Entrepreneurship Essentials

Funding New Venture

Lecture Note # 17

Funding New Ventures

- **Section – I: Introduction, funding requirement, possible sources**
- **Section – II: Bootstrapping, crowdsourcing, incubation, acceleration**
- **Section – III: BA | VC**
- **Section – IV: Debt funding**
- **Section – V: Government assistances**

Funding Decisions are Very Tricky

We hear stories of venture capitalists making nX returns from funding startup that achieve remarkable success.

Peter Thiel invested $500,000 in Facebook in 2004. Eight years later, he sold his stake for more than $1 billion.

But still many entrepreneurs face multiple rounds of rejection.

The success depends on the attractiveness of the business model, timing, traction, team, and prospect.

For example, Joe Gebbia, Brian Chesky, and Nathan Blecharczyk sought funding for their startup, Airbnb, in 2008.

They wanted to raise $150,000 in return for a 10 percent stake in their company. None agreed to invest.

Nine years later, Airbnb, was valued $31 billion (presently valued >$100bn).

If one of these investors had invested, their $150,000 investment would have been worth $3.1 billion in nine years.

Even the most accomplished venture capitalists invest in many startups that do not succeed and pass on a number of deals that could have been highly lucrative.

Every investor has at least one great regret.

Forms of Capital

- Forms of capital – equity, preference shares, debt, grant
- Equity investment gives ownership to investors
- Investment in preference shares may have equity or debt or both flavours.
- Debt is loan taken on interest and has to be repaid – no matter what.
- Grant has no covenant.

Expenses before going to market:

Startup Expenses	₹ '000
Early salary	100
Market research	40
Prototyping	500
Design of logo, etc.	30
Traveling	25
Legal expenses	60
Trial expenses	200
Advert. & Promo	100
Rent	60
Utilities	20
Website & hosting	20
Internet data plan	10
Telephone bill	5
Insurance	10
Consumables	20
(Prel. & Preop.)	1200

Assets:	
Current assets	
Cash	50
Inventory	500
Other current assets	100
Long term assets	
Machinery	200
Computer	120
Software	50
Interior decoration	10
Furniture & Fixure	50
Preliminary & Preop.	1200
Sub total	1630
Total expenses	3480

Funding	₹'000
Liabilities	
Accounts payable	100
Other curr	50
Friends & Relatives	500
Long-term liabilities	0
Sub-total	650
Equity	
Owners	2000
Investors	0
Crowdsourcing	830
Sub-total	2830
Loan fund	0
Total funding	3480

For what purposes, a startup requires money?

Once you are ready with your product, you need major amount of fund to

- Create infrastructure.
- Working capital.
- Sales promotion.
- Brand building.
- Logistics.
- Post sales service.
- Employee benefits.

- Website/app development
- Team hiring
- Legal and consulting services for your startup
- Licenses and certifications
- Marketing and Sales
- Office space and other admin expenses

Sources and Uses of Capital: Balance Sheet

Uses of capital

Assets

- Cash
- Trade receivables/ Debtors
- Inventory
- Land
- Building
- Machinery

Sources of capital

Equity & Liabilities

Owners' equity

- Equity capital
- Reserves & surplus

Liabilities

- Preference capital
- Trade payable / Creditors
- Short-term debt
- Long-term debt

Assets:	
Current assets	
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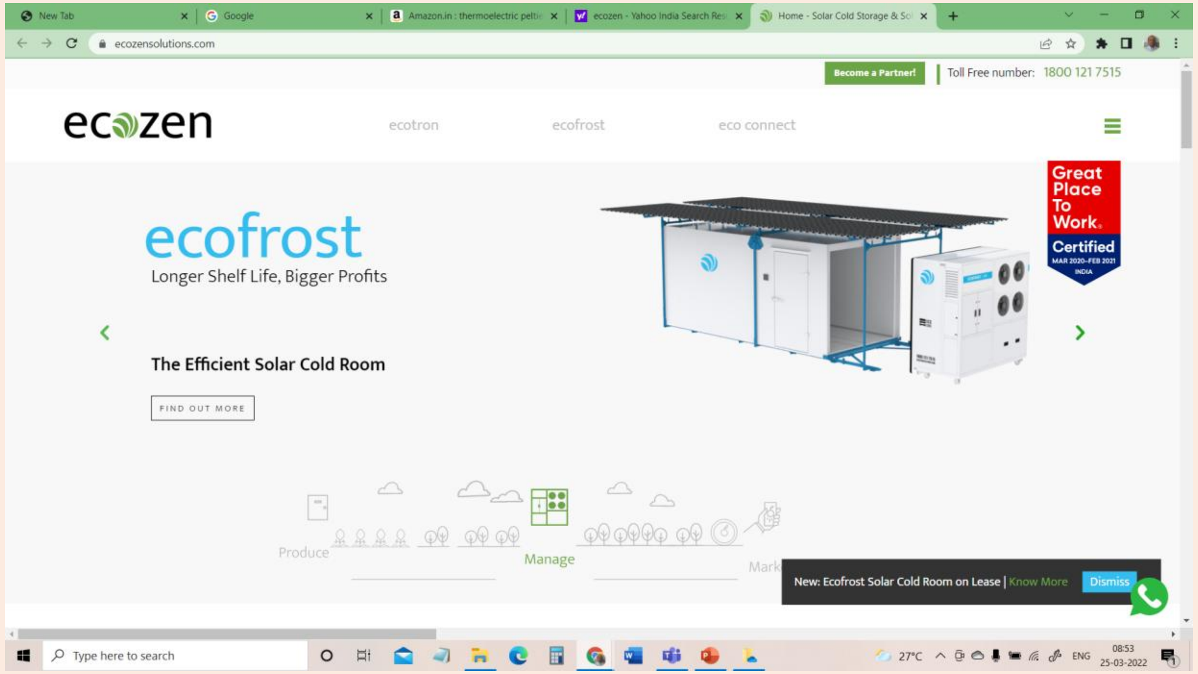
Face value or par value: Say ₹10
2 lakh shares of ₹10 each

Authorized, Fully and Partly Paid-up Capital

Post- and Pre-money value



https://www.ecozensolutions.com/

Equity Capital

- **Authorized capital: maximum amount of equity capital authorized by the registrar of companies**
- **Paid-up capital: to the extent subscribed**
- **Equity capital consists of shares**
- **Each share has a face value or par value (say ₹10, or ₹5, or ₹1, etc.)**
- **If the face value is ₹10 and paid-up capital is ₹2,00,000 means that the founders have invested ₹2,00,000 in the form of 20,000 shares of ₹10 each.**

Equity Holding

Equity & Liability		
Equity capital – Authorized capital: ₹50 Lakh. Fully paid-up equity capital: ₹ 20 Lakh Consisting of 2 lakh equity shares of face value ₹ 10 each. Total equity capital: ₹ 20 Lakh i.e. 2 L shares		
Co-founder A holds	50,000 shares	50,000/2,00,000 = 25% holding
Co-founder B holds	80,000 shares	80,000/2,00,000 = 40%
Co-founder C holds	70,000 shares	35%
		Total 100%

Shares provide you ownership and voting right

Equity Holding

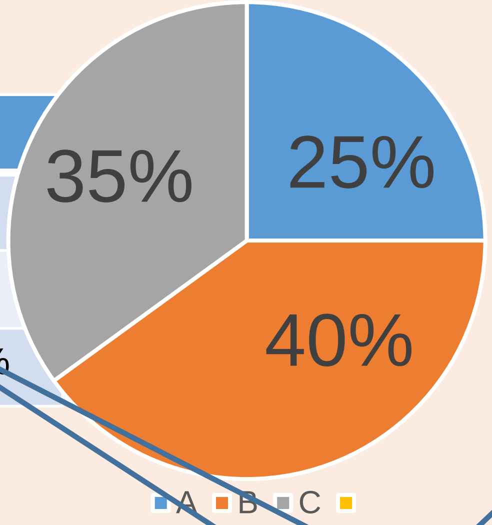
Equity holder		
Equity capital – fully paid-up equity capital	Consisting of 2 lakh equity shares of face value ₹ 10 each.	Total equity capital: ₹ 20 Lakh (2 lakh shares of ₹10)
Co-founder A holds	50,000 shares	50,000/2,50,000 = 20% holding
Co-founder B holds	80,000 shares	80,000/2,50,000 = 32%
Co-founder C holds	70,000 shares	70,000/2,50,000 = 28%
Investor	50,000 shares	50,000/250,000 = 20%
		Total : 100%

Cofounders have two options:
i. they can give some of their shares to the investors, or
ii. create new shares and give them to investors.

Usually, the latter is followed.
Therefore, to offer 20% of equity to investors, founders' holding should go down to 80%. So, post-money, number of shares is 2,00,000/0.8 = 2,50,000 number of shares

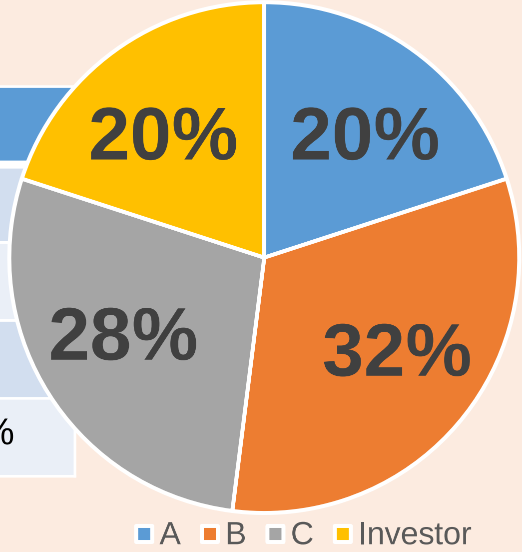
Pre-money Founders' holding %

A	**50,000**	**25%**
B	80,000	35%
C	70,000	40%
Total	**2,00,000**	100%



Post-money holding %

A	**50,000**	**20%**
B	80,000	25%
C	70,000	32%
Investor	50,000	20%
Total	**2,50,000**	100%

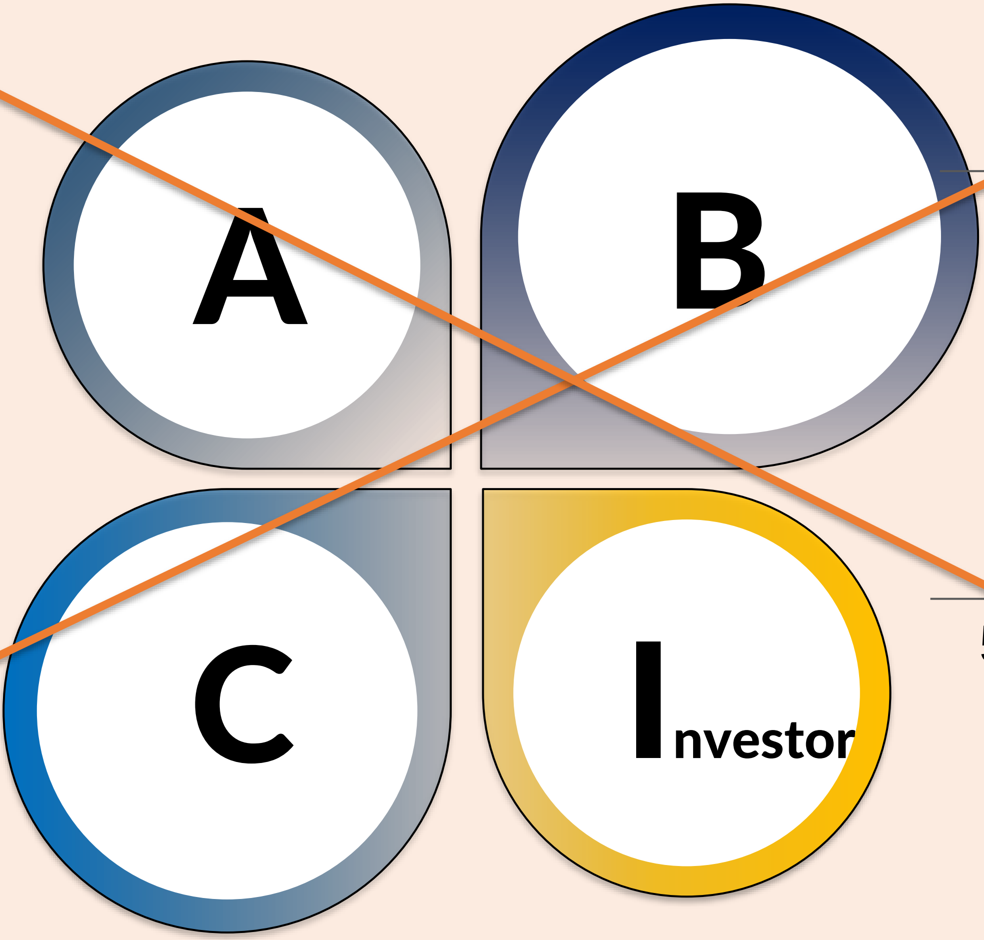


Notice that the number of shares of founders remains the same

Equity Holding

Founder A: 20%

50,000 shares out of total of 2,50,000 shares issued.



Founder B: 32%

80,000 shares out of total of 2,50,000 shares issued.

Founder C: 28%

70,000 shares out of total of 2,50,000 shares issued.

Investor: 20%

50,000 shares out of total of 2,50,000 shares issued.

An Investor Can Invest in Equity, Preference Shares, Debt, Grant.

