Entrepreneurship Essentials
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Module - 10
Lecture – 50
Funding New Venture – V

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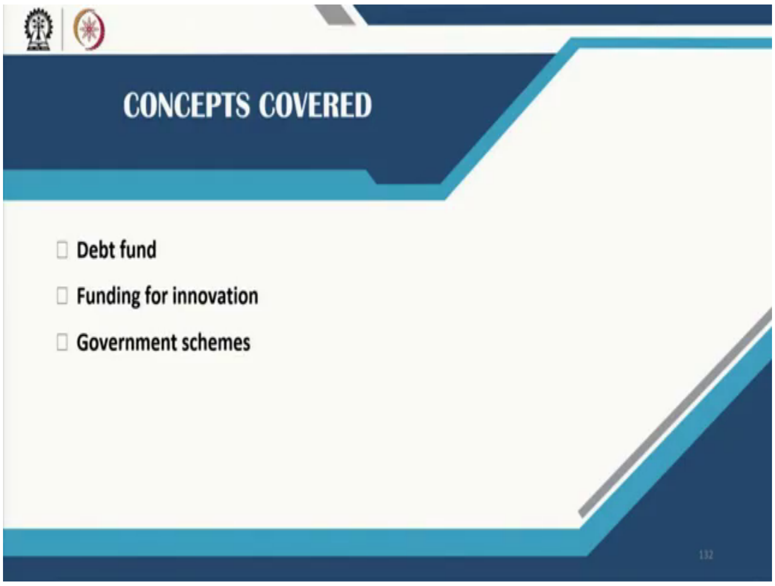

Welcome. We will continue our discussion from the previous session and we will be talking about Debt Fund a little bit then Funding for Innovations and Government Schemes.

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So, continuing from previous session see debt normally is convertible because sometimes convertible sometimes not if you see shark tank. In fact, my advice should be that you should see some of the episodes in shark tank to understand funding new ventures. It is a real life live session where negotiations are happening.

So, my advice is that one should really look at to get a real sense of the thing that is happening. Now when some angel or say normally angels at some point of time. May say that I would like to invest in debt in your company meaning that I want to give you a loan and you have to pay me interest as well as the principle is to be refunded or maybe some time I may think of converting the debt.

So, there has to be different, different variables that has to be defined at the beginning that have to be defined at the beginning, something like when it will be converted at what rate the money will be converted into equity. So, all these points and what should be the interest rate and if I do not convert then when you should return the money in full with interest etcetera.

Now, if it is convertible debt so you know that debt this money suppose you get 1 million dollar or say 10 lakh rupees or so whatever, suppose 10 lakh rupees. Now these 10 lakh rupees will be converted into equity now today your business is not doing so well. So, after saved 2 years your business may do wonderfully well and you may actually raise more money at a very high valuation.

Now, this person this angel who is offering you debt that angel will like to have a deal at a very low valuation because in that case they are going to reap the riches. So, you may very they may very well say that your 10 rupees share has to be allotted to me at 50 rupees, now suppose you think that your share will be valued at 500 rupees. So, why to sign on an on the dotted line where it says that you have to allot share at 50, 50 rupees only.

So, there may be a compromise between you and the angel and then you may say that let us let us let it be the case that you also win I also win. So, I am going to offer you equity at a discount of say 20 percent to at whatever rate I offer equity to another angel or VC. Suppose, 2 years down the line I approach to another angel and then that angel wants to invest in my company at 500 rupees a share, I am going to offer you the same share at a discount.

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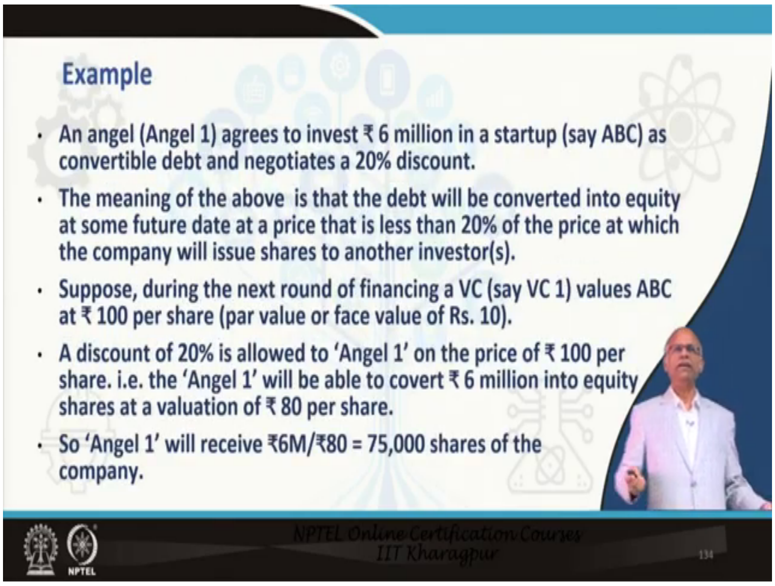

So, these are the conditions that are written in debt suppose an angel agrees to invest 6 million rupees in a startup, as convertible debt and negotiate a 20 percent discount. Now suppose at some point of time you allocate share at 100 rupees per share to another say VC or another angel. So now, your earlier angel; angel number 1 has the right to convert their investment in the form of debt into equity not at 100 rupees, but at 20 percent discount; that means, at 80 rupees per share.

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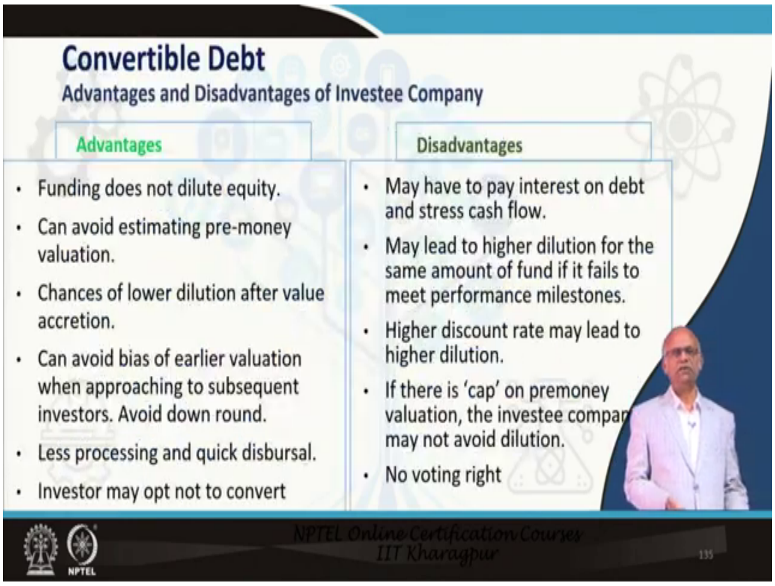

So, whatever money they have given now divide that by 80 they get the number of shares in this case it is 70000 shares. What are the advantages and disadvantages for such a deal, see advantages for company investing companies that funding does not dilute equity at the beginning itself you do not dilute. You can avoid estimating premoney valuation these are a very, very tidings tiding point and a point of dispute between you and the investors that you think that valuation should be high they think valuation should be low.

