Legal Compliance for Incorporating Startup
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Lecture - 18
Raising fund from Financial Institution

I welcome you in Lecture 18th regarding Legal Compliance for Incorporating Startup. And I am in module of Finance and Legal Compliance. And now I specifically talk regarding Raising the fund from Financial Institution. I believe I have used this particular word before in different part of my lectures.

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And before I go head how raise the fund let me explain to you what do you mean by the word Financial Institution. Now financial institutions are generally those companies or those forms who basically lend money or make an investment into the business, because they expect kind of a return of their investment and whatever the investment they get the basically distributes there among customer or investors or depositors.

In case of the financial institutions here you will find a basically number of types of banks. First one I have said is Schedule Bank. Schedule bank is actually those bank which are been included in the schedule of banking regulation, because you know the bank are generally governed by banking regulation act 1956 and these particular banking regulations are act basically administer by the Reserve Bank of India. So, they basically notify that which is a schedule bank.

Now the schedule bank can do the commercial lending and there in there is a specified guideline is there and they keep on you know improve this guideline or change this particular guide line in which sector this particular bank can make the lending. Now few minutes back I was talking with you learning of the schedule bank to the MSME. Now you will find these particular divisions is almost available with all bank, because government one to promote this particular MSMUS sectors and in at present also you will find the there is a dedicated division also there in all schedule banks relating to the startups.

So, either you fall within the MSME category as a start up or you just want to promote it as startup you might access or raise the fund from this particular schedule bank. Please remember the schedule bank make an investment in the different way. It might give a capital investment with the particular duration of time or they might give you the loan. Most of the cases they generally give the work working capital that means they give the money in form of a loan itself. Now again this particular relations between the schedule bank and startup is governed by the bilateral agreement.

Then you will find there is a Commercial Bank. Commercial bank are those bank who are basically incorporated for lending to the business only and particular segment of the business. Where the government wants to promote the particular segment or where the government wants to address his particular segment name, because there is a lot of demand from that particular segment and they basically supply to the domestic name.

And in this particular commercial bank are created for the particular purpose. So, commercial bank is deferent from the schedule bank, because schedule bank is generally do the transaction with the common people. But in case of commercial bank they might not be allowed to take the deposit from the normal people or normal public they might be only allow to access some kind of a form fund for raising their capital which they can invest in the startup or they can invest in a semis. Now commercial bank again you know subject to certain regulation and you know it has been specified that in which of the area they are they can go for making an investment. And in the case of commercial bank will find that they basically target up a specific industry as I told already.

Then we will find the Industrial and Development Bank. Industrial and development bank was quite old concept again in India and we found that this is initiated around 1960's, because at this particular point of time they wanted to address industrial growth or domestic industrial growth and they thought there should be some specific financial institution who are dedicated for this particular purpose.

Now initially this industrial and development bank used to finance by the commercial bank or the schedule bank or may be the government or the directly, but later on we find in some cases this particular industrial or development bank is allowed to raise the fund from the market itself and then they can finance to the industry itself. But here in also again the mandatory is only to finance to this particular industry sector for the purpose of the development. Now this particular industrial bank also can you know raise the deposits or raise the money from the other corporate to who wanted to make an investment of their reserves or the other proceeds in this particular development bank.

Again now you will find there is a Co-operative Bank. Co-operative bank is promoted by the different state government to create a local (Refer Time: 06:45), that means to a local availability of the fund. Now cooperative banks generally raise the fund from the public at large or may be target group of people and then they you know give the make the investment in or they give the loan to different kind of businesses. So, the again the cooperative bank ledge (Refer Time: 07:10) the majority of the money basically goes to the startup or may be it goes to the SMIS to put it in other round. And in all these co-operative bank will find now there is a centralized system is being created so that they can facilitate in funding to the MSME's of the startup.

Now again we will find the there is a Specialized Bank is there like you know (Refer Time: 07:39) you know all other kind of bank who are basically finance to the small startups and they are mandate with that and they have also provided mandate that what kind of instrument they can investment in this particular startup.

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Now, again apart from these particular banks you will find that there is a different other financial institutions. These are like insurance fund and you will find one point of time in India insurance market was quite close market, because in this particular market only the government companies has a lock to operate. Like, you know there were a life insurance company as well as a child insurance company and all those particular companies are the government companies. And they have also a lot of restrictions relating to investment of their fund, most of the time you will find this particular insurance fund used to make an investment in the government securities. But, now you will find in present times they have also been allowed to make a diversified their investment into the other corporate portfolios. And they are even allowed to access to the equity market either in the primary as well as the secondary market.

So, in generally if your company is a public listed company or if it is a public company then you will find the label to access this particular fund. And please remember they generally do not fund you in the beginning or when you starting startup, they only fund you when you make a progress or you have a very good balance it or you are in the growth (Refer Time: 09:36) and market is quite stable to make the earning then only the they make an investment. And this particular sector is opened to find out that were they can make an investment, but still we will find they can only make an investment a very less percentage of their entire fund in to this particular equity or the corporate fund.

Now you will find the Mutual's. Mutual's are those people again who basically raise their fund from the public by using the units and mutual actually try to make the money by investing in different portfolios and then getting the money out of those particular portfolio to distribute back to those people who are made an investment to this particular mutual's. Now again there is an restriction relating the mutual fund what can they make an investment, but they are allowed to make an investment into the equity or corporate bounds or corporate ventures. Now again if you want to access this particular fund then you cannot do it in the beginning of the startup, again you need to be a quite match you and you should have a good balance it to access this particular fund.