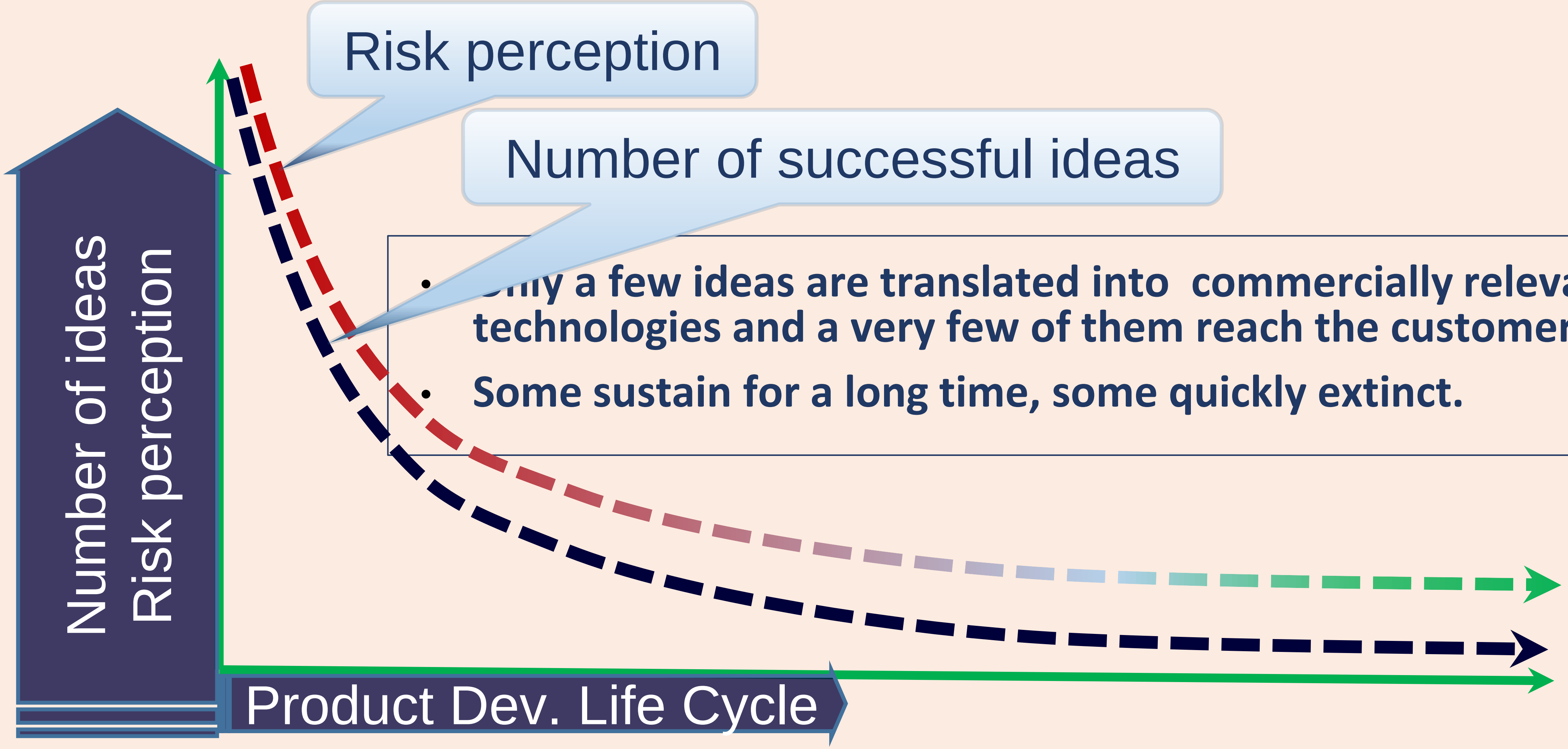
Seniority of Creditors

- If a company goes into liquidation, the sales proceeds of all its assets are distributed among all creditors and equity holders.
- Secured creditors are served first.
- Next are unsecured creditors and employees.
- Preference shareholders
- Stockholders are paid last.

Raising money is an essential part of early-stage entrepreneurial ventures

- **Most new entrepreneurs do not have enough money to fund the exact need of the business.**
    - **Unlimited risk.**
    - **Capital investment.**
    - **Cash flow challenges.**
    - **Long duration of product development and creation of market connectivity.**
- **Growth of business entails large amount of money.**
- **Money from external source somewhat reduces risk.**

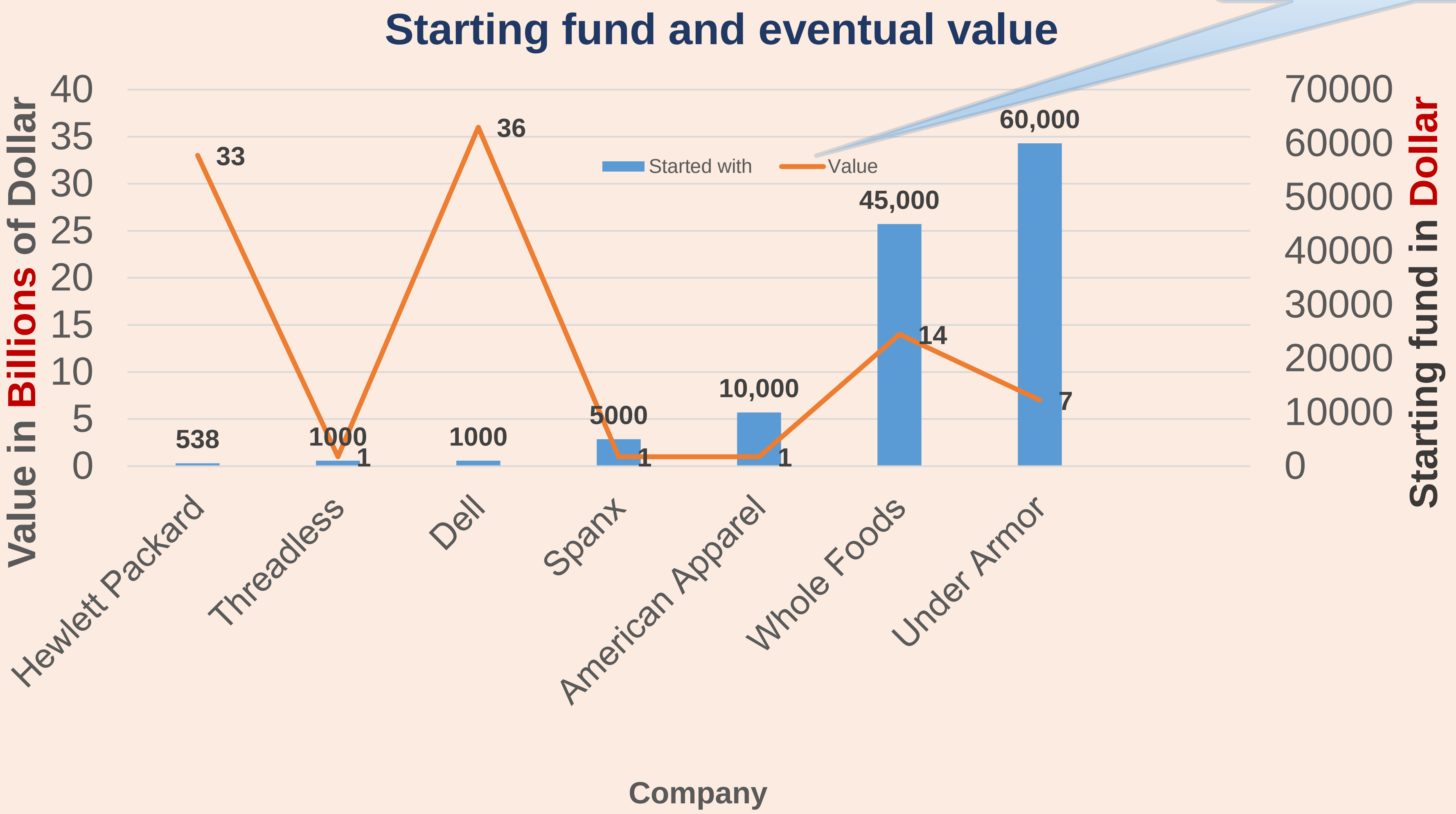
Startups Need Risk Capital at the Early Stage

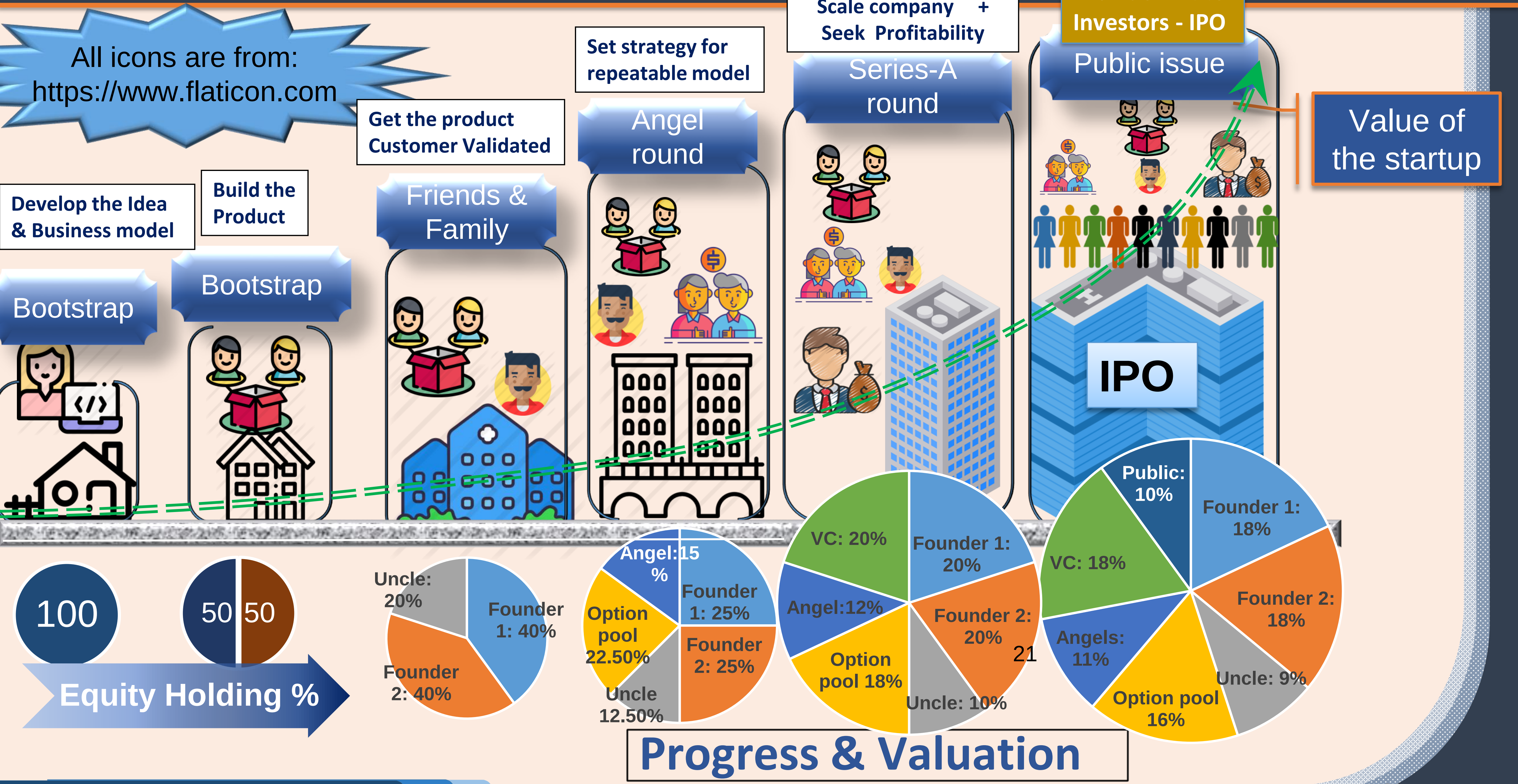


- Only a few ideas are translated into commercially relevant technologies and a very few of them reach the customers.
- Some sustain for a long time, some quickly extinct.

How Much Money You Need?