But if they give you debt then there is no question of doing all of that you just get the money you promise to pay interest and then maybe 2 years after 2 years. Then you think of converting that time you are going to bargain with another investor and whatever the rate just at a discount you are going to offer that. So, you avoid all those chances of lower dilution after value accretion.

Because if you if you accept equity now the dilution will be very high later date dilution will be less can avoid bias of earlier valuation when approaching to a subsequent investor. Like suppose you value your company at a low value then approach to another investor he will think he or she will think that your valuations are so low.

So, I am not going to a value at a very high price because that becomes a guiding principle or some base to start with. Less processing and quick disbursal, because for debt hardly any due diligence investor may opt not to even convert. If they do not convert and if your cash flow is good if you see that you can repay that loan without much problem go ahead and get the get it get the loan.

Disadvantage you may have to pay interest you have to pay interest out of what out of cash flow. So, if your cash flow is not good; obviously, you are not going to be able to do it nice may lead to higher dilution for the same amount of fund if it fails to meet the performance milestone suppose you do not grow so well.

So, eventually your dilation will be high higher discount rate may lead to higher dilution. Something like they say that my discount rate should be 50 percent meaning that if you are offering shares at 100 rupees to somebody else I shall buy that share at 50 rupees because I will have 50 percent discount.

So, discount rate is very important if there is a cap on premoney valuation the investee company may not avoid dilution cap means say pre money value the debt founder. Whosoever fund the debt they may say that your pre money valuation can never exceed 1 crore rupees.

So, that also kinds of lead to dilution no voting right meaning this is a this is actually an advantage. So, this should be written this side meaning that the angel will have no voting right so you will have the full voting right.

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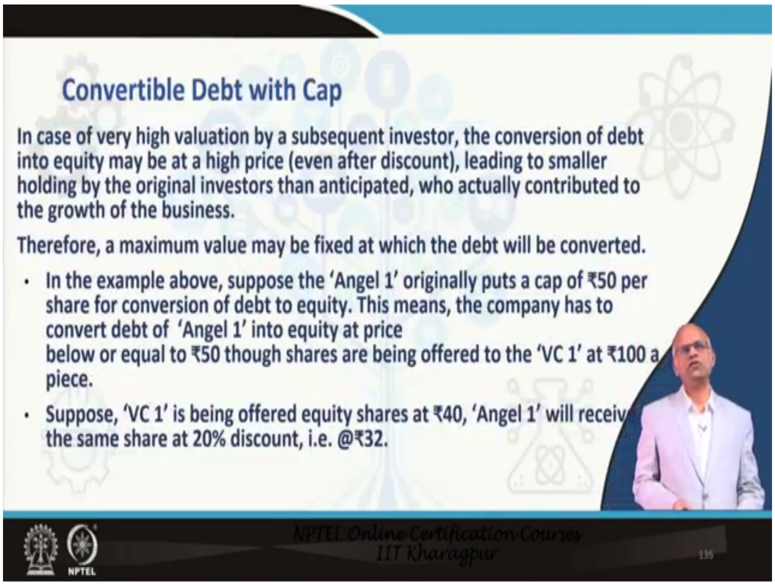

You have the entire control on that convertible debt with cap suppose they may say that I will convert my money into equity. But not above say 40 rupees a share they may also have this condition so read the rest of the text to understand it further.

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Support from government through various schemes there are many schemes. Now with this startup India initiatives there are facilities galore for startup there is every reason for anybody to start a startup, startup India. And how startup is defined as per rules of a startup India an entity is defined as a startup.

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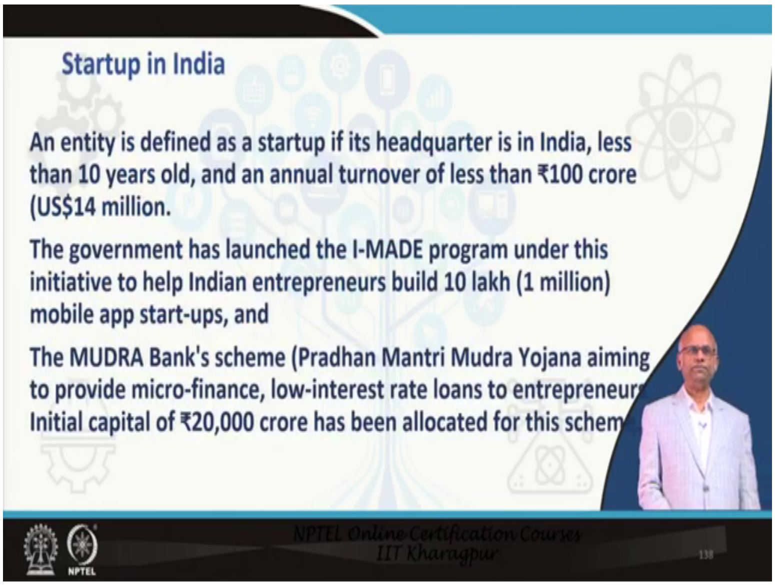

If its headquarter is in India less than 10 years old and an annual turnover of less than 100 crore in the last 10 years or 10 years of existence. Suppose a company exists for 3 years in none of the year their turnover should be more than 100 crore any year your turnover is more than 100 crore you are not a startup.

The government has launched the I made program under this initiative to help Indian entrepreneurs build 10 lakh mobile app startup and the MUDRA banks scheme also under this with an initial capital of 20000 crore rupees.

