

Capital Raising Options for MSMEs & Corporates

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Bank Financing

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BSE SME Exchange

Government of India Schemes etc.

Capital Raising Options (Conventional Methods):



Promoters
Equity



Equipment
Financing from
Bank/NBFCs



Borrowings from
commercial
Banks/NBFCs.



Borrowings
from Friends &
Relatives

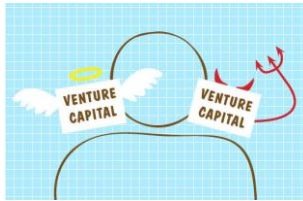


Re-investment
of Profits



External
Commercial
Borrowings

Capital Raising Options (Non- Conventional Methods):



Venture Capital Funding (**VCF**)



BSE SME Exchange



Private Equity (**PE**)



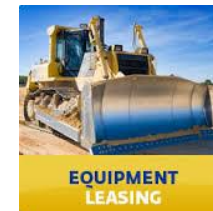
Investments from JV Partners



International Agencies and Development Banks – IFC, ADB etc.

Government of India Schemes

Funding from Government Departments



Equipment Leasing

Bank Financing



Types of Bank Finance:

- Term Loan
- Working Capital Term Loan
- Cash Credit Limits
- Bank Overdraft
- Non-Fund Based Limits – Letter of Credit, Bank Guarantees etc.



Challenges:

- Maintenance of Minimum Promoter Contribution
- Not to utilize Short Term Loan for Long Term Purpose like purchase of Fixed Assets.
- Sufficiency of Primary and Collateral Security
- Debt Service Coverage Ratio (DSCR)

Private Equity

Investment in equity of unlisted non-traded shares of a company for specific purpose is called private equity. Private Equity is increasingly becoming popular as means of finance. Due to the limitations of Bank Borrowings, the Company has to approach this mode for expansion. Private Equity is a broad category which covers Venture Capital and Angel Investor. However for the sake of understanding all are discussed separately.

Private Equity Investors have specific goals and investment strategies.

Strategies:

1. Leveraged Buyout
 2. Growth Capital
 3. Mezzanine Capital
 4. Venture Capital
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Venture Capital Funding

Venture Capital is a type of private equity. This is generally invested in relatively small Companies and at their early stage.

The venture Capital firms generally invest in companies with high growth potential with the expectations of earning high returns.

The initial seed investment is made by the promoters and thereafter the venture capitalists provide this financing in different rounds.

The venture capitalists expect to generate high return through eventual exit.

Venture capital is more suitable for companies at early stage, when they cant have access to Bank finance or other sources. The equity funding at the initial stages is also less risky than Bank financing for a startup company.

BSE – SME Platform

BSE has set up BSE-SME Platform for small and medium enterprises. The platform can be used by SME Companies in raising equity capital into a regulated and organized manner.

The platform also provides opportunity for the investors to invest in equity of startup or small companies with high growth potentials.

Equity financing through SME platform reduces the debt portion and thereby provides a healthy Balance Sheet.

It is an incentive for Venture Capital Firms since the exit option is easier for them.

Company can issue ESOPS and the employees have ready market for the shares and they can participate in the ownership of the Company by purchasing shares on SME platform.

It gives increased visibility to the Company in the Market.

BSE – SME Platform

- **Post Issue Capital between 1 Cr. To 10 Cr. (SME) & Between 10 Cr. To Rs. 25 Cr. to SME or main Platform.**
 - **Net Tangible Assets to be at least Rs. 1 Cr.**
 - **Net Worth of at least Rs. 1 Cr.**
 - **Track record of distributable profits in at least two out of immediately preceding three years.**
 - **Dematerialization is mandatory.**
 - **Website is mandatory.**
 - **Minimum 50 shareholders required for listing. No minimum shareholders requirement after listing.**
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International Finance



- External Commercial Borrowings from commercial Banks/JV Partner (**ECB**).
- International Agencies and Development Banks – IFC, ADB etc.
- Domestic Borrowing from Bank against Stand By Letter of Credit (**SBLC**).



- Foreign Direct Investment (**FDI**) from JV Partners/Holding Company Abroad
- Private Equity (**PE**)
- Venture Capital Funding (**VCF**)



- International Capital Markets
- Foreign Currency Convertible Bonds (**FCCB**)
- Global Depository Receipts / American Depository Receipts (**GDR/ADR**)



External Commercial Borrowings (ECB)

ECB includes:
Bank Loan, Buyers', Suppliers' credit
Preference Shares,
Loan from Foreign Promoters etc.

Cheaper source
of Funds



Availability of funds
for Big Size Projects

Suitable for Import of Capital Goods /
Setting up of subsidiary abroad

Not available for
Working Capital /
Repayment of
Domestic Loan



Forex Exposure
/ Additional Cost
of Hedging

FEMA
Compliances



Foreign Direct Investment (FDI)

FDI includes:
Investment in Equity Shares by Foreign Party
Compulsory Convertible Preference Shares

Most sectors
covered under
Automatic Route

Can be used for
Working Capital

Equity gives
some control &
Voting rights to
the investor

Can not be
repaid easily

Availability of funds
for Big Size Projects

Suitable for risky
projects/ permanent
capital

Not Available for
certain sectors like:
Real Estate, Retail
etc.



Government of India Schemes

- Although Government does not provide direct funding to Companies, various schemes of government can be useful for the Funding of the Company.
 - Credit Linked Capital Subsidy Scheme of MSME
 - Capital Subsidy Scheme of various States.
 - Research and Development Funding Schemes of Central Government Departments and Agencies like AICTE, CSIR, DRDO, DSIR etc.
 - Funding under Startup India Programme or Standup India Programme.
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