In billion dollar

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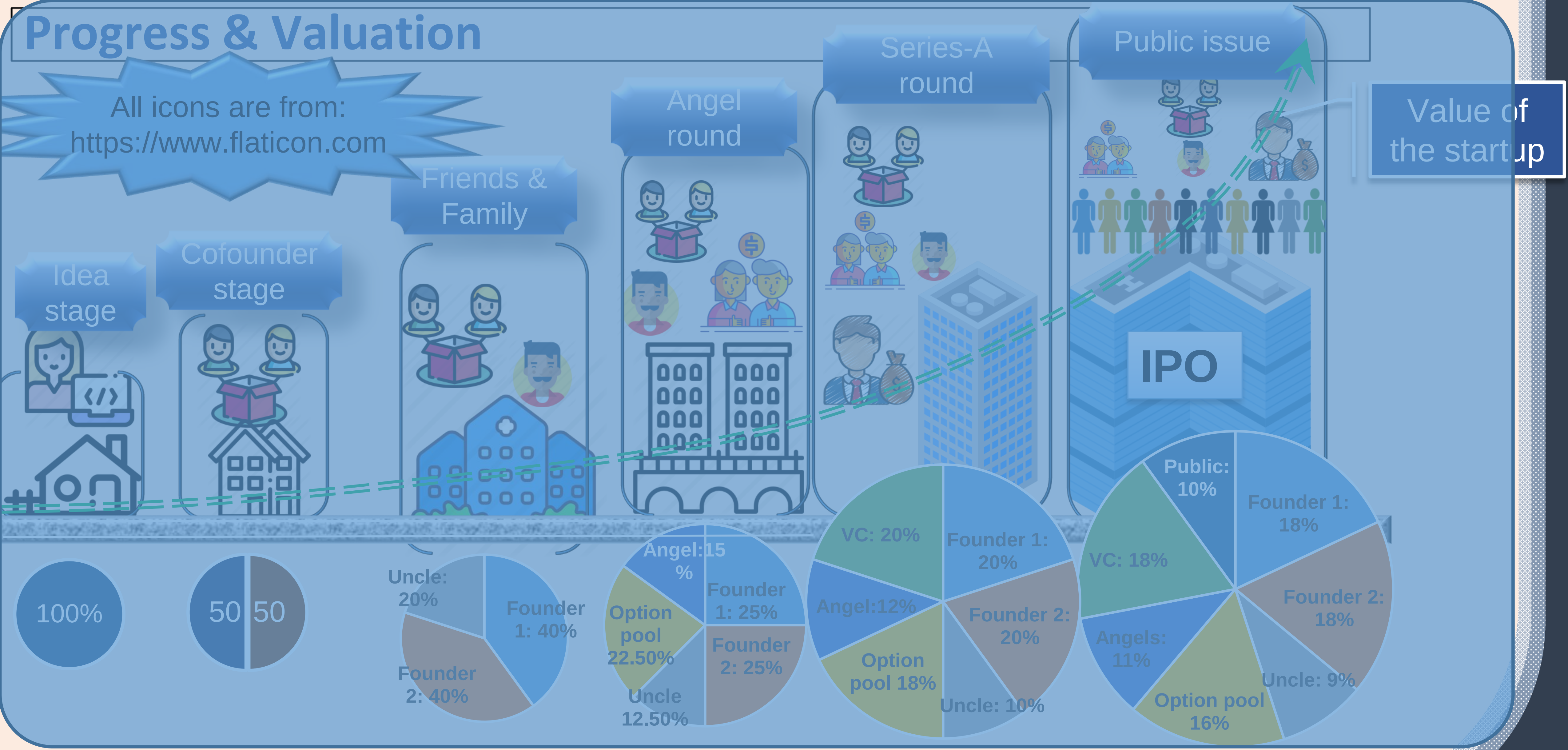
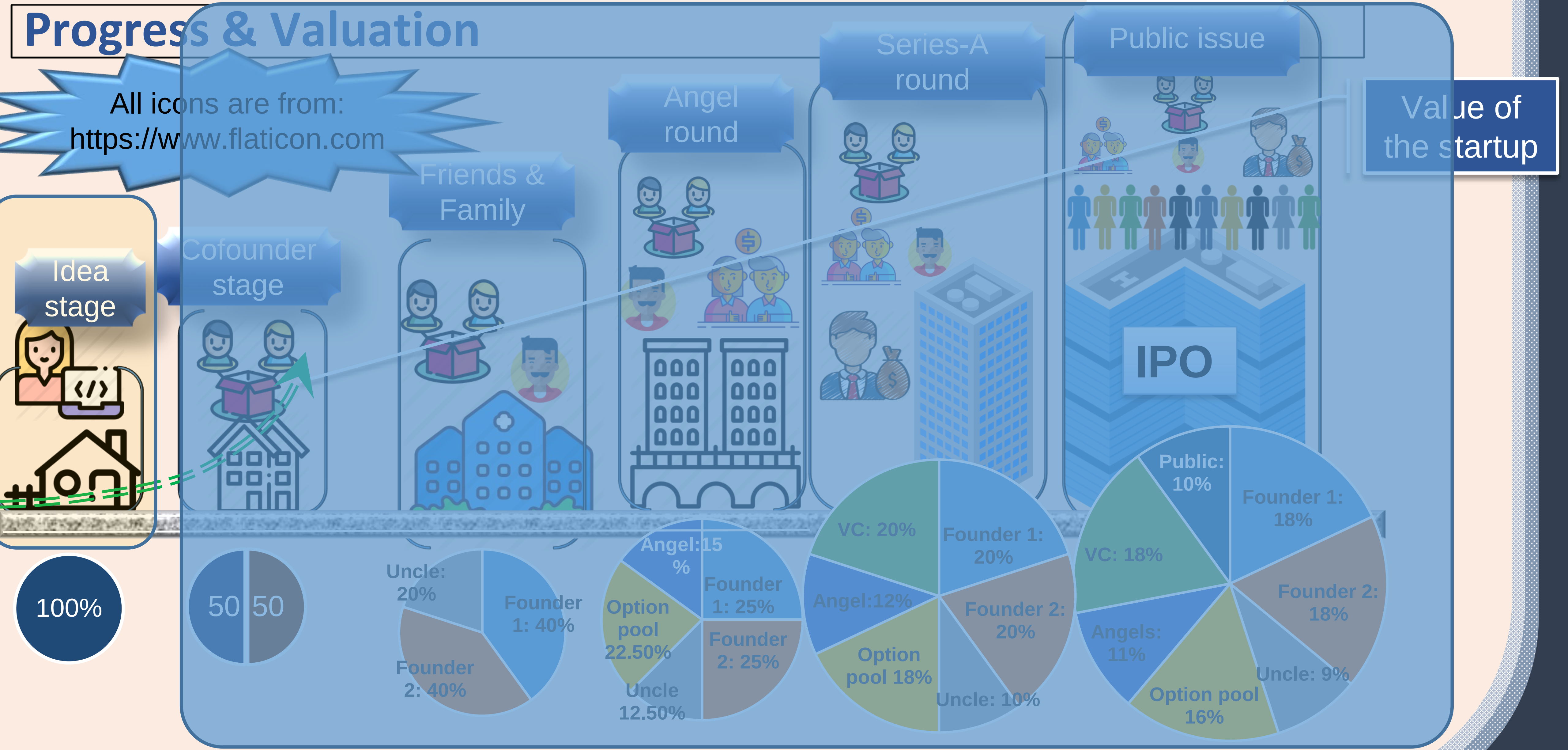
Develop the Idea
& Business model
Bootstrap
Build the
Product
Bootstrap
Get the product
Customer Validated
Friends &
Family
Set strategy for
repeatable model
Angel
round
Scale company +
Seek Profitability
Series-A
round
Provide Exit to
Investors - IPO
Public issue
IPO
Value of
the startup
100
50
50
Equity Holding %
Uncle:
20%
Founder
1: 40%
Founder
2: 40%
Angel:15
%
Founder
1: 25%
Option
pool
22.50%
Founder
2: 25%
Uncle
12.50%
VC: 20%
Founder 1:
20%
Angel:12%
Founder 2:
20%
Option
pool 18%
Uncle: 10%
Public:
10%
Founder 1:
18%
VC: 18%
Founder 2:
18%
Angels:
11%
Uncle: 9%
Option pool
16%
Progress & Valuation

Progress & Valuation



Progress & Valuation



Progress & Valuation

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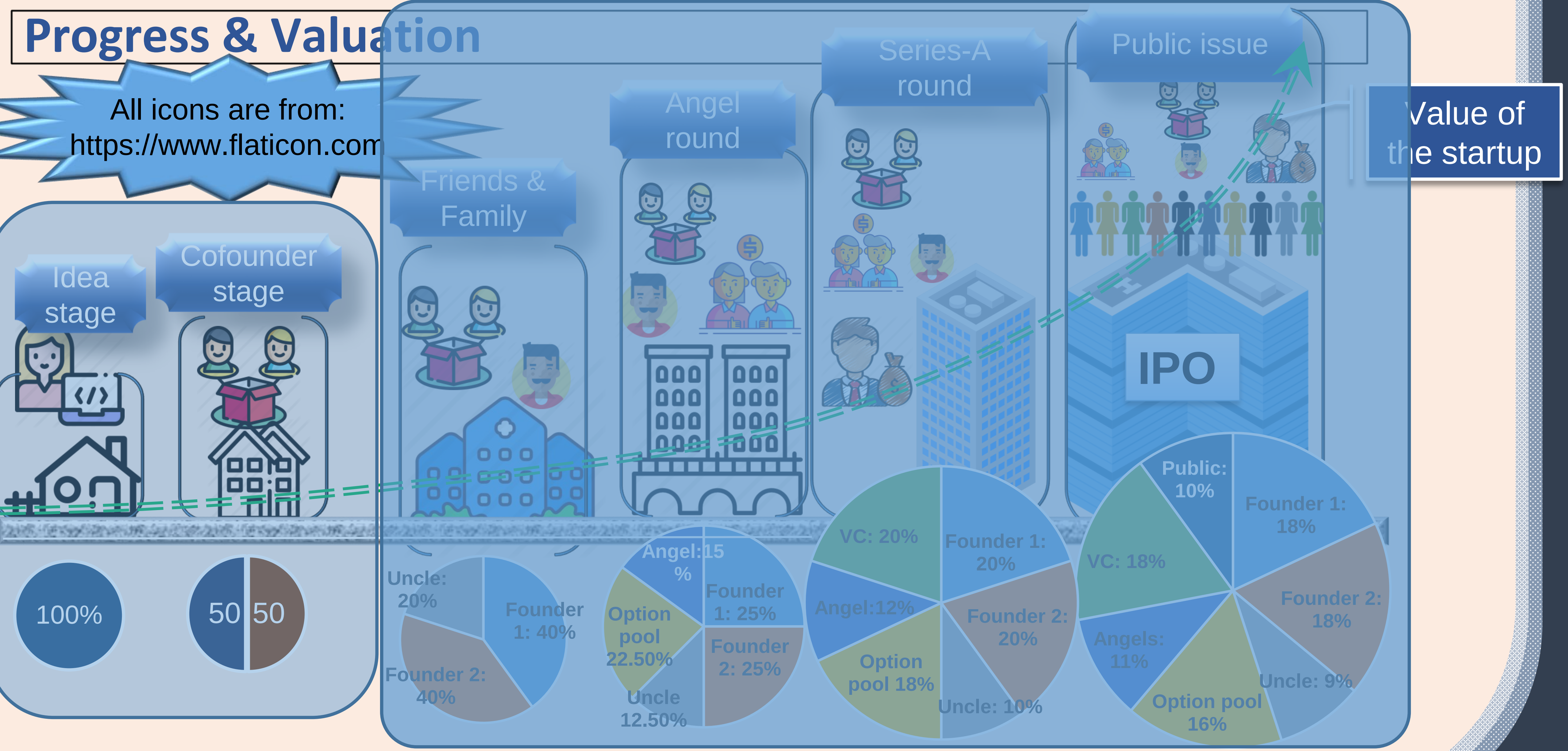
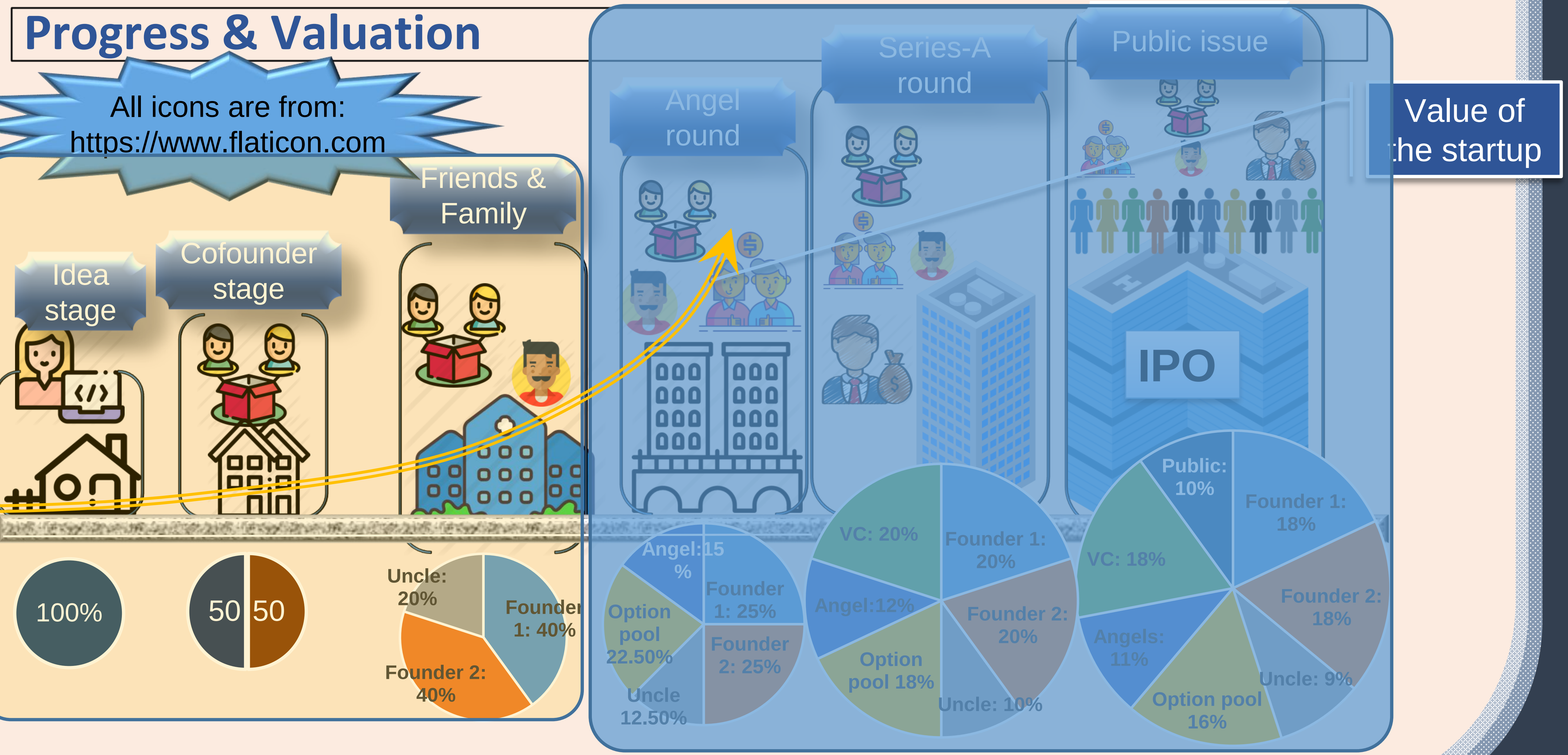