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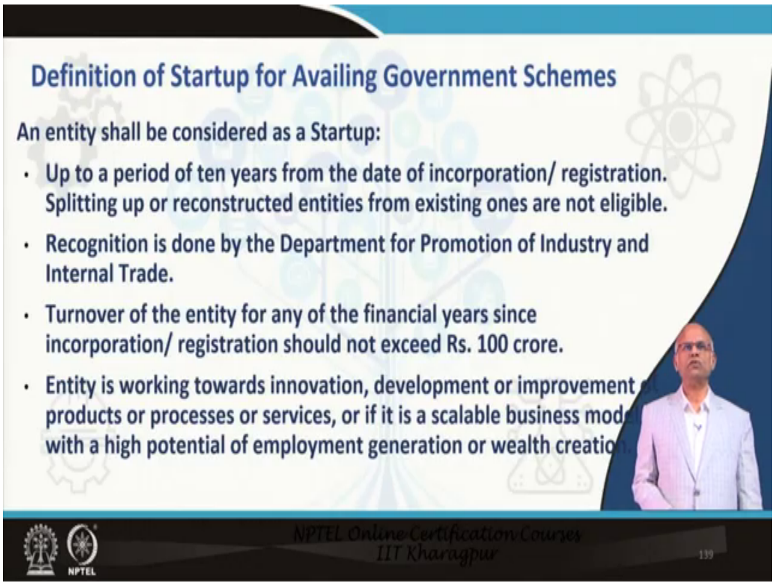

It is huge initiative definition of startup for availing government scheme same thing, but there are some more terms this 1000 100 crore 10 years of existence.

Then only then it is recognized by government of India for promotion as startup and then there are some other conditions like it should be innovation driven and then it should develop some products. It should like alleviate some pain that the society is suffering from it should generate sufficient employment etcetera.

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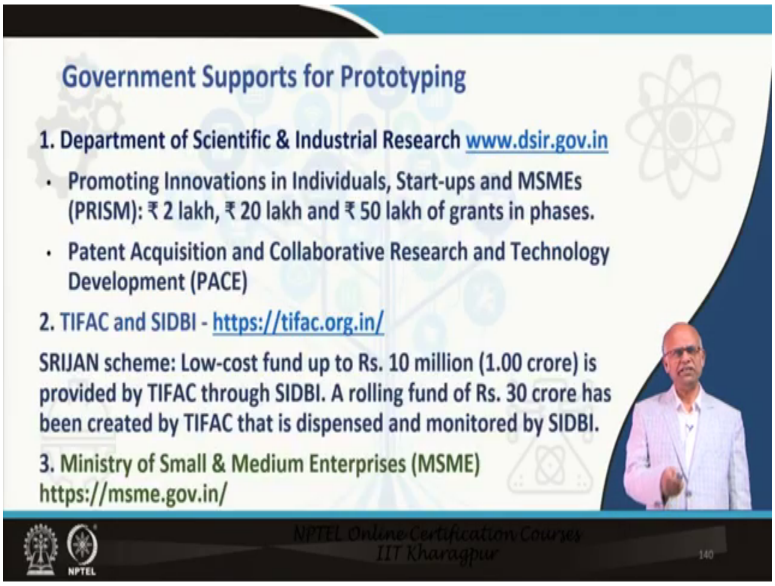

Now I have mentioned on several occasion that there is an organization called DSIRA sister concern of DST DSIR means Department of Scientific and Industrial Research. Primarily main for corporate world normally they give grant for industrial research. But for individuals this is the most attractive scheme being an individual even a student can apply for 2 lakh rupees of grant that is the phase zone of the scheme for developing an idea into a prototype filing a pattern etcetera.

Then there is another scheme called patent acquisition and collaborative research and technology development scheme. Under this scheme you can actually buy a patent or you can copy somebody's parented technology maybe in some of the country whereas, that patent is not protected in India.

Now you can copy the technology build a prototype and then either you can take a license from that guy or you see that it is not protected in India. If you copy that you are not violating his right his or her right it is not an infringement, because it is not protected here ok. Then there is some say organization called TIFAC and SIDBI they have a scheme called SRIJAN, SRIJAN scheme is a low very low cost fund up to 1 crore rupees. It is provided by TIFAC through SIDBI it is a rolling fund they give 30 crore rupees every time the fund is exhausted another 30 crore then there is ministry of small medium and micros enterprise.

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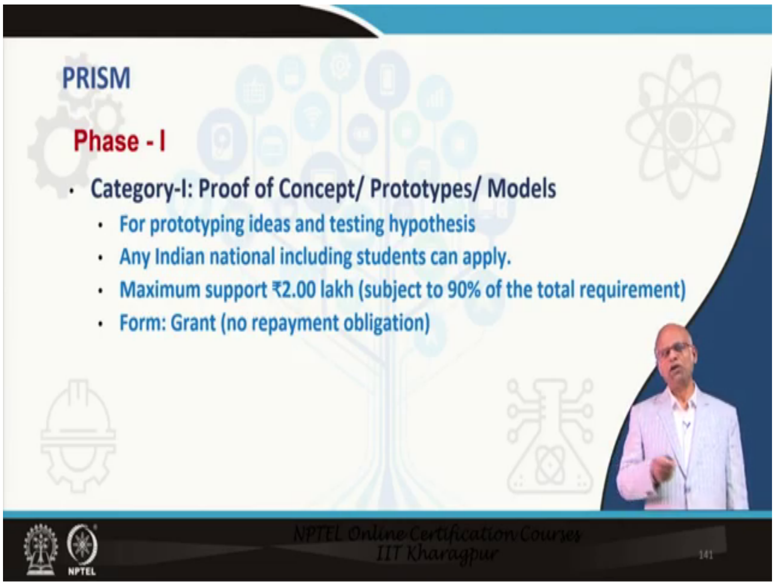

So, they are they also have several schemes you can visit their websites given here etcetera. So, let us talk about prism by DSIR Department of Scientific and Industrial Research the first phase category one is titled as proof of concept they give money for proof of concept prototyping, model building etcetera.

For prototyping idea and testing the hypothesis you have a hypothesis you want to build that and then test it. Support is 2 lakh up to 90 percent of your total requirement of fund will be given as grant, no obligation for repayment hardly any documentation you have to just submit and utilization certificate give a presentation that I have used the money in this format.

