge based sectors in India. Jaya Manglani (2014) ^[2], Entrepreneurs often struggle to find institutional start-up capital, and angel capital is often either not available or focused on service businesses with lower risk

and quicker revenue streams. To help entrepreneurs overcome this financing hurdle, emerging market governments are pursuing a number of strategies to provide needed access to infrastructure, coaching and capital. Entrepreneurship tends to be innovation-driven and will also help generate solutions to India’s myriad social problems including high-quality education, affordable health care, clean energy and waste management, and financial inclusion. The economic and social benefits of thriving entrepreneurship and innovation are evident, it is critical to recognize that an entrepreneur needs address on early stage Venture Capital Funds (say up to Rs 500 crore) from domestic capital especially through institutional investors as a large part of VC investments in India is through offshore funds that have traditionally not invested at the seed stage.

Data Analysis and Interpretation

Ratio Analysis

Ratio analysis is used to evaluate various aspects of a company’s operating and financial performance such as its efficiency, liquidity, profitability and solvency with the help of items in the balance sheet, income and cash statement or a combination of the aspects of the company’s accounts.

Current Ratio

The current ratio is important as it measures the efficiency of a company during a short period and it also measures the liquidity which helps with the understanding of the company’s ability to pay of the current liabilities with the help of current assets.

$$\text{Current Ratio} = \text{Current Assets} / \text{Current Liabilities}$$

Table 1: Table Showing Current Ratio of Meru Cabs

Year	Current Assets	Current Liabilities	Current Ratios
2011-12	296.46	617.4	0.4802
2012-13	282.52	534.66	0.5284
2013-14	351.47	455.56	0.7715
2014-15	811.66	649.45	1.2498
2015-16	570.15	718.33	0.7937

Source: Secondary Data

From the above table, it is noted that the current ratio is high in the year 2014-2015 is 1.2498 whereas in the year 2011-2012 it has been the lowest at 0.4802. There has been increasing trend until year 2014-15 and decrease in the next year depicting a fluctuating trend. If the company manages to keep the current assets high an increasing trend can be predicted in the future.

Debt-Equity Ratio

The debt to equity ratio shows the percentage of company’s finance available from the creditors and investors. A higher debt to equity ratio indicates that more creditor financing (bank loans) is used than investor financing (shareholders).

$$\text{Debt - Equity Ratio} = \text{Total Liabilities} / \text{Shareholders' Equity}$$

Table 2: Table Showing Debt Equity Ratio of Meru Cabs

Year	Total Liabilities	Shareholders' Equity	Debt-Equity Ratio
2011-12	1827.73	142.15	12.859
2012-13	1534.44	-137.33	-11.179
2013-14	1617.59	-73	-22.152
2014-15	2349.68	-82.21	-28.588
2015-16	1650.71	242.82	6.798

Source: Secondary Data

From the above table, it is noted that the debt equity ratio is highest in the year 2011-2012 at 12.859 and the lowest has been at -28.588 in the year 2014-2015. There has been a decreasing trend in the ratio due to the more leverage towards liabilities throughout the years.

Cash Ratio

The cash ratio or cash coverage ratio is a liquidity ratio that measures a firm’s ability to pay off its current liabilities with only cash and cash equivalents. The cash ratio restricts the asset portion of the equation to only the most liquid of assets.

$$\text{Cash Ratio} = \frac{\text{Cash} + \text{Cash equivalents}}{\text{Current liabilities}}$$

Table 3: Table Showing Cash Ratio of Meru Cabs

Year	Cash	Current Liabilities	Net Profit Ratio
2011-12	18.41	617.4	2.981859
2012-13	21.84	534.66	4.084839
2013-14	70.41	455.56	15.4557
2014-15	28.87	649.45	4.4453
2015-16	123.61	718.33	17.20797

Source: Secondary Data

From the above table, it is noted that the cash ratio has been highest in the year 2015-2016 at 17.20797 and the lowest has been at 2.981859 in the year 2011-2012. The ratio shows an increasing trend in the study period (2011-2016). The same level of cash reserves can be maintained to continue the increasing trend in future.

Net Profit Ratio

The net profit percentage is the ratio of after-tax profits to net sales. It reveals the remaining profit after all costs of production, administration, and financing have been deducted from sales, and income taxes recognized.

$$\text{Net Profit Ratio} = (\text{Net profit} / \text{Net sales}) \times 100$$

Table 4: Table Showing Net Profit Ratio of Meru Cabs

Year	Net profit	Sales	Net Profit Ratio
2011-12	-719.68	1175.42	-61.22
2012-13	-311.14	1362.33	-22.83
2013-14	35.58	1734.43	2.051
2014-15	-33.22	2722.45	-1.220
2015-16	-164.87	3133.53	-5.261

Source: Secondary Data

In the above table it noted that the net profit ratio it is highest in the year 2014-2015 at 2.051 and has been lowest in the year 2011-12 at -66.22. The ratio shows lowest rate in the beginning of the study period (2011-2016) and has been increasing showing a positive ratio after few years. If the company maintains this rate of growth an increasing trend is predicted in the future.