Progress & Valuation



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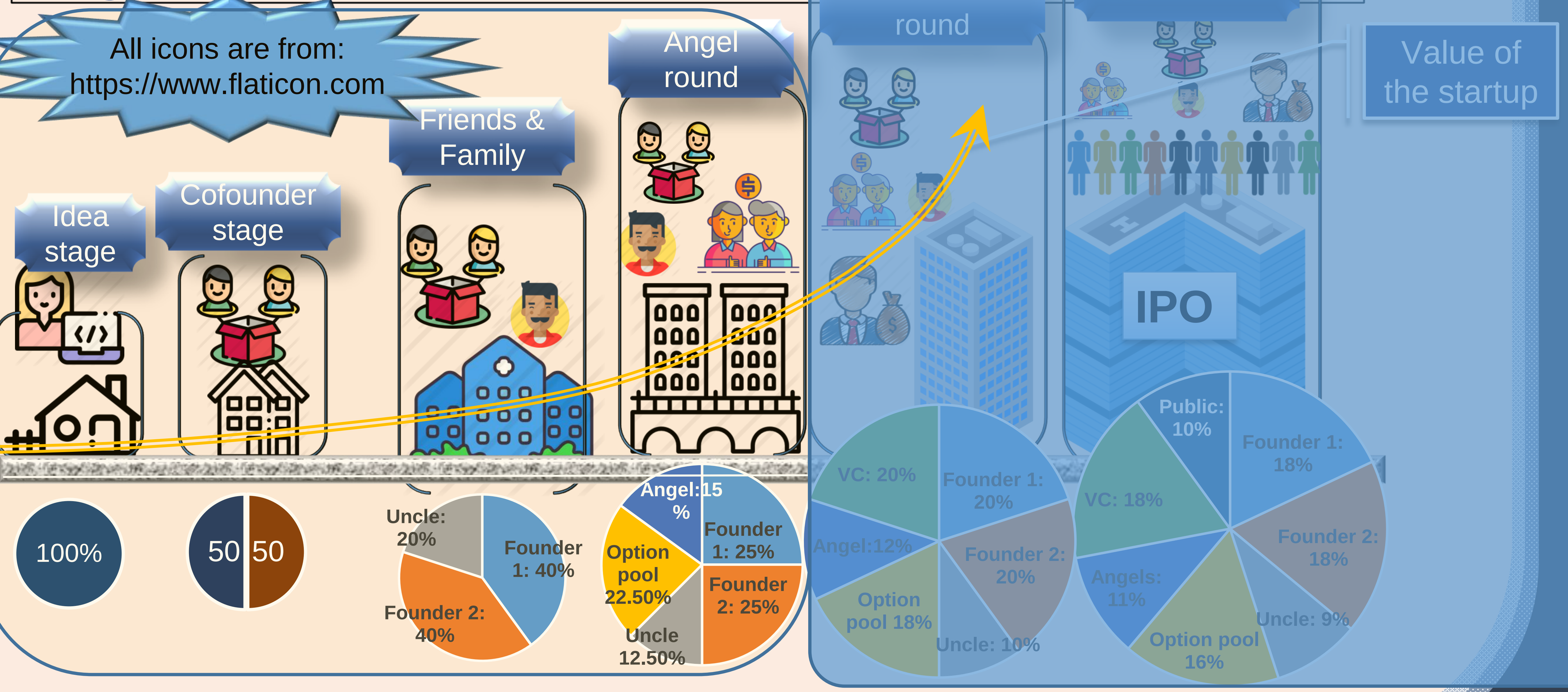
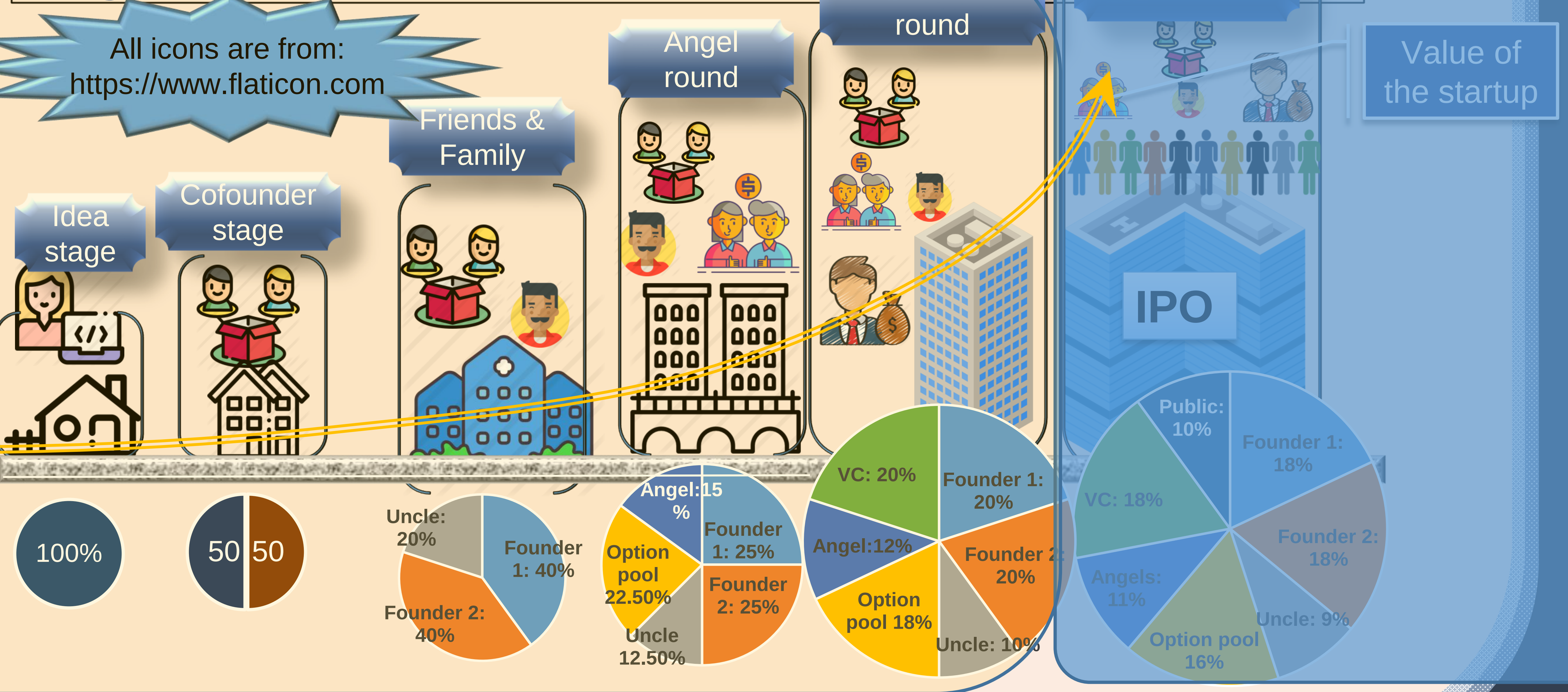
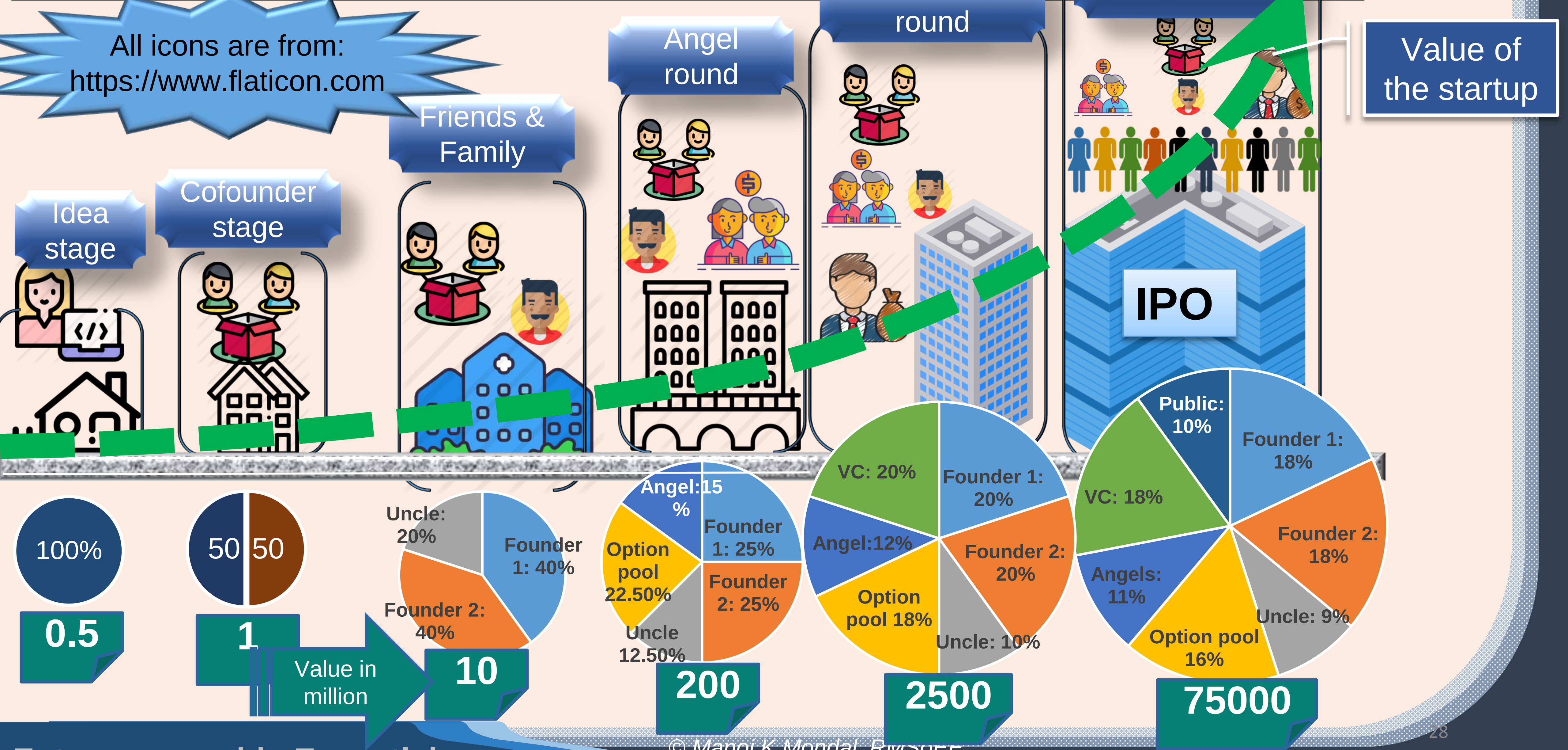


Progress & Valuation



Progress & Valuation



- **Your holding in the company gets diluted as you obtain investment in the form of equity.**
- **Debt does not dilute equity but have to be repaid with interest.**
- **Grant is the most attractive form of capital.**
- **Some private organizations also provide grant.**
  - For example: Villgro: www.villgro.org
  - Villgro is India's oldest and foremost social enterprise incubator, that supports social startups in the sectors of Agribusiness, Health, Education and Renewable energy.

Security: In Two Contexts

Securing a debt (loan)	Securitization of assets
• Hypothecation • Mortgage • Lien • Pledge • Guarantee	• A document holding the right on a property. • A fixed deposit certificate • A share certificate (equity & preference share) • A bond certificate

You offer assets as security to secure a debt so that the lender can liquidate the assets to recover the loan in the event you fail to repay as promised.
Lenders' motivation to extend the loan depends on the value and liquidity of the assets that you pledge.
Assets other than what is financed by the loan and offered as security is known as collaterals

- This knowledge is important because investors' risk perception depends on the type of security that they receive.
- Furthermore, it is important to know that in the event of liquidation, the equity holders (the founders) may not receive anything if the proceeds are inadequate to meet all other liabilities.

	Number	₹ Lakh	Holding-Initial	Holding after uncle round	Holding after angel round
Eq. share of ₹10 each	1,00,000	10.0 L			
You	60,000	6.0 L	60%	42% (60,000)	42*.8=33.6%
Partner	40,000	4.0 L	40%	28% (40,000)	28*.8=22.4%
Uncle	42,857 Total (1,42,857)			30%	30*.8 = 24%
Angel	35,714 1,78,571				20%
Total			100%	100%	100%

Seniority of Sources (Nature) of Funds/ Seniority of Liabilities

- Seniority in the context of various types of sources of fund refers to the priority or order of payment (or repayment) in the event of liquidation of an enterprise.
- Seniority pertains to debt (loans, bonds, securities), preferred stock, various credits, and equity. Every security has relative seniority. Some securities such as bonds may be of the same seniority, which is termed as paripassu.
- Say, based on a court order, the assets of a company are being liquidated and the proceeds are to be distributed among all the creditors (banks and others).
- The senior most debt must be repaid before subordinated (or junior) debt is repaid.
- Preferred stock (preference capital) is senior to common stock (equity capital), which means that preference stockholders will be paid first. If anything is left after paying to preference shareholders, only then equity shareholders will be paid.

Seniority Ranking of Corporate Liabilities

Secured Creditors

- **Claim by the government**
- **Credit secured by collaterals (Bank loans)**
- **Subordinated (Subordinated bonds and loans)**

Unsecured Creditors

- **Unsecured (Public deposits, corporate bonds, corporate papers, trade creditors)**
- **Preference shares (Hybrid/quasi equity)**

Mezzanine

- **Preference shareholders**
- **Seed capital**

Equity

- **Equity**
- **Subsidy, grant,**

In finance, **seniority** refers to the order of repayment out of salvaged value in the event of a sale or bankruptcy of the issuer. **Seniority** can refer to either debt or preferred stock. Senior debt must be repaid before subordinated (or junior) debt.

Types and Sources of Funds: bottom up

Seniority

- **Grant, subsidy, donations (no cost and no obligation to return).**
- **Seed money (Zero to low cost, vary from grant to debt)**
- **Equity (cost obligation: dividend & capital appreciation, no repayment)**
  - Founders/promoters, accumulated surplus (profit)
  - Investors
  - Friends & relatives
  - Public
- **Preference equity (Mostly hybrid in nature: mix of Debt and Equity)**
- **Unsecured loan** (mezzanine senior to equity but subordinate to secured debt)
    - Most costly
- **Debt, Trade creditors**
  - Long-term debt
    - Banks/financial institutions, private lenders, trade creditors, non-bank finance companies
  - Short-term debt
    - Mostly banks

Example

A company defaults on payment to a creditor and the court orders liquidation. How the payment will be made, and will there be anything left for the equity holder? Suppose, the following is the list of creditors and their receivables.

Creditors	Outstanding
Trade creditors	200
Unsecured loans	300
Bank loan	1000
Preference stocks	500
Loan on second lien (mortgage)	200
Total	2200

Liquidation proceeds:		1500	1300	2500
Bank loan	1000	1000	1000	1000
Loan on second lien (mortgage)	200	200	200	200
Trade creditors	200	200	100	200
Unsecured loans	300	100	0	300
Preference stocks	500	0	0	500
Equity holders	0	0	0	300

Please know (at least) that preference shareholders will have priority over equity shareholders to receive the sale proceeds of a company

How to Fund Your Startup?