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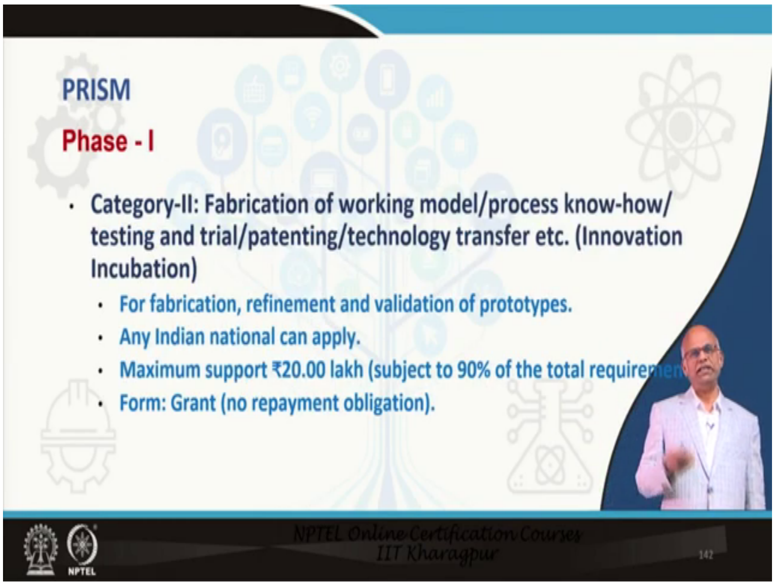

Now phase one again category two is for 20 lakh rupees this is for fabrication of a working model. Then you process the knowhow test it get it validated by people patent it you can even transfer the technology using this 20 lakh rupees of money, this is also subject to 90 percent of the total requirement of money. If you need only 10 lakh then you should apply for 9 lakh and they will give you 9 lakh there is no repayment obligation.

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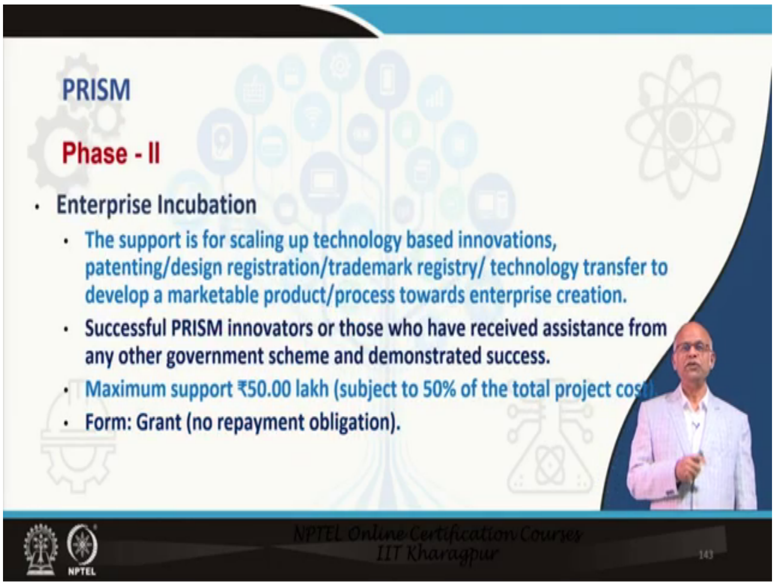

They are not going to ask the money to be return phase two of prism; this is the enterprise incubation fund they give 50 lakh rupees this support is for a scaling of the technology.

So, you continue to support the patent with this money maybe you can file a pct patent cooperation treaty in Geneva with WIPO, World Intellectual Property Organization I will talk about that later not in this session. Then you can register trademark you transfer technology or may be develop market for your product process towards enterprise creation like register a company and then put up minimum infrastructure for manufacturing etcetera, etcetera.

But then this 50 lakh is only up to 50 percent of your requirement suppose you need 80 lakh rupees for doing all of that under this scheme you get 40 lakh rupees 50 percent of the total requirement. But the most attractive part is that there is no repayment obligation you do not have to refund this money. So, you get 50 percent of the required money if you can if you think of starting a 1 crore rupees company, 50 percent of the money comes from the government free you do not have to return.

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You have to arrange another 50 lakh from some other source, patent acquisition and collaborative research and technology development by DSIR. Here also the grant is up to 50 percent and 50 lakh rupees if it is some institution some institution which is funded by government likes IITS IIMS or other universities, government funded universities 100 percent of the money will be given under this scheme after 50 lakh rupees.

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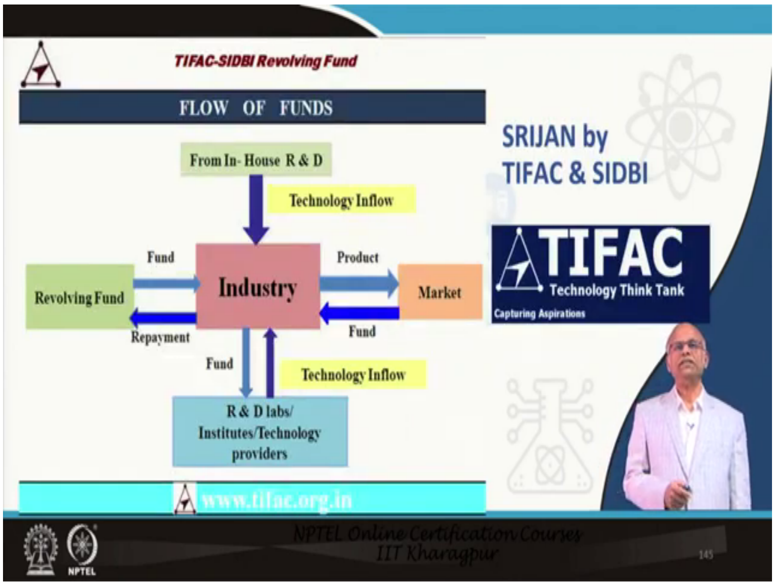

I talked about SRIJAN they give 1 crore rupees at a very low interest, interest is hardly 5 percent go up to 5 percent there is a moratorium period or suggest station period. During which you do not have to pay the principle you have to pay only the interest part and the money comes easily provided you have an innovative project meaning it is not some copycat from somewhere.