The similar case in Pension Fund; pension fund are generally put into a very (Refer Time: 11:07) fund you know address the growth many of the time they also allow to make an investment in the corporate fund. So, if you have being a good balance, if you have a good financial track record, if you have a good market credential then in that case again you can go for the pension fund.

Now as I talked with you in my last lecture relating the public financial institution there is a some kind of institution which has been designated as the public financial institution under the previous companies act that is CA 1956; Companies Act 1956, but this particular designation as taken away under the present company act CA 2013. And nevertheless it is important to know which are them call as public financial institution like they are generally the Industrial Credit and Investment Corporation of India Limited and this particular organization is in corporate under companies act. Then you will find the Industrial Finance Corporation of India, it is a created under the special act, then they Industrial Development Bank of India, Life Insurance Corporation Unit Trust of India and then Infrastructure Development and Finance Company.

All these particular financial institution as specific mandate to make an investment into a particular sector, so if you are looking for a working capital or short-term capital or if you are looking for quick investment without going to the primary market then in that case you generally access to this particular public financial institutions or other financial institution, because they are the people who are ready make an investment if they found the that there is a potential or there is a growth they can address out of out of this particular investment.

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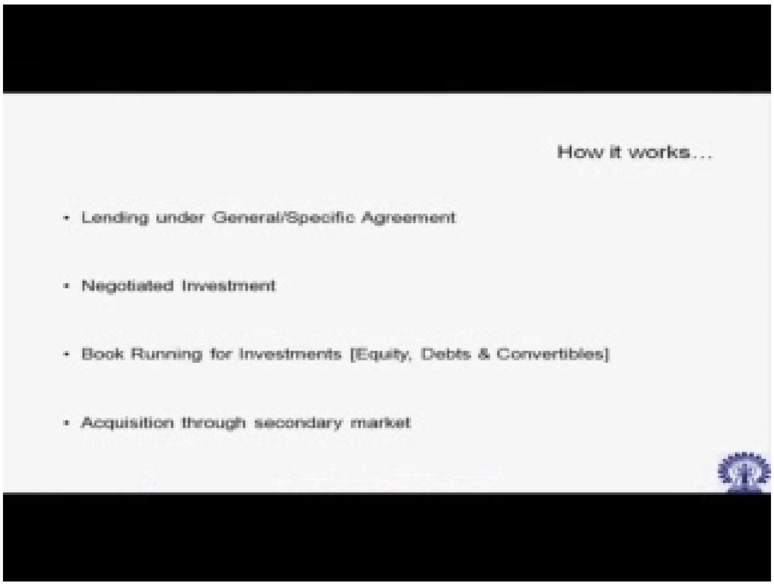

Now, it basically you know works in this following manner that it can be lending under general or specific agreement, that means you wanted to do or specific work within your organization or you wanted to start a particular project to your organization. And you basically create a project report and then you submit and you ask that what kind of a fund you are looking for, and how much amount you are looking for, what is the rate of repayment of that particular fund, and what benefit this particular investors are going to get. So, there can be specific project against which you can raise the fund, or it might be a general in nature because you just want to address the growth which you are already doing in regular bases and accordingly you want to get some fund into this thing.

And if you are looking for that kind of fund then are you looking for equity or the debt and you know what is the repayment policy or what is the benefit you are going to give. Even the many of time it might so happen that when you are getting the equity and you might not able to make payment of good dividend initially, but you enters into agreement were you specify that it later on you are going to issue the bonus here to this particular organization. So that when you will go got IPO or you will go for secondary cell at that particular point of time this organization can money out of by selling this particular equity. So, whatever the way or in the even they use which they can have a option to convert this particular debenture to the equity and by this process they can make money also in future.

Now there can be Negotiated Investment. Negotiated investment again where in you basically mutually agreed upon the particular pattern of investment, and an you also decide the terms and conditions on which you are going to make the this particular investment. Now it can be through the issuing of the debenture bond or it can be through the issue of qualified institutional buyer. Personally I am going to discuss this particular issue will be in my subsequent lecture so there can be negotiated terms relating to the financing of the corporations and there can be a specific (Refer Time: 16:04) create before this particular fund can be withdrawn by this particular public financial institutions. Or they can be you know process is defined how they can dilute this particular fund.

Now they can also response to the Book Running for the Investments and this book running may be for equity or convertibles. Book running means where in you wanted to issue the shares either through private replacement or public primary market and there you want these particular financial institutions to come in board and they make an investment into your equity. In those particular circumstances you basically ha you know respond to this particular investment and you generally decide that how much premium you are going to pay for this particular investment. And then also you understand that you know there will be a potential growth of this particular industry so you can dilute your fund in future when it will be listed for trading into the secondary market.

Now you can also go for acquisition through the secondary market and in many of the time you will find these particular public financial institutions are generally going into the secondary market to making an investment in to the company shares. And if you look in to the portfolios of any companies which you are listed you will find the majority of chunk of the shares are yield by either DII or FII; DII means Domestic Institutional Investors and FII means Foreign Intuitional Investors and they are basically all the financial institutions. So, they basically make portfolios investment and then they try to get the return either through the market capitalizations or through the payment of the dividend or waiting for longer investment so that they can be allotted with the bonus shear or they can be split in share so that they can make money out of this particular process.

So, this is the way generally the public financial institutions make an investment in the startup, but please remember they generally do not make an investment in the beginning of the startup it is basically in much later part of this particular startup for in the startup for the growth part of they make an investment into this.