- Bootstrapping (own sources including credit cards)
- Friends & Family
- Crowd-Funding/sourcing
- Startup competitions
- Impact Investors – Example: VillGro
- Incubators (mostly university based)
- Startup Accelerators (Surge by Sequoia Capital)
- Angel Investors
- Venture Capitalists
- Private Equity
- Bank Loans
- Advance/ Pre-payment from future customers
- Startup-Specific Credit Card: Example: LaghuUdhyami Card from IDBI
- Government Institutions – Example: DSIR, SIDBI, NABARD and MSME (NSIC)
- Indian government Startup Funds: India Aspiration Fund (IAF), SIDBI SMILE, Mudra Fund
- Government grants: visit

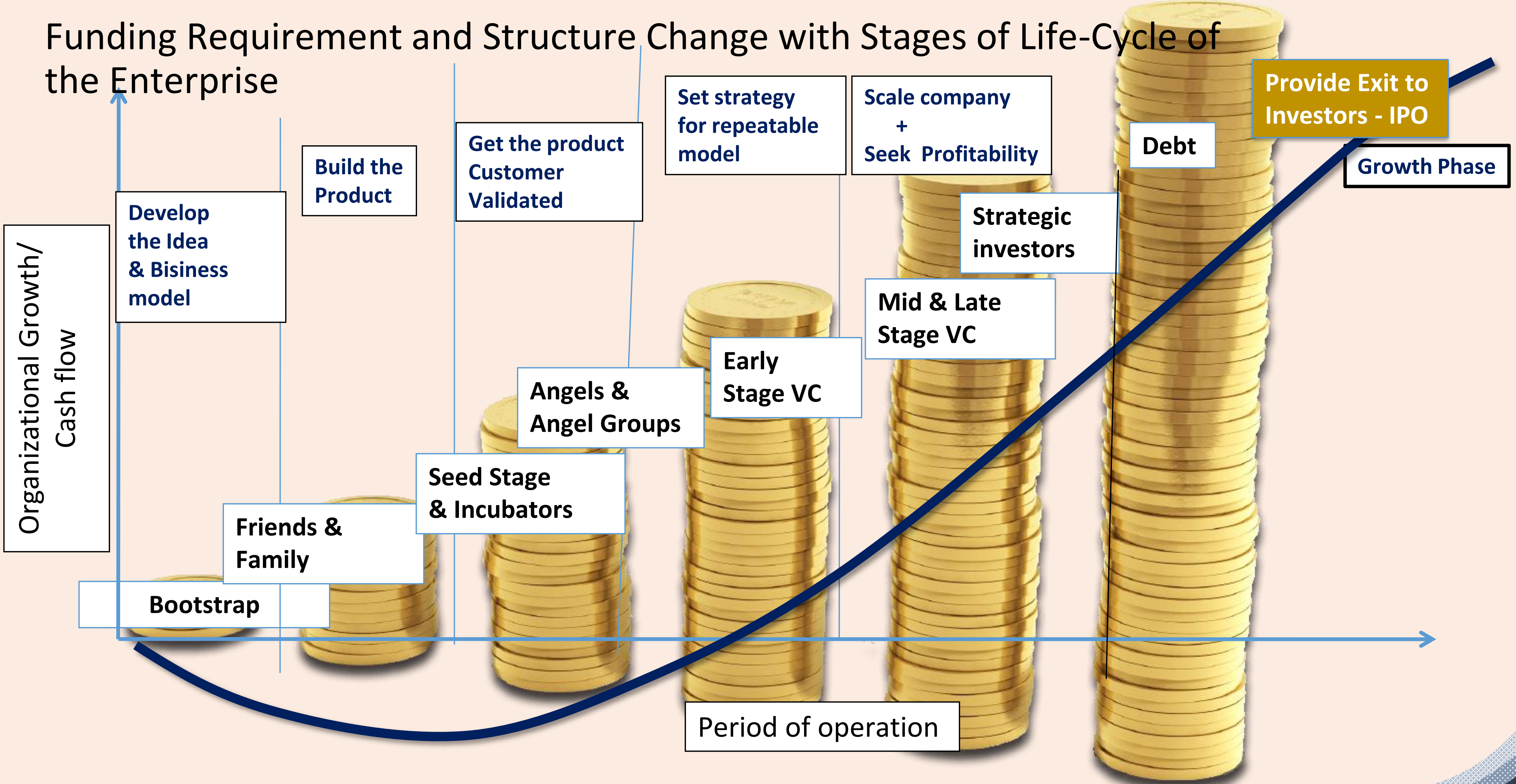
  startupindia.gov.in

Please visit the following portal to know various incentives for startups by the Government of India
https://www.startupindia.gov.in/content/sih/en/government-schemes.html

Loan/Debt

- **Loans are primarily of two types**
  - Long-term – for capital assets (useful life longer than a year)
  - Short-term – for working capital
- **Securities are of two types**
  - Primary (charge on the assets funded by the loan)
  - Collateral (charge on assets other than those acquired with the loan)
- **Seniority of a loan or type of fund primarily depends on: whether it is secured or unsecured and is it primary or subordinated debt.**

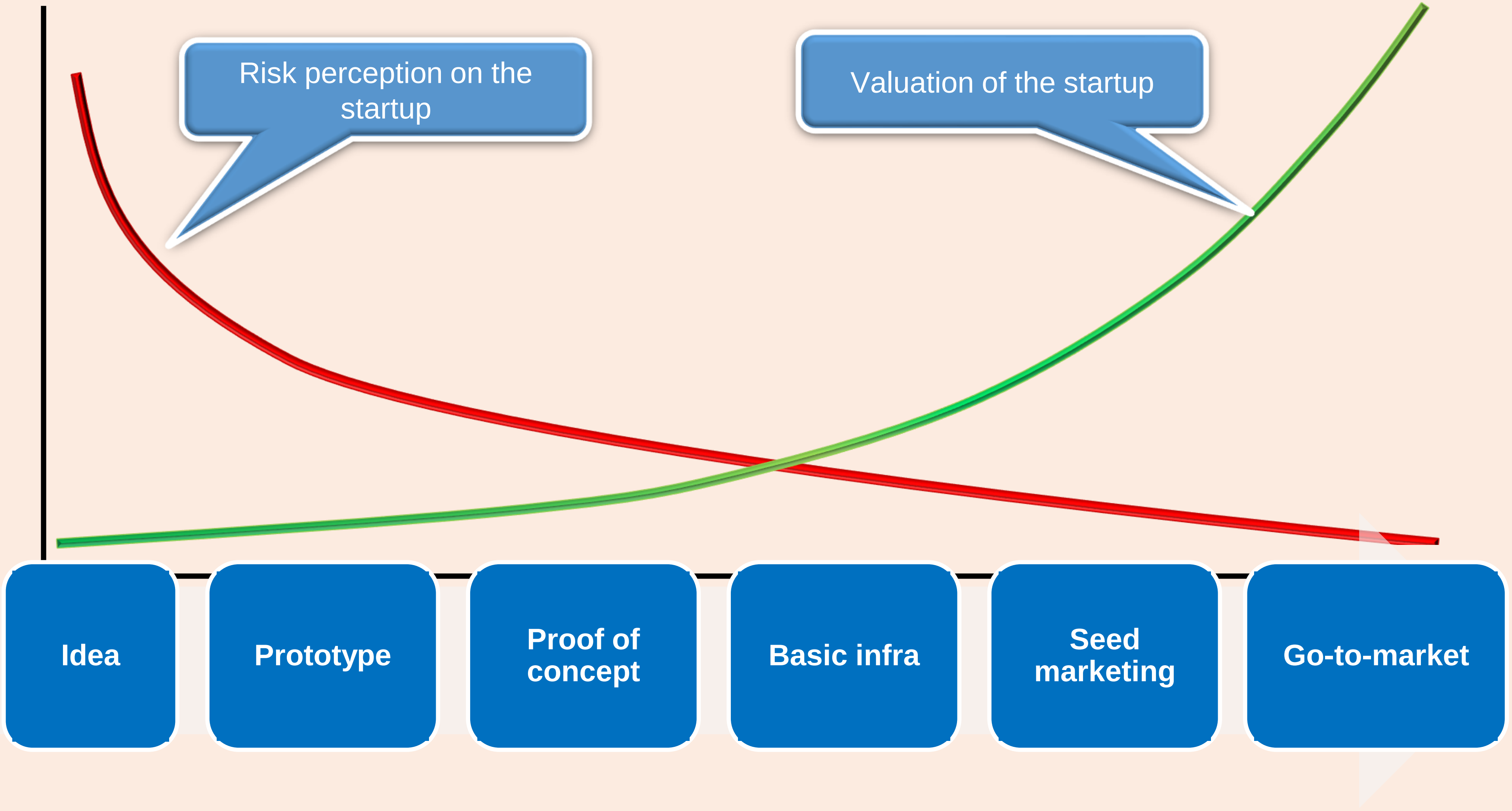
Funding Requirement and Structure Change with Stages of Life-Cycle of the Enterprise



What Is Dilution

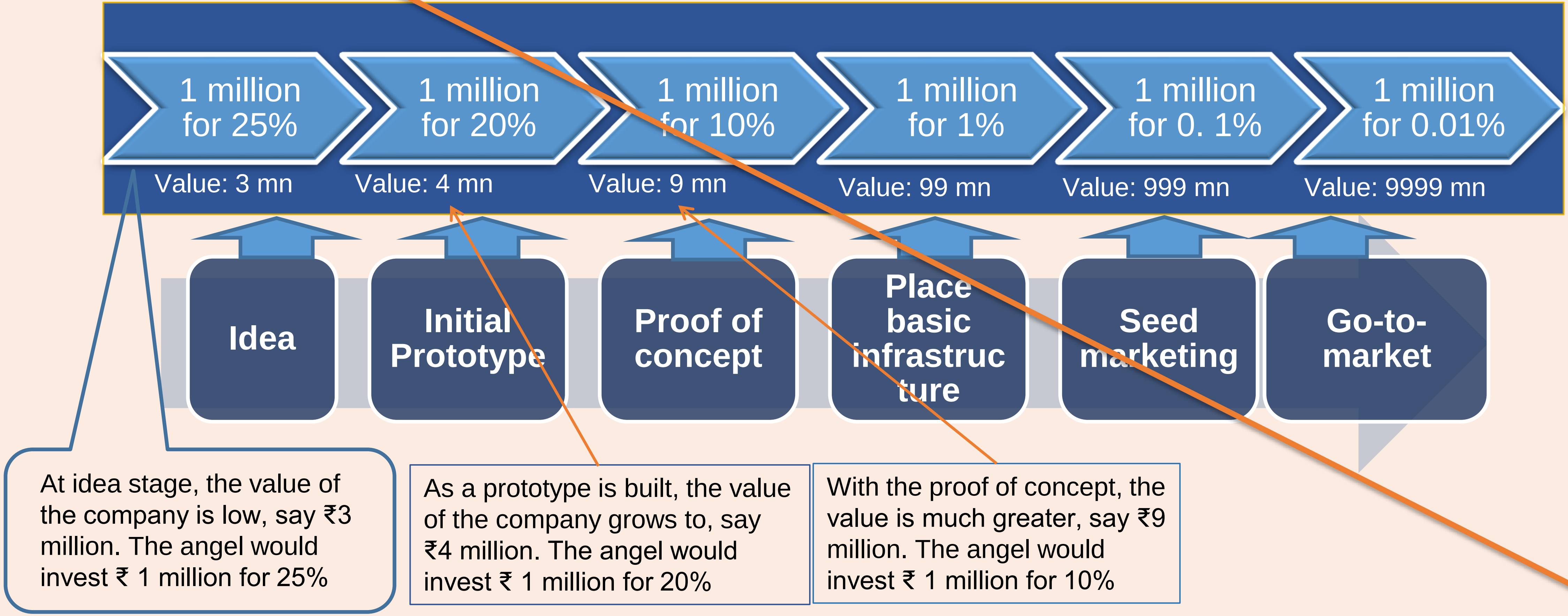
- **Extent of dilution in a round of funding depends on valuation of your startup.**
  Value of your startup goes up:
    as you move forward with development of your product,
    and as the risk perception on the success of your venture reduces.
- **At idea stage, success appears uncertain. Value is very low.**
- **As you get your product customer validated, risk of success appears to reduce and valuation becomes higher.**
- **Early investment leads to higher dilution of equity because of lower valuation (though it may help in accelerating development), whereas, delay in raising money may lead to loss of opportunity (though it may help restrict dilution).**

As you gain traction, risk reduces and valuation goes up



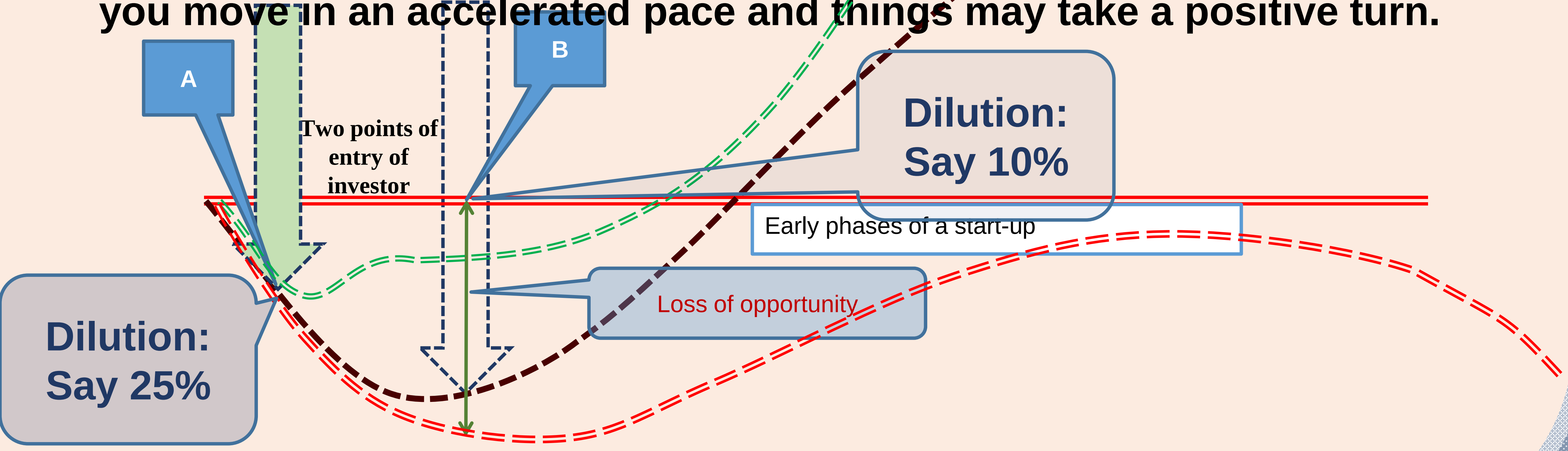
Understand Dilution

Suppose you raise ₹ 1 million from angel investor in exchange for equity. Likely dilution of equity for raising this sum at different stages of your start up?