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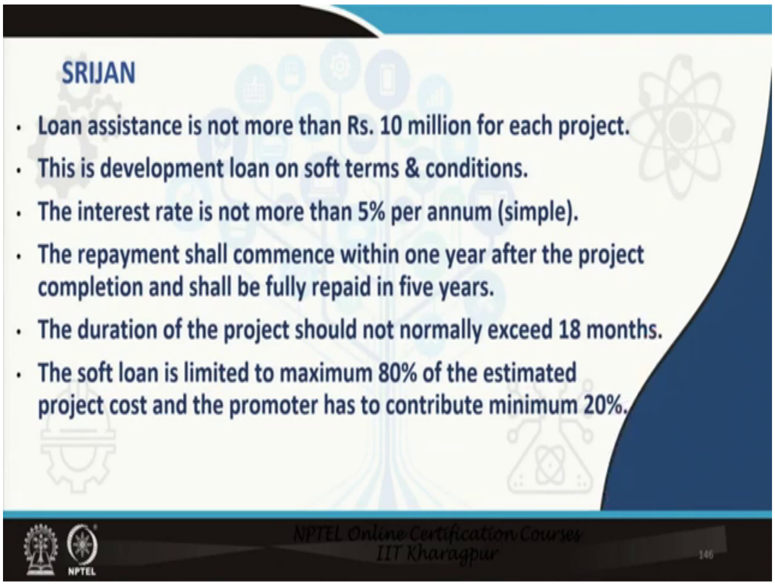

And look at them the interest rate is hardly 5 percent and the soft loan is limited up to 80 percent of the estimated project cost. So, you have to bring only 20 percent and they will give you 80 percent of the money at 5 percent interest rate.

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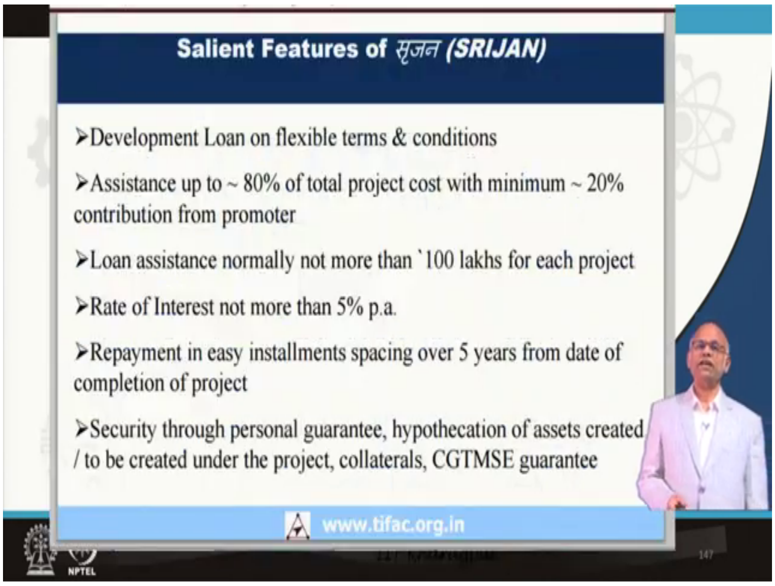

So, you have every reason to start a business because this money is available for any kind of business enterprise. It is not necessary that it has to be this or that and this is just a screenshot taken from there, so nothing is misleading.

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Then all these are actually funds for prototyping even MSME has schemes you should see their website.

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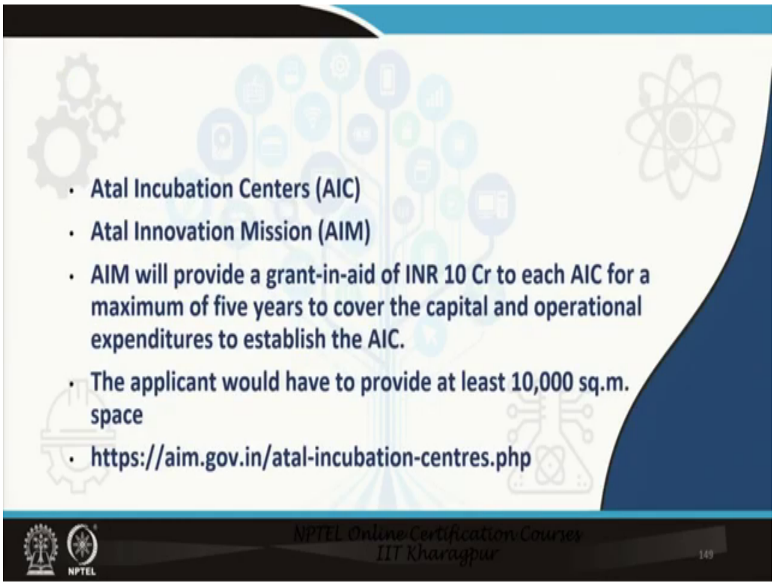

Then there are other schemes like Atal incubation centers, no government of India is giving money to colleges and universities to set up incubation cells. The title of the scheme is Atal incubation center, Atal innovation mission then AIM Atal innovation mission will provide a grant, grant in aid of 10 crore rupees for setting up Atal incubation centers.

And this money will be given for 5 years to cover capital and operational expenditure, the applicant has to provide 10000 a square meter of space. If they can provide 10000 square meter of space they get 10 crore rupees that money they can use for regular maintenance as well as for SEED capital etcetera.

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There is no reason why people should not do that money is there then this department of biotechnology DBT has a wonderful scheme. If anybody has a has some idea in the biotechnology domain they should avail this benefit.

See if the actual project cost is 25 lakh 80 percent of the project cost will be given as a grant 80 percent no return. If the actual project cost is say more than 25 lakh up to 1 crore rupees, 50 percent of the project cost will be available as government grant subject to a minimum of 20 lakh maximum of 50 lakh higher grant is available for collaborative research project.

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There are other schemes like from BIRAC there is a scheme called SEED Sustainable Entrepreneurship and Enterprise Development Fund to Incubators.

Then there is Accelerating Entrepreneurs Fund, fund of fund they give fund that funds venture capitalists they fund a startup NABARD also have fund for incubation of agro based startups.

