Sources of Financial Capital

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Introduction

- A company converts ideas into products.
  - Sells it at a value higher than the production cost..
- For this, a company requires capital.
- “Financial Capital is enabler of enablers”

The question is, where do we get money(a.k.a Capital) for the company?

➢ For this, we need to understand the types and sources of Capital.

3F’s Friends Family and Fools

- Banks and financial institutions play a safe game.They just want money back with interest

- Friends and family have always supported you and they believe you not the venture

- Friends and family may generally work out as they are not demanding on your final projections as a professional investor

- Fools they don’t recognize the risk in venture

- They are generally not sophisticated investor rather they invest in foolish or whimsical manner

Fools rush in where **angels fear** to tread.

– Alexander Pope

Equity vs Debt

- Debt Refers to the funds that are borrowed and must be paid at later date.
- Provider of Loan capital do not have shares in company.
- Some of Debt instruments are Loan Bonds Fixed Deposits.
- Equity financing is the process of raising funds via selling shares in a company.
- With equity finance comes the ownership interest of shareholders.

Sources of Equity Capital

For Startups/Private company

- Angel Investors
  - Startup, pre-revenue
- Venture Capital
  - Early stage, pre-profitable
- Private Equity
  - Mid to later stage, profitable, cashflow

Angel Investors

- 'Form of angels'
- Rich individuals
- High risk ; high growth
- Usually in exchange for convertible debt
  Or ownership equity
- Extreme Risk

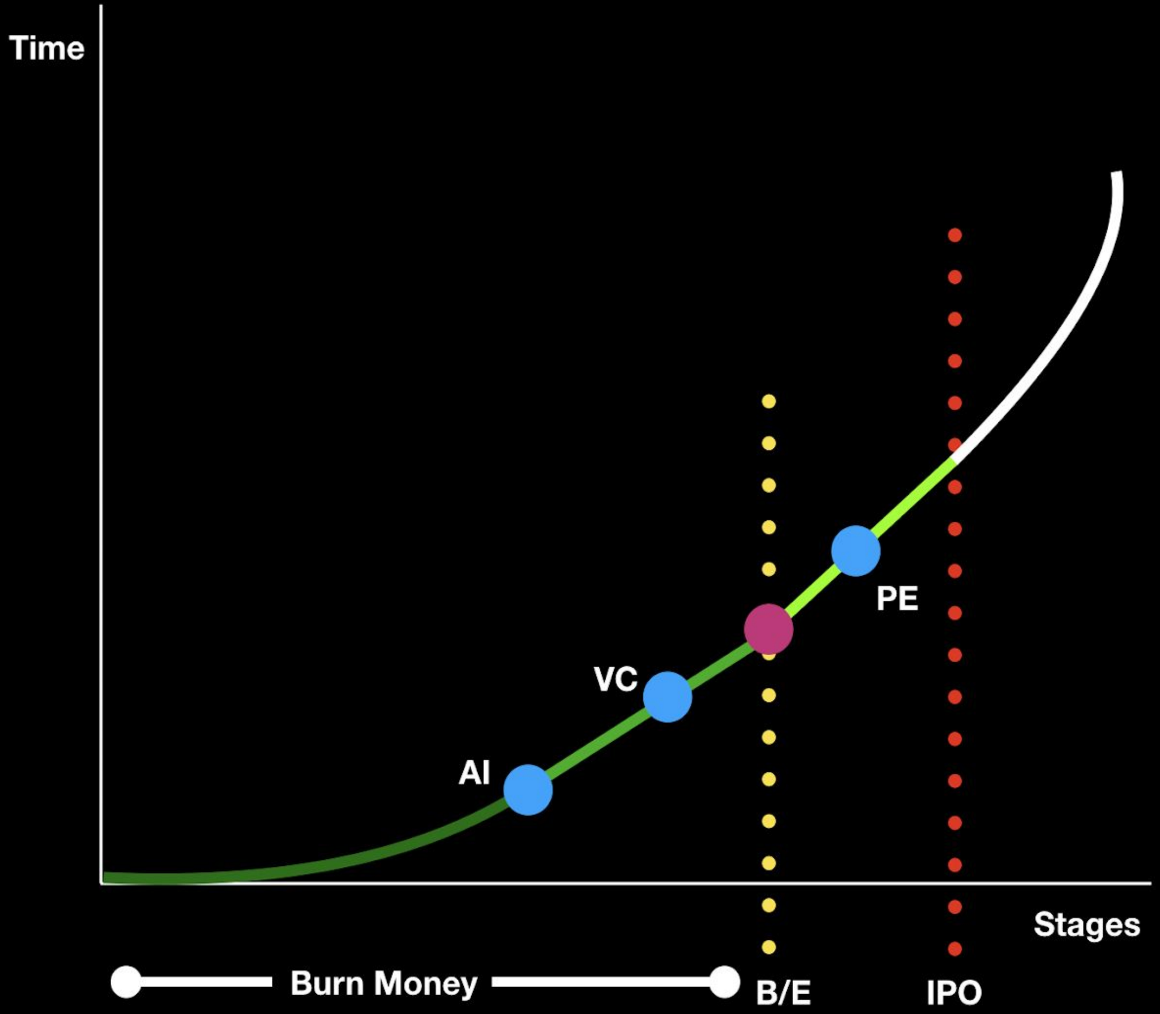
Venture Capital Firms

- Venture Capital - Money invested in early stage.
- Place money from investors in strategically managed funds
- Before investment
  - Perform a due diligence of the stability of company.
- Equity shares <-> Capital
- High Risk

Private Equity

Company ownership by a Specialized Investment Firm

- Streamlining a current business in order to make it profitable.
- Goal: Sell each business in few years -> Profit
- Often target underperforming business
    - Use Management expertise
- Moderate Risk



AI- How do they reduce risk?

Money Making for everyone.

Private Equity - To The IPO & exit.

What happens after a company has established itself?

- It goes public (Initial public offering)
- What is meant by going public?

Types of investors

- Retail Investors- Individual investors investing small amounts
- Institutional Investors-
  - Institutions investing huge amounts
  - Have a tremendous influence on stock market’s movements.
  - Eg. Insurance companies,Mutual Funds

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