Dilution and Speed of Development
To obtain investment or not to obtain investment

- Consider two scenarios: A. Say you plan to delay the fund raising till the point B hoping that the cash flow will follow the brown dotted line.
- But if your burn rate is more than you expect, your cash flow may actually follow the red dotted line.
- B. Suppose you raise fund at point A. With more fund at your disposal, you move in an accelerated pace and things may take a positive turn.



When can you say you are ready to raise fund?

- **Promising concept**
- **Validated by early customers**
- **You are sure that additional fund can take you to the next phase.**
- **Typically, angels or seed stage VCs provide this kind of capital.**
- **But they prefer to invest in ventures located within particular area.**
- **They usually take an active role in the ventures they fund.**

The Making Of BYJU'S: The World's Most Valuable Edtech Company

- The early story!
- "There were no investors in the beginning," Byju says candidly. "And, that was very useful. This helped us patiently create enough, in-depth and comprehensive content. We initially prepared content for 8th to 12th-grade students. We kept on creating content, yet we didn't launch them before 2015."
- [The last part of risky and is not to be taken as a benchmark.]

Understand Debt, Equity, & Preference Shares

Equity & Liabilities		
Equity		
Equity share capital		Voting rights, % control of the venture, dividends
Reserves & Surplus		Belongs to the owners but no other rights
Preference share capital		Quasi equity, have features of both debt & equity Compulsory dividend provided there is surplus
Liabilities		
Long-Term Loan		Debt. Have to pay interest. Repayment by installments. Interest is to be paid on monthly basis on outstanding.
Short-Term Loan		Debt. Have to pay interest. Repayment on demand not by installments. Interest is to be paid monthly on weighted outstanding balance.
Accounts Payable		

Investors Prefer to Invest in Preference Shares or Convertible Debt

Salient Distinctions between Preference Shares and Common Equity Shares

Preference Shares (PS)

- Dividends are paid before paying to common equity holders.
- Dividends are accrued and paid when surplus is generated.
- Rate of dividend is fixed.
- Convertible preference shares may be converted to equity shares.
- PS holders do not have voting rights in management decisions.
- PS may be redeemed.
- In case of liquidation or bankruptcy, PS holders are paid before CES. Limited upside.

Common Equity Shares (CES) [Equity shares]

- Dividends are paid out of surplus/net profit after paying to preference share holders.
- Varies with surplus and declaring such dividend is prerogative to BoD.
- Dividends are paid out of surplus and is never accrued for paying in future.
- A company may buy-back CES.
- CES holders participate in management through their right to vote on resolutions.
- The entire surplus after meeting other liabilities is distributed among CES holders. Unlimited upside.

Equity Funds

money is invested in the business in exchange for part ownership

Founders' perspectives

- Exit through IPO or acquisition
- Cost: No interest, dilution
- Part ownership
- Mentoring and supervision
- Security: No security

Debt Funds

Founders' perspectives

borrowed money, which is paid back over time with interest

- Repayment
- Cost: Interest and charges
- No ownership, no dilution
- Covenants
- Security: Charge on assets plus collaterals
- Claim on assets senior to the common share holders

Government grant – No cost, in some cases no dilution, non-returnable
Hybrid securities (preference share/stock/capital) – Features of both equity and debt
Convertible bond/stock/

Bootstrapping

Bootstrapping

- The dictionary meaning: "get (oneself or something) into or out of a situation using existing resources."
- Some say that bootstrapping is to pulling oneself up by own bootstraps.
- Arrange money from any source other than formal investors and lenders.
- It starts with personal savings, cutting costs to minimum, sharing office space, traveling by the cheapest option, hiring intern instead of regular employees, getting work done by freelancers, using used instead of new machines, minimize personal expenses avoiding unnecessary expenses, trying to obtain payment in advance or as early as possible, applying for grant wherever possible, etc.

Funding by Bootstrapping

- personal savings
- sharing office space
- traveling by the cheapest option
- hiring intern instead of regular employees
- getting work done by freelancers
- using used instead of new machines
- applying for grant wherever possible
- trying to obtain payment in advance or as early as possible

Crowdfunding

Crowdfunding

Crowd-funding

- The global crowdfunding industry generated about $34.4 billion in capital last year.
- The biggest player in the Indian market is ‘Milaap’, which has raised the equivalent of over US$12.7m through donations and microloans. Spread across close to 50,000 projects, it has averaged around just $260 per project.
- Ketto charges 5 to 8% of the amount raised.

- https://crowdsourcingweek.com/blog/indias-top-ten-crowdfunding-platforms/

Crowdfunding – Fund Raising Through an Online Platform

- **Refers to raising money from scores of individuals or donors to fund the development of a product or service and take it to market through setting up a startup.**
- **Some details about the product or service, progress made, and the planned roadmap are shared with people for them to make an informed decision to give the money.**

Reward-Based Crowdfunding

- Entrepreneur propose to reward potential investors / donors with their upcoming product or services or certain benefits
- If the founders are in businesses such as apparel, bags, jewelry, beauty products, lifestyle products and personalized stationery, they get valuable feedback in the process of response.

Other Types of Crowdfunding

- Equity-based Crowdfunding – not legal in India
- Lending-based Crowdfunding
- Pre-order Crowdfunding
- Donations Or Social Crowdfunding
- Peer to peer lending platform

- **India has seen a rapid growth of crowdfunding platforms.**
- **The quantum of money raised through these growing number of platforms has also grown substantially.**
- **Besides the much-needed capital, a startup may receive vital feedback about the acceptability or attractiveness of their product from a large audience with limited efforts early on.**

	Total Raised	Supporters	Platform Fee	Payment Fee	Important features
GoFundMe	$5B	50M	0%	2.9%+$0.30	Protects against fraud
INDIEGOGO	$1.5B	10M	5%	3.0%+$0.30	Do
KICKSTARTER	$3B	15m	5%	3.0%+$0.20	No
WISHBERRY					
FUELaDREAM					
FUNDABLE					
CATAPOOOLT					

Some Crowdsourcing Platforms

Crowdfunding/ Crowdsourcing of Capital

Type of crowdfunding model
1. Personal fund raising
2. Business or project fundraising
3. Charity/non-profit crowd funding

Features and performance
1. How fast you can access

Trust and fraud protection
1. All crowdfunding websites are required to use encrypted Secure Socket Layer (SSL) technology to process payments
2. Reporting fraud should be easy.

Customer support
1. 24/7 email support.

Fees
1. Mostly between 3 to 5%. But some platform charge up to 30%.

Advantages & Disadvantages of crowdfunding

Advantages

- Usually easy to raise fund
- The crowd does not interfere
- Usually not associated with dilution
- Validation of product or service

Disadvantages

- Usually requires a social dimension.
- Have to build the story to resonate with investors
- Risk of sharing the product idea to public too early and run the risk of me-too copy-cat competition
- Not suitable for B2B

Crowdfunding in India

- **Any kind of fund raising from the public is to be authorized by SEBI (Securities & Exchange Board of India).**
- **SEBI is yet to put in place formal regulatory framework for crowdfunding.**

Microfinance

- ‘Rang De’ has been providing microloans online. ‘Rang De’ has been funded by the World Bank through ‘Development Marketplace’ (DM). ‘Rang De’ takes 2% of the money lent.
- ‘Milaap’ – online microlending portal.
- ‘Fuel A Dream’ charges about 10.3% as platform fees.
- ‘Wishberry’ charges a one-time non-refundable fee of USD 52.37 plus 10% commission of the funds raised.
- ‘Catapoolt’ charges around USD 23 as a project submission fee along with 10-15% of the total funding raised.

Legality of Crowdfunding in India

- **According to SEBI, Electronic platforms facilitating fundraising on digital platforms are neither authorized nor recognized under any law governing the securities market. Such platforms, which are open to all investors registered with the platform, amount to a contravention Securities Contract Act and the Companies Act.**
- **Pure Donation-Based Crowdfunding (where issuers directly seek a donation from the grantors), Reward-Based Crowdfunding (where issuers directly offer rewards like movie tickets, new computer game, download of a book, etc.) and Peer-to-Peer lending do not fall within the regulatory purview of SEBI, as they do not generally involve issuances of securities for financial return, and may require authorization from other regulators. For example, Peer-to-Peer lending may fall under the purview of RBI.**

Source: https://taxguru.in/sebi/crowdfunding-india.html

Incubation

Incubation

- The dictionary definition of incubation is the process of keeping something at the right conditions for it to desirably mature.
- A mother bird sits on her eggs to provide the warmth for the eggs to mature and hatch.
- In case of diseases, it is the time from the moment of exposure to an infectious agent and manifestation of the symptom. Incubation period of chickenpox is 14-16 days, similar to the coronavirus.

Incubation and Incubators

- **The word in startup context is a take-off from the meaning in biology.**
- **Incubators are an ecosystem of startups where the basic infrastructures necessary for healthy unhindered progression of startup ideas into commercial ventures are provided at subsidized rates.**
- **Incubators provide space, utilities, connectivity, mentors, and considerable amount of seed money.**
- **Incubation centers are mostly created by academic institutions such as IITs, IIMs, universities, and engineering colleges and by some corporate entities.**

Incubators

- Incubation centers house several startups at one place where they can share infrastructures, tools, expertise, and co-develop product in a synergistic process for faster progress at the early stage.
- Once any startup is ready to go-to-market, it is expected to move out to formal office of their own.
- Seed money provided by incubators are either grant or soft loan repayable in easy terms.

Accelerator

- A startup accelerator, also referred to as seed accelerator, is an organization who runs programs to support, in an accelerated pace, early-stage, growth-driven startups through
  - mentorship,
  - guidance,
  - networking, and
  - with small fund.
- It runs the program at its own space.
- Demo day: The acceleration process culminates with pitching by all the startups before a group of investors for large-scale funding. This event is referred to as the Demo Day.

Accelerator

- The acceleration programs run for a fixed and short durations ranging from 3 to 6 months.
- Most of the acceleration programs run as part of the cohort of companies who can learn from each other and collaborate for synergies.

Accelerator

- The accelerator select the companies for the program based on potentials, provides resources, invites experts to deliver lectures & mentoring, and invites investors for both advising and funding the supported companies.
- The accelerators may or may not charge the accelerated companies some equity that may range between 3 to 8%.
- Each program ends with an event referred to as "graduation" or "demo day" when startups pitch before a group of inventors and experts.

Accelerator

Accelerators focus on one technology domain at a time for synergy.

Some of the preferred areas are tech hardware, AI and biotech, though all emerging technology domains are of interest.

Famous accelerator such as Plug and Play Tech Center in Silicon Valley helped Google, PayPal and Zoosk transform their ideas into businesses.

Y Combinator mentored Airbnb, Dropbox and Reddit and more than a thousand others.

Established Accelerators are Highly Demanded:

Y Combinator and TechStars have application acceptance rates between 1% and 3%.

The focus is on teams, not on individual founders.

Accelerators tend to think that it is too difficult for one person to handle all the work associated with a startup.

IIT Kharagpur, through RMSoEE, has partnered with Z21 Ventures to run an exclusive acceleration program for IIT students. Each team will receive ₹25 lakh in seed funding at the start, followed by an additional ₹25 lakh as the program progresses, with the opportunity to pitch to investors on Demo Day.

Accelerator

- **Venture capital firm Sequoia Capital India has set up its startup accelerator programme called Surge in February 2019.**
- **The Surge picks up 10–20 early stage startups twice every year for mentoring.**
- **Surge invests $1 to $2 Mn in each startup.**
- **Byju Raveendran and Ritesh Agarwal are some of the mentors in Surge.**

https://www.surgeahead.com/ landing page

~~Welcome to Surge, a rapid scale-up program for startups in India and Southeast Asia.~~

https://www.surgeahead.com/ landing page

Surge combines $1 million to $2 million of seed capital with company-building workshops, global immersion trips and support from a community of exceptional founders.

Our Goal:

To supercharge your startup. And give you an unfair advantage, right out of the gate.

Log 9 Materials: Revolutionizing the energy sector with aluminum fuel cells

- 11 Jan'20

Log 9 Materials (Surge 02 2019) is leveraging its expertise in graphene nanotechnology to build and scale fully recyclable, emissions-free aluminium-air fuel cells that can power cars, homes and communities.