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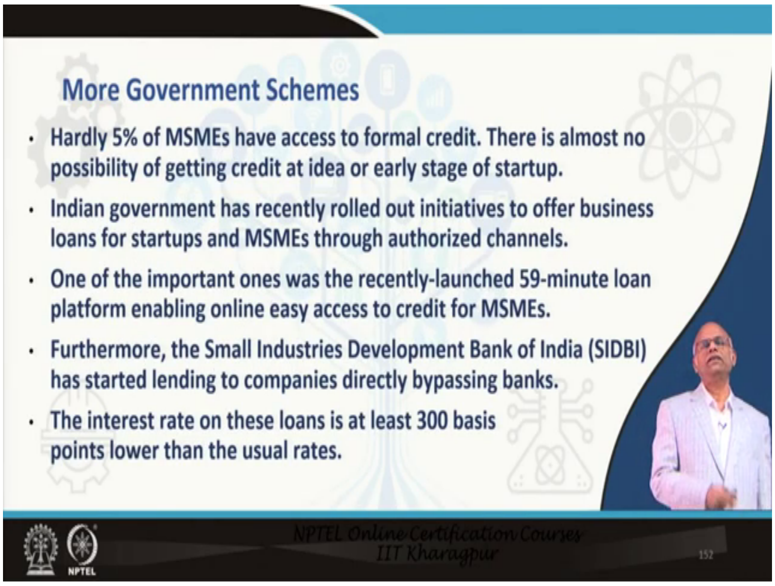

More government scheme hardly 5 percent of MSMEs have access to formal credit like any MSME will approach to bank they will most likely say that this these businesses are not viable and they need so much of security etcetera, etcetera money may not be available.

So, government of India came up with various schemes one scheme is the 59 minutes loan scheme. It is a platform where you get a kind of a consent for funding in 59 seconds 59 minutes. Then you submit your proposals and within 9 to 10 days your proposal will be sanctioned something like that. SIDBI the small industry development bank of India has started lending to companies directly bypassing bank. The interest rate on these loans is at least 300 basis points lower than the usual rate 300 basis points makes 3 percent, 3 percent less than traditional commercial loan.

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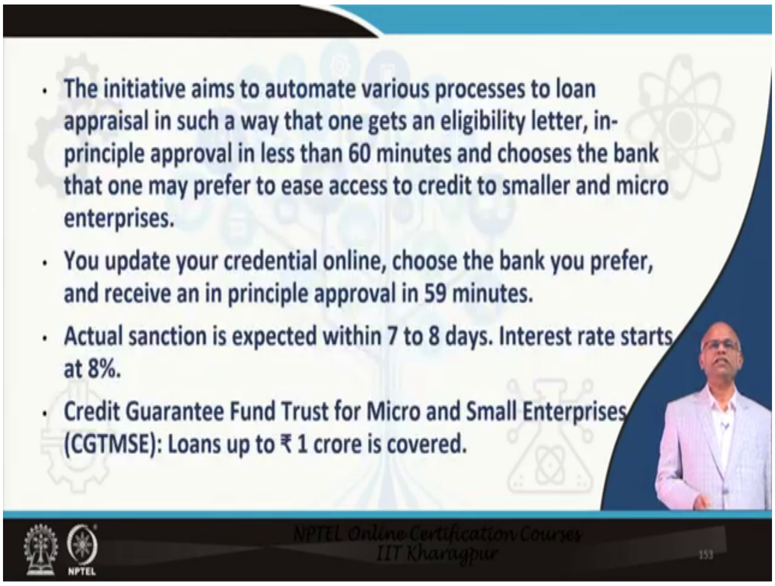

The initiative aims to automate various processes to loan appraisal meaning that initial period for processing a loan application should come down. And it should be done with less than 30 seconds the less than 60 minutes means 1 hour you update your credential online after this 59 minutes, choose a bank you prefer and then receive in principle approval in 59 minutes.

But actual sanction will come within 7 to 8 days interest rate starts at 8 percent as low as 8 percent which is even lower than housing loan. Now a bank will now will not reject your proposal because of security because the Credit Guarantee Fund Trust for Micro and Small Enterprises, guarantees loan after 1 crore rupees per borrower. If a borrower takes loan of 1 crore rupees bank has nothing to lose because this loan is guaranteed by credit guarantee fund trust.

So, or CGCRI Credit Guarantee and Insurance Corporation or something like CGCRI no perhaps it has become CGTMSE; that means, Credit Guarantee Fund Trust for Micro and Small Enterprises.

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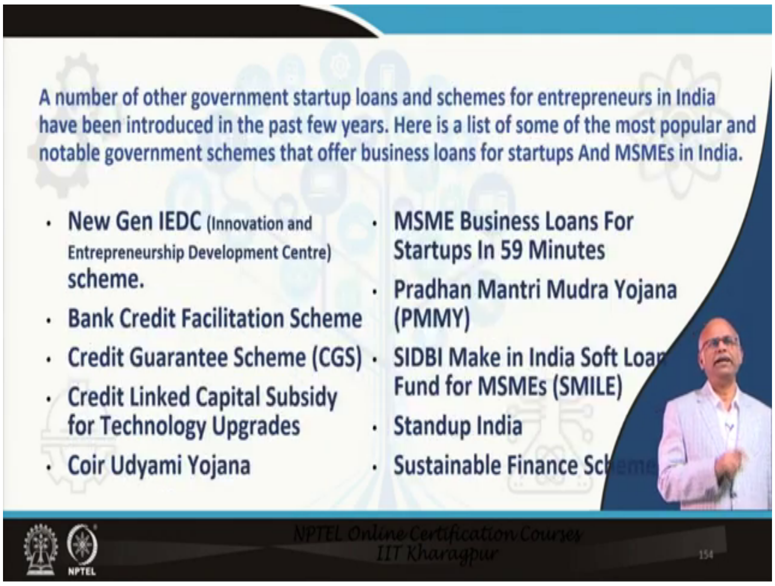

So, bank has every reason to actually extend money a number of other government startup loans are there that promote startups. Here is a list of some of the most popular and notable government scheme that offer business loans for startups and MSMEs in India like New Gen innovation and entrepreneurship development center scheme.

Then Bank Credit Facilitation Scheme, Credit Guarantee Scheme then Credit Linked Capital Subsidy for Technology Upgrades Coir Udyami Yojana. MSME business loan for 59 minutes that I have mentioned Pradhan Mantri Mudra Yojana we have mentioned SIDBI Makes Making India Soft Loan Fund for MSME called SMILE, Stand Up India. Then sustainable finance schemes all these schemes can be Googled and you find all the details if somebody is interested in understanding details of it discussing all the details will take hours and there is no point memorizing all of that.