Trend Analysis

A trend is the general direction of a market or of the price of an asset, and trends can vary in length from short to intermediate, to long term. It is based on historical price movements due to which it can be fit best under the jurisdiction of technical analysis. Technical analysis looks at historical trends and changes in price to determine the future direction of prices.

Table 5: Table Showing Trend Analysis of Meru Cabs

Year	Salary		Profit		Fixed Assets	
	Amount	Trend %	Amount	Trend %	Amount	Trend %
2011-12	216.36	100	(719.68)	100	1464.54	100
2012-13	239.07	110.49	(311.14)	43.23	1186.4	81.00
2013-14	262.72	121.42	35.58	4.94	1167.59	79.72
2014-15	282.94	130.77	(33.2)	4.61	1402.97	95.79
2015-16	275.95	127.54	(164.87)	22.90	891.29	60.85

Source: Secondary data

From the above table it is shown that the elements of salary, profit and fixed assets show a fluctuating trend. Salary and fixed assets show an increasing trend with 130.77 and 95.79 respectively and profit showing a fluctuating trend. If the same rate of trend is shown for profit a positive result is predicted in the future.

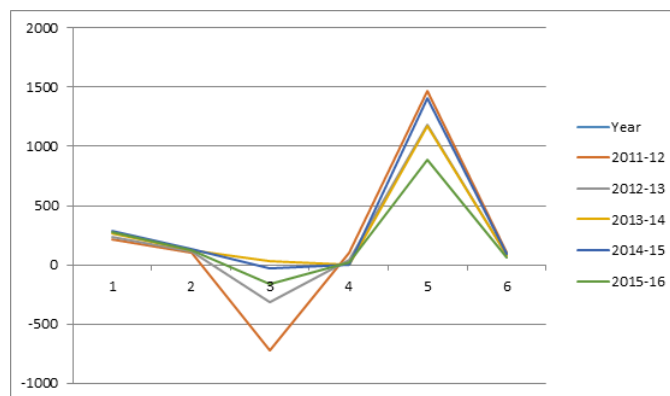


Fig 1: Chart Showing Trend Analysis of Meru Cabs

Findings and Suggestions

Ratio analysis

- It is noted that the current ratio is high in the year 2014-2015 is 1.2498 whereas in the year 2011-2012 it has been the lowest at 0.4802. There has been increasing trend until year 2014-15 and decrease in the next year depicting a fluctuating trend. If the company manages to keep the current assets high a increasing trend can be predicted in the future.
- The debt equity ratio is highest in the year 2011-2012 at 12.859 and the lowest has been at -28.588 in the year 2014-2015. There has been a decreasing trend in the ratio due to the more leverage towards liabilities throughout the years.
- The cash ratio has been highest in the year 2015-2016 at 17.20797 and the lowest has been at 2.981859 in the year 2011-2012. The ratio shows an increasing trend in the study period (2011-2016).
- The net profit ratio it is highest in the year 2014-2015 at 2.051 and has been lowest in the year 2011-12 at -66.22. The ratio shows lowest rate in the beginning of the study period (2011-2016) and has been increasing showing a positive ratio after few years.

Trend Analysis

The elements of trend analysis, salary, profit and fixed assets show a fluctuating trend. Salary and fixed assets show an increasing trend with 130.77 and 95.79 respectively and profit showing a fluctuating trend. If the company keeps up this increasing trend in salary, fixed assets and profit a positive trend is predicted in the future.

Conclusion

Every venture firm with technology being a main part of the business must have a balanced portfolio of investment with fixed assets, current liabilities and equity. The study is aimed to analyse the growth of “Meru Cabs Private Limited” in the second stage of its venture for the period 2011-2016. The study has given significance in understanding the venture firms who a technological aggregator in their business such as Meru cabs. The study helps in understanding the financial performance of venture firms in the second stage of venture using financial tools such as ratio analysis and trend analysis. This study signifies the growth of Meru cabs after initial years of business where a significant growth is possible.

References

1. www.mca.gov.in
2. www.google.co.in
3. www.scribd.com
4. www.investopedia.com
5. Management Accounting, RK Sharma, Shashi K Gupta, Kalyani Publishers
6. Dr. J. Venkatesh, Ms. R. Lavanya Kumari, Dr. Balasubramanie P, Dr. Thenmozhi S, International Journal of Research in IT & Management, 2016, 6(2).
7. Dr. Jaya Manglani. Venture capital financing & innovative skills of Indian Entrepreneurs, 2014, 2(4).