Estimating Requirement of Fund

Project Cost

Year	1	2	3	4
Investment in land and building	10			
Investment in machinery	100			
Other expenses such as electrical connection (transformer), licenses, approach road, disposal arrangement	20			
Investment in trial production	5			
Contingency	10			
Total investment in fixed assets	145			
Turnover	200	250	300	400
25% of turnover	50	62.5	75	100
Working capital requirement (Turnover method)	50	62.5	75	100
Project cost	190			

Fixed Capital

Working Capital

Working Capital (WC): Holding Period Method

		Annual Cost	Holding Period	Value thereof
Raw-Materials	Purchase cost plus transportation.	600	1 month	50
Goods-in-Process	Cost of production: Raw materials, labor, interest	720	0.5 m	30
Finished Goods	Cost of production: Raw materials, labor, interest,	840	1.5 m	105
Receivables	Cost of sales: Raw materials, labor, interest, selling and administrative expenses.	1200	2.5 m	250
Creditors	Total requirement of WC	540	1 m Total	(–) 45 370

- **Requirement of Fixed Capital Investment:**
- **Requirement of Working Capital Investment:**
- **Margin Money to be brought in by founders:**

Funding Through Equity

Issues

- **Pros**
  - No interest payment obligation. [If you raise ₹100 of debt (loan from bank) you have to pay ₹15 of interest in a year: assuming rate of interest is @ 15%. Raise the same money through equity, you don't have to pay any interest].
  - Comes with mentoring by the angels.
  - No repayment of the money received.
- **Cons**
  - Dilution of holding by founders
  - Payment of dividend
  - There may be undesirable interference by investors.

https://www.startupindia.gov.in/content/sih/en/government-schemes.html

Sources of Equity

- Founders' contributions to business are mostly in the form of equity., though at times, founders can lend money to the company as unsecured loan or preference capital.
- Incubator
- Accelerator
- High Net-Worth Individual
- Impact investors
- Business Angels
- Venture Capital Funds
- Private Equity Fundan

Please visit the following portal to know various incentives for startups by the Government of India
https://www.startupindia.gov.in/content/sih/en/government-schemes.html

Project Report

- **Need for fund (create long term and short term assets to maintain business operation)**
- **Sources of financing (equity, debt, and grants)**

- ~~Business Angel – Angel Investor~~
- ~~Venture Capital fund – VC~~
- ~~Structuring a deal~~

Business Angels or Angel Investors: Who Are Angel Investors?

- An angel investor is an individual who has surplus fund and provides capital to an early stage startup in exchange for part ownership. Invests personal capital in start-ups
- Angels usually support at the early stage when the risk of failure is higher compared to more matured stage.
- Usually they are experienced in particular domain or new venture creation in general and have a good perspective of the likely success of a venture.
- They take calculated risks, mentor the ventures closely, take all necessary actions for it to succeed.

Who Are Angel Investors?

- **Business Angels are individuals, invest personal capital in start-ups**
- **The prototypical business angel …**

  is in the middle age; has high income and wealth; is well-educated;

  has succeeded as an entrepreneur;

  is interested in the start-up process.
- **Business angels are valuable because of their willingness to make relatively small investments, giving equity funding to a start-up needing about ₹ 2.00 million to ₹ 10.00 million.**
- **Venture capitalists usually fund above ₹ 50.00 million per unit.**

- In recent time, angels also work in group or in network / consortium to neutralize risks.
- Individual members may bring in key skills and connections.
- In the last 50 years the number of angel investors has greatly increased.
- There is no set upper limit that an angel would like commit per venture.

Angel Investors

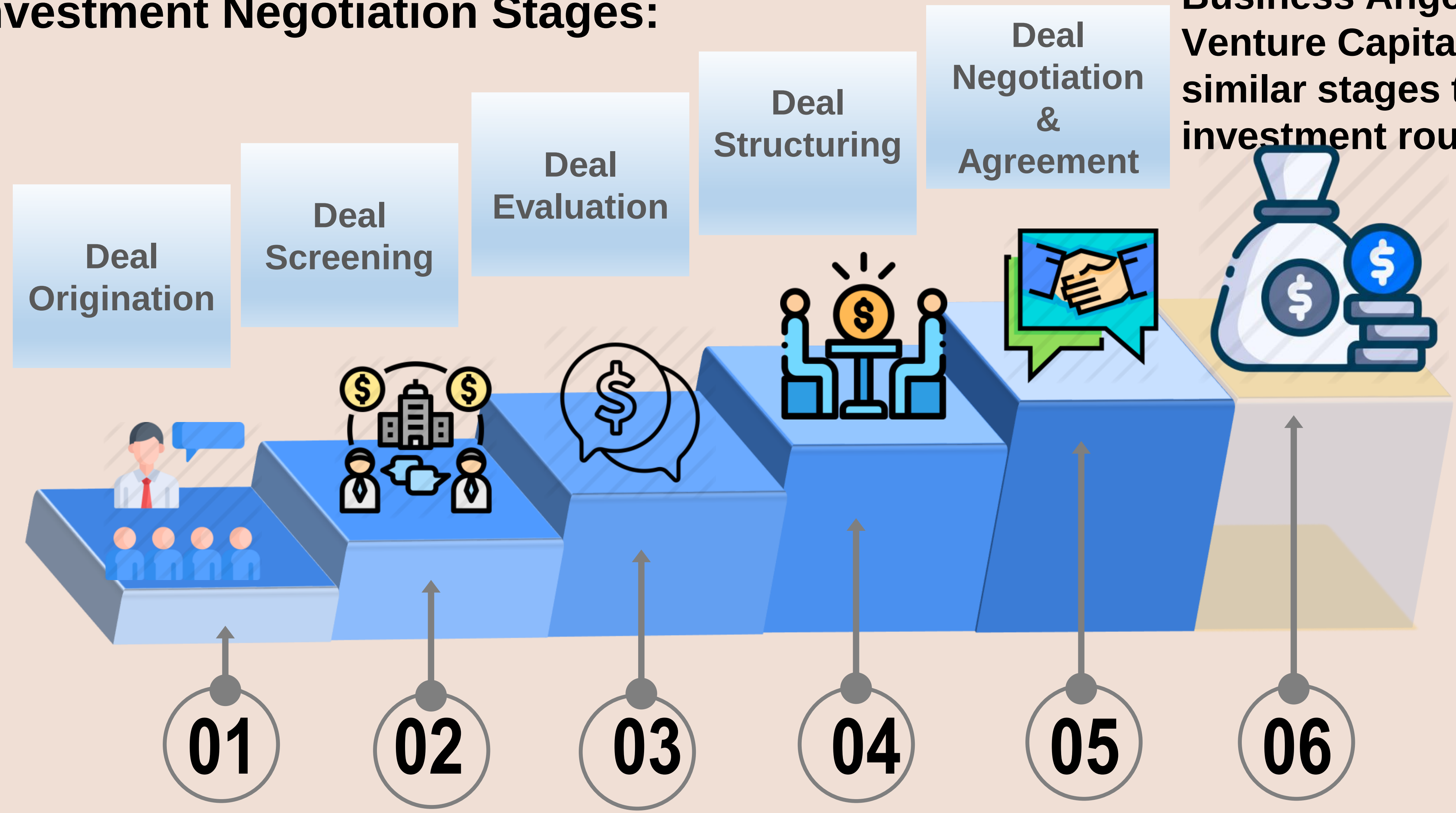
- Usually successful entrepreneurs
- Have surplus fund
- Experts in some field
- Want to enjoy the excitement of venture creation
- Ready to absorb high calculated risk
- Identify potentially winning startup
- Closely mentor
- Supplement required key skills
- Connect with market
- Connect with other investors

Factors to consider while raising money: When and How Much to Raise?

- **Conventional wisdom has it that entrepreneur should bootstrap and leverage every strand of non-diluting funding source to increase value in the business before raising fund from angels.**
- **But understand the values that BA can bring. The knowledge, experience, and connection with market & other investors.**
- **Look for seed fund (seed round) to cover beta testing of prototype (public test) and generate the first MVP.**
- **Amount in one round should be enough to take the venture to the next milestone. High-growth venture may raise more money to avoid delay in processing next round of funding.**

Investment Negotiation Stages:

Business Angel (BA) and Venture Capitalist (VC) share similar stages to close an investment round



Amrendra Sahu, co-founder of home rental platform Nestaway, filed an FIR against the company's investors. These investors include Tiger Global, Goldman Sachs, Chiratae Ventures, along with co-founders Jitendra Jagadev and Smriti Parida.
a company once valued at Rs 1800 crore with Rs 700 crore in funding was sold for just Rs 90 crore, raising serious questions about corporate governance and investor practices.
even after receiving a Rs 50 crore investment proposal from Gruhas (the investment arm of Zerodha's Nikhil Kamath), the company's lead investor, Tiger Global, allegedly pushed for a distress sale at a staggering 80% loss.

Common Reasons for Rejection of Investment Proposal by Angel

- **Business located outside the geographical reach of BA investors.**
- **Stage and type of venture: for example, long pre-revenue and product development phase.**
- **Unattractive sector or market: for example, low margins and high volatility (retail, hotels, restaurants, property); highly competitive or high technical risks or both (e.g. consumer goods, telecom, clean tech, drug development, computer hardware).**

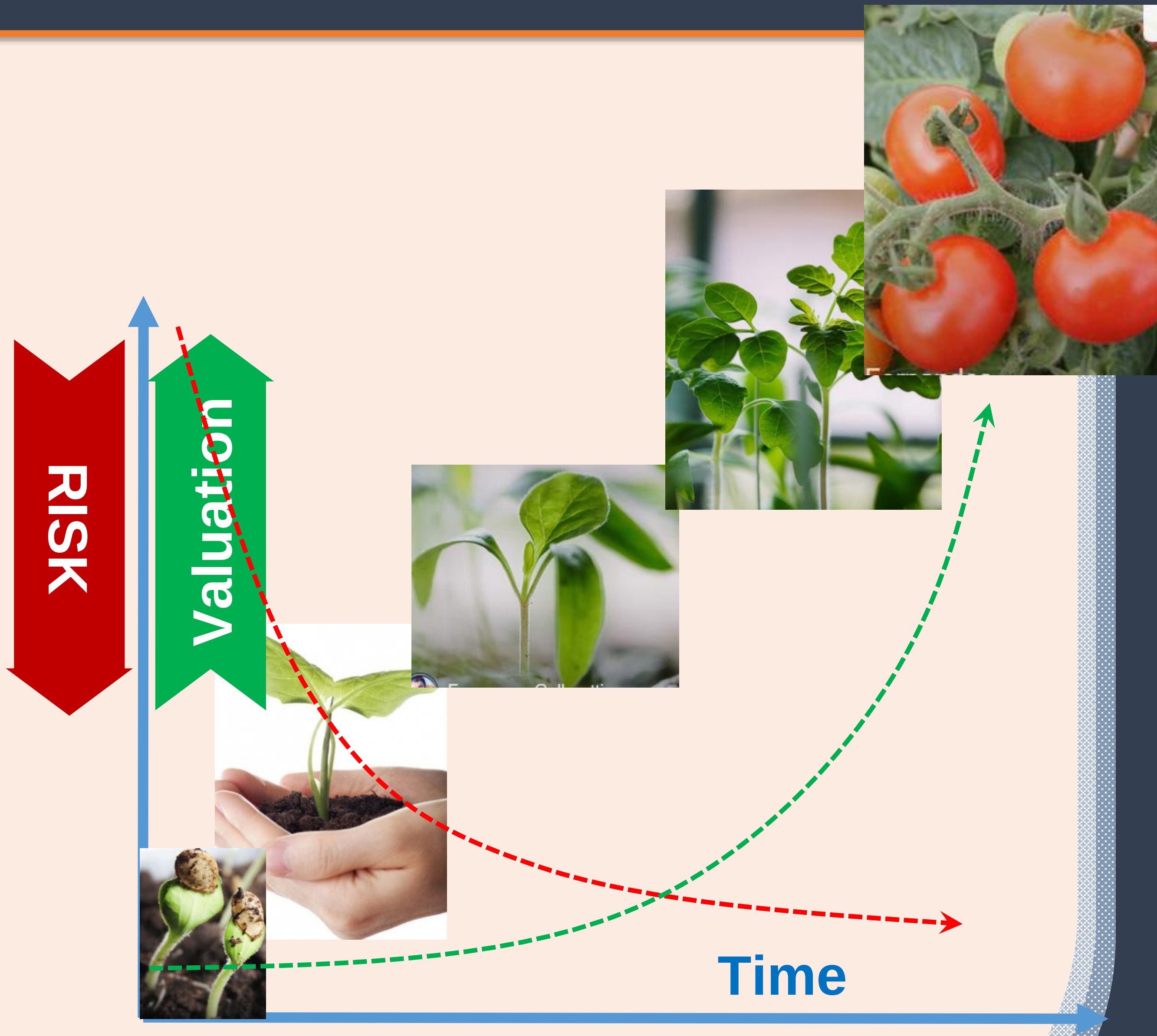
Other Common Reasons for Rejection

- Limited scalability or growth potential: for example, traditional service business.
- Weak business model: unclear value proposition; no clear customers; weak customer channels; no “go-to-market” strategy; insufficient profit margins; lack of exit potential.
- Size of initial investment and estimated total funding requirements exceeds capabilities of investor.
- Management team is weak, unconvincing, or has poor reputation.
- Investment is not eligible for tax relief (for example: the new Start-up India incentive scheme).

De-Risking The Deal!

Preserve equity by de-risking the deal

- You only raise enough money to get to the next proof point.
- At early stage: technology & team risk.
- As you go-to-market: execution risk, market acceptance risk, team
- Growth phase: risk associated with cost of manufacturing, marketing channel, skilled manpower, adequate finance, competition.



Deal Structuring

Term Sheet

If investors are happy at the end of the presentation, they make formal offer in the form of "Term Sheet".

The conditions in the term sheet are non-binding on investors.

Term Sheet

- Basic terms/conditions of an investment at the minimum:
  - Pre-money valuation
  - Amount of investment
  - Form of investment
  - Use of proceeds
  - Term and mode of exit

Other issues

- Non-binding on investor
- Exclusivity or no-shop clause

Term Sheet

- **Terms in the term sheet are negotiable but with great limitations.**
- **Make deals based on future market and not based on past deal.**
- **They are hard bargainers and may be posturing.**
- **Be consistent and don't bluff; you may meet again; leave ego out of the deal or process.**
- **Try to have a short time horizon before it gets stale.**

Due Diligence

- You, your team and your company are under a microscope.
- Legal, financial and strategic review of organizational structure, history, contractual relationships and documents.
- Will be tedious, frustrating, time consuming and costly.
- Key to success: preparation and cooperation.

Due Diligence – Art and Science [from the perspective of investors]

The “Art”

– What to ask, how to ask, when to ask.

– DD team is on a “search and destroy” mission.

Search for problems.

Destroy (eliminate) concerns or fairly allocate.

The “Science”

– Comprehensive list of questions to ask.

– System to organize and analyze data provided.