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So, we are not actually going into that SIDBI making India soft loan fund or MSMEs, see small industries development bank of India or SIDBI. They offer new enterprises in manufacturing as well as service sector a support of 20 lakh or 10 percent of the project cost meaning that is that works as a margin money. So, if you cannot bring money from your own source you can get 20 lakh rupees or 10 percent of the project cost and apply through other schemes for the rest of the money.

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So, this is for your personal contribution comprehensive list of venture capital fund managed by SIDBI that have catalyzed more than 500 MSME and startups. SIDBI funds many venture capital fund like say Maharashtra state social venture fund investment size is 3.9 million or 25 crore rupees per unit per investee company.

Then there is in every state almost every state they have one VC firm that SIDBI is funding for on lending to startups. Even in West Bengal there is MSME VC fund like WB fund where investment size is something like 1.4 million or 9 crore rupees per unit then there is India Opportunity Fund, MSME Growth Fund, Samridhi Fund.

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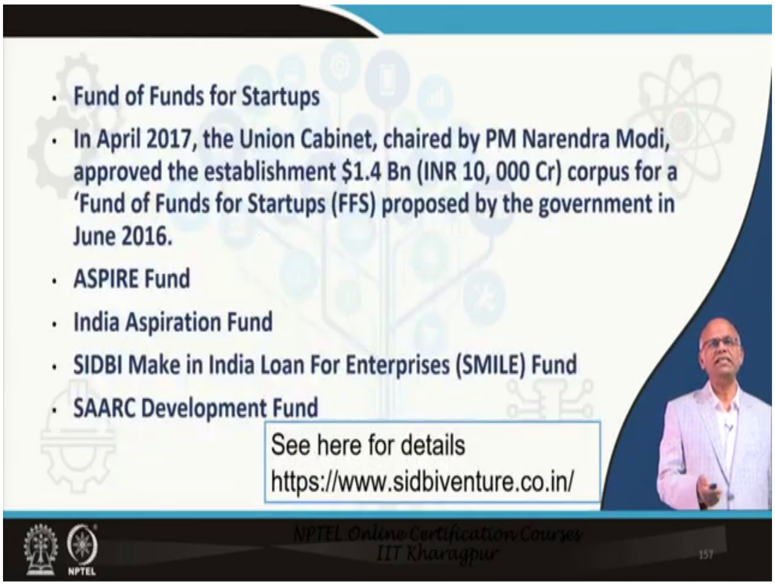

In the next slide there is a list of or that is in the next two slides fund of funds startup in April 2017, the union cabinet chaired by our very own Prime Minister Narendra Modi approved the establishment of 1.5 billion dollar corpus that is 10000 crore rupees corpus for a fund of funds for startup.

This proposed fund will find VCs or organization like that; who will fund a startup there is another fund called ASPIRE fund. India Aspiration Fund SIDBI make in India loan for enterprises SMILE, I mentioned earlier. Then there is another called SAARC Development Fund, which is kind of funding for startup in SAARC countries you can get the details that SIDBI ventures dot co dot in.

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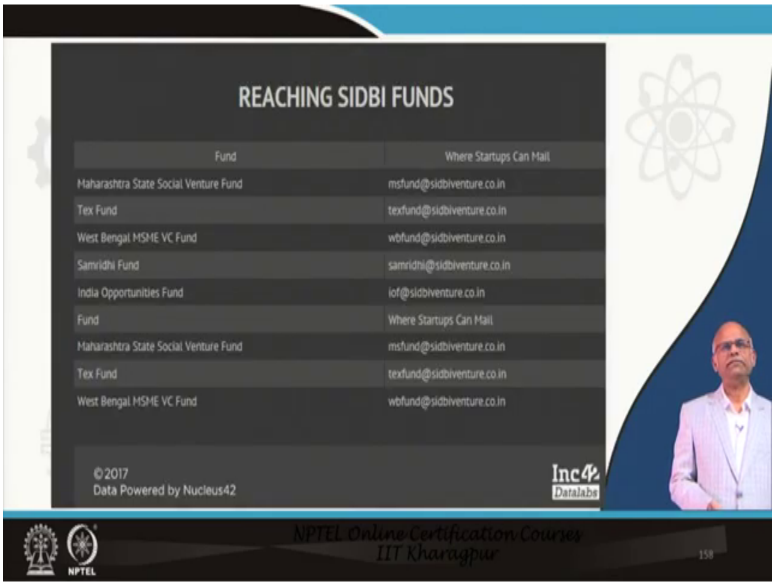

Here is the list of venture capital fund in different states like say Maharashtra then there is there is West Bengal fund, Tex Fund I believe is in some particulars Samridhi fund India opportunity.

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Then different places there are different venture capital funds, now for startup there is also other than funding. They are also tax exempted like if your startup is recognized as a startup by ministry of by say ministry of small and medium small and micro industries.

Then you will be eligible for tax exemption, you will be eligible for exemption of income tax for 3 years in the 10 years of existence of your preference you can prefer whichever year you make more profit you can prefer to avail the tax exemption in that particular year.

This is under section 80 IAC, the entity should be a recognized startup that is; obviously, the condition. And only private limited company and limited life limited liability partnership companies are eligible for this exemption. If you are say partnership or say proprietorship you will not get benefit of this income tax exemption and then there is another condition is not on retrospective basis. So, a company which has been registered on the first of April 2016 or later will be eligible for this fund.

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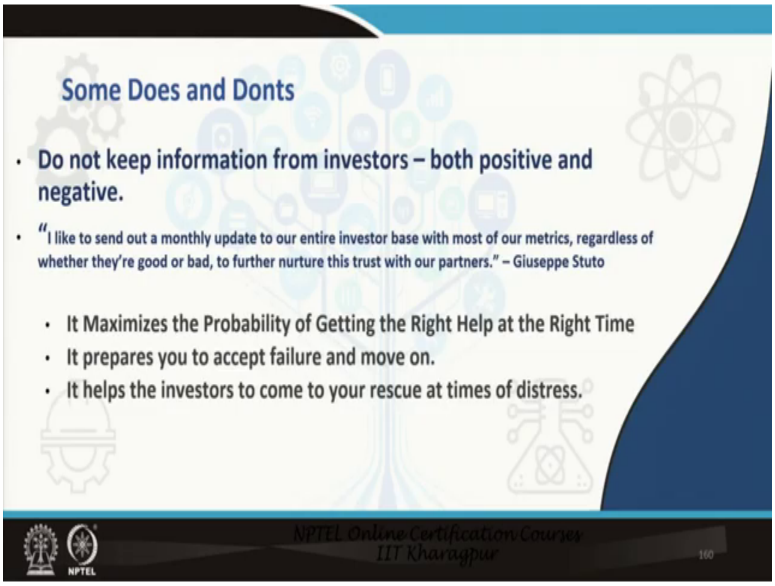

Some does and do not do not keep information from investor both positive as well as negative. If you think that you have some negatives and if investors come to know about it then investors will become scared and then they might very well demand the money back or they might drive you away from the company.

You should not think that way you should always keep them informed about the challenges that you are facing because they are smarter people they are people who are well-connected suppose you have a challenge you divulge that to your investor.

The investors are going to give you the strategy or connect with connect you with another company and together with that company you can actually solve the problem. Suppose you have a marketing problem you are not able to acquire new customers your growth of customer is going down. So, they will they will just give you some strategy by which you can modify your product or you can have a better strategy to connect with customers maybe some advertisement maybe even they come up with new money.

So, that you can cope up with this new situation that is why you should always remain connected with your investors and should not suppress information. If you suppress information chances are almost 100 percent that they will come to know about it. But the fact is that they will come to know about it at a time when even they will have very little opportunity very little leverage to do something that will help you tide over the situation, look at what Stuto has said I just copied from somewhere I am not very, very much aware about the person.

He says I like to send out a monthly update to our entire investor base with most of our metrics like ups and downs regardless of whether they are good or bad. To further nurture this trust with our partners your partner should know they should know clearly what is going up and what is going down only then they will think that you are a person with complete transparency.

So, they will always remain miss they will always trust you they will never mistrust you, it maximizes the probability of getting the right help at the right time whenever you need help will come and if you have a positive news that will give them the comfort.

And you should not suppress that information as well they can plan when to exit or they can plan your better growth potential. So, moving forward you can grow better it prepares you to accept failure and move on. Like once you share your challenges or some happenings that has kind of jeopardize some of your plan you share with somebody particularly your investor you are relieved of the pressure to a great extent.

And now there will be support coming on the way and you can actually move ahead with more strength. It helps the investors to come to you rescue at times of distress so it helps both you as well as the investors.

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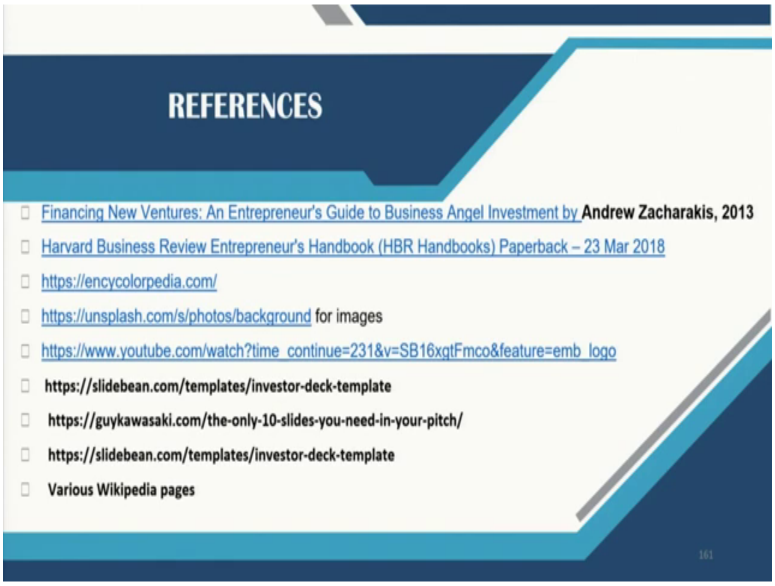

There are good references particularly the book that I have mentioned at number one that is financing new ventures. And entrepreneurs guide to business angels investment by Andrew Zacharakis this is a wonderful book I have primarily referred to this book. And anybody any entrepreneurs for any entrepreneurs this should remain as a handbook for them to follow and structure all the deals based on this wonderfully written very lucidly explained everything.

Then there is another book by Harvard business review that is entrepreneurs handbook I refer to this book many a times and I have also given this reference at many a times. So, this particular two books were used extensively I have taken some slides from slide bean for presentation templates Guykawasaki website etcetera. And most of the most of the icons I have been taken from Flaticons I forgot to mention it here Flaticons dot com.

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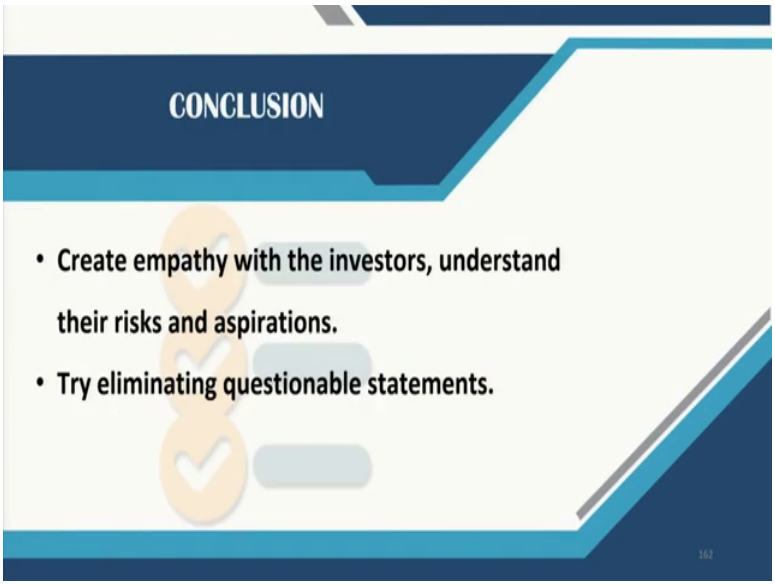

Create empathy with the investor understand their risk and aspiration only then you can match their requirement and it will be all positive from both sides. If you think that your business is more valuable and you do not have any risk then you are not thinking from the investors point of view.

If you are thinking from investors point of view will be absolute transparent and you appreciate their challenges and both parties will be on the same page. That will lead to a trustable sustainable relationship try eliminating questionable statement have all the questionable statements for your own satisfaction for your old own troubleshooting.

Thank you very much.