– Quantitative analysis of risks uncovered.

What are They Looking for?

- Overdue tax liabilities.
- Inadequate systems.
- Related-party transactions.
- Unhealthy reliance on customers/suppliers.
- Overdue accounts or unrecorded liabilities.
- Immediate need for major expenditures.

Define Venture Capitalist and Venture Capital

- A venture capitalist (VC) is a private equity investor who pool funds from various investors and provides capital to companies exhibiting high growth potential in exchange for an equity stake.
- Venture capital is a form of risk capital that fund startup companies and small businesses that are believed to have long-term growth potential or companies that have grown quickly and appear poised to continue to expand.
- Venture capital generally comes from well-off investors, investment banks and any other financial institutions.

Angels and VCs

- An angel investor works alone or in group, while venture capitalists are part of a company.
- Angels invest smaller sums and investment decisions are quick.
- They have different responsibilities and motivations; Angel do get personally involved, but VCs usually get inextricably associated.
- Angel investors only invest in early-stage companies. VCs look for proven track record.
- They differ in due diligence. VCs are more formal & meticulous.

Pre-money And Post-Money Valuation

Pre-Money	Anel-1 brings in	Post-Money value
₹5,00,000	₹10,00,000	₹15,00,000
1,000	2,000	

Founders' holding: 5,00,000/15,00,000 = 33.33%
Investor's holding: 10,00,000/15,00,000 = 66.67%

Pre-Money	Angel-2 brings in	Post-Money value
₹10,00,00,000	₹500,00,000	₹1500,00,000
3,000	1500	

Percentage holding is based on negotiation. It is not calculated based on investment committed
Founder & Angel-1= 66.67%
Investor's holding: 33.33%

Two Features/ attrbutes of Preference Shares

- **Liquidation preference (how they decide to get their principal money back)**
  - **Options**
    - no liquidation preference – Get nothing
    - 1X liquidation preference: get exactly what they invested.
    - nX liquidation preference: getting 'n' times the money they invested.
- **Participating & Non-Participating (receiving money proportional to % holding in the venture)**
  - **Both options are available concurrently.**
  - **Say 2X** liquidation preference and participating preference share holder: Investor receives 2 times the money they invested and receives part of the remaining money proportionate to their holding in the venture.

Liquidation Preference

- It states how the proceeds from liquidation event such as trade sale, initial public offering, or dissolution of company will be distributed.
- All VCs and some BAs provide this clause.
- In liquidation events, investors will be entitled to their investment and a minimum return ahead of founders.
- VCs will often set a liquidation preference such 1X, 2X, or 3X/nX.
- Only after distribution of proceeds of liquidation to preferred shareholders—in accordance with respective liquidity preferences—the remaining proceed (if any) is distributed among common shareholders (investors in case they have participation).

Participating Preference Shares

- Preferred share (non-participating) – Investors get their money back.
- Preferred share with liquidity (1X, 2X or 3X) preference – Investor receives 1X (2X or 3X) times their money.
- Participating preferred equity with or without liquidity preference. Participating means if they hold 25% equivalent of equity in preferred stock they receive back their investment plus pro rata (25%) of the remaining money.

Participating Preference Shares with assumed 1x liquidation preference

- Participating preferred shareholders not only receive back the amount originally invested along with unpaid dividends upon liquidation, but also part of the remaining assets as if they held common shares.
- A new venture raises ₹ 50 million at a pre-money valuation of ₹ 50 million with equity percentage split 50%—50%.
- The venture realizes a liquidity event and is acquired for ₹ 250 million.

Example cont'd.

- The BA/VC holding participating preferred stock will receive their original investment of ₹ 50 million (1xliquidation preference) plus 50% of the remaining amount as they hold 50% ownership in the company.
- The entrepreneur would receive ₹ 100 million.
- 250M – [50M + 0.5X9250-50)] = 250M – 150M = ₹ 100M
- [If BA/VC held "convertible preference shares", post conversion, the BA/VC and the entrepreneur would receive 50% of the exit proceeds or ₹ 125.5 million each.]
- However, with lower exit value, the share of the entrepreneur will go down faster.

Anti-dilution Clause

- **Usually, the valuation of the company is expected to go up moving forward and thus, the per-share value. But, there may be situation when the valuation goes down.**
- **Anti-dilution is used in case of preferred stock and not common stock.**
- **If the investee company issues stock at a price lower than what the existing shareholders paid, the former has to compensate the later by issuing new shares at a price such that the average price of their holding is not more than that of the subsequent round of funding.**

Anti-dilution Provision

- A company avails investment from an angel ABC by issuing preference shares. Subsequently, the company issues preference shares to another investor XYZ at a lower valuation, the existing shareholders i.e. ABC has the right to be compensated by granting additional shares at a price such that the average price of acquisition is not more than the new issue price.
- The existing investors may also insist on maintaining percentage holding in the company through fresh investment along with the new investors.
- Antidilution may be so structured that it would be automatically triggered in case of failure to meet milestones.
- If the investors do not subscribe to new equity, the antidilution protection may not be available.

Other Preference

Drag-along provisions – it grants investors the right to compel the founders and other shareholders to vote in favor of the sale, merger, or other "deemed liquidation".

An Example of Preferred Shares

- **A BA group invests ₹ 50 million for 25% of a venture. The venture is sold for ₹ 100 million.**
- **Case I: no liquidity preference**
  - The BA group would receive ₹ 25 million and lose 50% of their original investment. The entrepreneur or common shareholders would receive ₹ 75 million.
- **Case II: BA group has a 1X liquidity (non-participating) preference**
- The BA group would receive ₹ 50 million. The entrepreneur or common shareholders would receive the remaining ₹ 50 million.
- **Case III: BA group negotiates a 1X liquidation & 'participating preference'**
  - The BA group receives their ₹ 50 million plus another ₹ 12.5 million (25% of the remaining ₹ 50 million). The entrepreneur or common shareholders would receive only ₹ 37.5 million.

Another Example of Preferred Shares:
Further clarified.

- A BA group invests ₹ 50 million for 25% of a venture. The venture is sold for ₹ 100 million.
- Post money valuation: 50M/0.25 = 200M
- Premoney valuation = 200M – 50M = 150M
- Case I: no liquidity preference
  - The BA group holds 25% of equity in the company. With no liquidation clause, they would receive only 25% of the proceeds: i.e. 25% of 100 M = ₹ 25 million.
  - Their original investment is ₹ 50 million. So, they lose 50% of their original investment.
  - The entrepreneur or common shareholders would receive ₹ 75 million.

An Example of Preferred Shares
Further clarification

- **A BA group invests ₹ 50 million for 25% of a venture. The venture is sold for ₹ 100 million.**
- **Post money valuation: 50/0.25 = 200**
- **Premoney valuation = 200 – 50 = 150**

- **Case II: BA group has a 1X liquidity preference (but not participating)**

- The 1X liquidation preference means that the BA group would receive one times the investment, which is equal to 1X50 = ₹ 50 million.
- Since it is not participating preference shares, the BA does not get a share of the remaining money.
- The entrepreneur or common shareholders would receive the remaining ₹ 50 million.

An Example of Preferred Shares
Further clarification

- A BA group invests ₹ 50 million for 25% of a venture. The venture is sold for ₹ 100 million.
- Post money valuation: 50/0.25 = 200
- Pre-money valuation = 200 – 50 = 150
- **Case III: BA group negotiates a 1X liquidation 'participating preference'**
  - The 1X liquidation clause gives the BA: 1X50 = ₹ 50 million.
  - The Participating clause gives the BA group 25% of the remaining money of (100 – 50 = 50) = 50 X 0.25 = 12.5 M.
  - The founders receive the remaining 37.5 M.

Case IV: Suppose the VC has a 2X 'participatory liquidity preference' in the above case:

- On liquidity event, the VC will get 2 times its investment plus their percentage equivalent of the rest of the money.
- In this case, VC gets 2 times 50 M, i.e., 100M plus 25% of the rest, which is zero.
- The founders and employees holding equity get nothing (the valuation 100M, whereas their holding is 75%).
- Therefore, it is not percentage holding that matters. One has to read between lines.

In the above example, let us change only the value at which the company is sold and see how the money is distributed:

- Suppose, the venture is sold for ₹400M, 2X liquidity & participatory preference would give the BA:
- 2X liquidation gives 2 times the investment = 2 X 50 = ₹100M
- Participatory clause gives the BA 25% of the remaining amount of 300M = ₹75 M
- Thus, total receipt by BA = 100 + 75 = ₹175M.
- The founders would receive the remaining sum of ₹225M (400 – 175)

Increase the value further and see the shares of proceeds

- Suppose, the venture is sold for ₹1000M, 2X participatory liquidity preference would give the BA:
- 2X liquidation gives 2 times the investment = 2 X 50 = ₹100M
- Participatory clause gives the BA 25% of the remaining amount of 900M = ₹225 M
- Thus, total receipt by BA = 100 + 225 = ₹325M.
- The founders would receive the remaining sum of ₹675M (1000 – 325)M

- **Moving forward, all convertibles get converted.**
- **Preference shares and convertible debts get converted into equity shares.**
- **All that the investors have is the percentage holding in the company and they received proportional amount in liquidation event.**

Syllabus is up to the previous slide

Supports from the Government through Various Schemes

- Debt fund
- Funding for innovation
- Government schemes

Convertibles

- **Convertible debt – investment made as debt is subsequently converted into equity, usually preferred equity, when the investee company raises the next round of funding.**
- **The valuation is determined by the next round of investors.**
- **Depending on the risk perception, discount is allowed on valuation during conversion to shares - roughly in the range of 10% to 30%**

Example

- An angel (Angel 1) agrees to invest ₹ 6 million in a startup (say ABC) as convertible debt and negotiates a 20% discount.
- The meaning of the above is that the debt will be converted into equity at some future date at a price that is less than 20% of the price at which the company will issue shares to another investor(s).
- Suppose, during the next round of financing a VC (say VC 1) values ABC at ₹ 100 per share (par value or face value of Rs. 10).
- A discount of 20% is allowed to 'Angel 1' on the price of ₹ 100 per share. i.e. the 'Angel 1' will be able to covert ₹ 6 million into equity shares at a valuation of ₹ 80 per share.
- So 'Angel 1' will receive ₹6M/₹80 = 75,000 shares of the company.

Convertible Debt

Advantages and Disadvantages of Investee Company

Advantages

- Funding does not dilute equity.
- Can avoid estimating pre-money valuation.
- Chances of lower dilution after value accretion.
- Can avoid bias of earlier valuation when approaching to subsequent investors. Avoid down round.
- Less processing and quick disbursal.
- Investor may opt not to convert

Disadvantages

- May have to pay interest on debt and stress cash flow.
- May lead to higher dilution for the same amount of fund if it fails to meet performance milestones.
- Higher discount rate may lead to higher dilution.
- If there is ‘cap’ on premoney valuation, the investee company may not avoid dilution.
- No voting right

Convertible Debt with Cap

In case of very high valuation by a subsequent investor, the conversion of debt into equity may be at a high price (even after discount), leading to smaller holding by the original investors than anticipated, who actually contributed to the growth of the business.

Therefore, a maximum value may be fixed at which the debt will be converted.

- In the example above, suppose the 'Angel 1' originally puts a cap of ₹50 per share for conversion of debt to equity. This means, the company has to convert debt of 'Angel 1' into equity at price
  below or equal to ₹50 though shares are being offered to the 'VC 1' at ₹100 a piece.
- Suppose, 'VC 1' is being offered equity shares at ₹40, 'Angel 1' will receive the same share at 20% discount, i.e. @₹32.

How to Approach Angels or VC's

- **Don't bother with "cold calls"**
  - Won't work
- **NETWORK; NETWORK; NETWORK**
- **You need a personal introduction**
  - F&F
  - Champion
  - Another Angel
  - Physician (previously funded)
  - Entrepreneur/manager (previously founded)

Things VCs Are Interested In

- **Your market. Are the market going to buy your products? How are you pitted against the competition?**
- **Your team**
- **The technology**
- **Why now, why you, why this technology?**
- **The pay-out**

Startup in India

An entity is defined as a startup if its headquarter is in India, less than 10 years old, and an annual turnover of less than ₹100 crore (US$14 million.

The government has launched the I-MADE program under this initiative to help Indian entrepreneurs build 10 lakh (1 million) mobile app start-ups, and

The MUDRA Bank's scheme (Pradhan Mantri Mudra Yojana aiming to provide micro-finance, low-interest rate loans to entrepreneurs. Initial capital of ₹20,000 crore has been allocated for this scheme.

[Startups and Entrepreneurs @ 1 MILLION STARTUPS](www.1millionstartups.com)
www.1millionstartups.com

Definition of Startup for Availing Government Schemes

An entity shall be considered as a Startup:

- **Up to a period of ten years from the date of incorporation/ registration. Splitting up or reconstructed entities from existing ones are not eligible.**
- **Recognition is done by the Department for Promotion of Industry and Internal Trade.**
- **Turnover of the entity for any of the financial years since incorporation/ registration should not exceed Rs. 100 crore.**
- **Entity is working towards innovation, development or improvement of products or processes or services, or if it is a scalable business model with a high potential of employment generation or wealth creation.**

Government Supports for Prototyping

1. Department of Scientific & Industrial Research www.dsir.gov.in

- **Promoting Innovations in Individuals, Start-ups and MSMEs (PRISM): ₹ 2 lakh, ₹ 20 lakh and ₹ 50 lakh of grants in phases.**
- **Patent Acquisition and Collaborative Research and Technology Development (PACE)**

2. TIFAC and SIDBI - https://tifac.org.in/

SRIJAN scheme: Low-cost fund up to Rs. 10 million (1.00 crore) is provided by TIFAC through SIDBI. A rolling fund of Rs. 30 crore has been created by TIFAC that is dispensed and monitored by SIDBI.

3. Ministry of Small & Medium Enterprises (MSME) https://msme.gov.in/

PRISM

Phase - I

- Category-I: Proof of Concept/ Prototypes/ Models
  - For prototyping ideas and testing hypothesis
  - Any Indian national including students can apply.
  - Maximum support ₹2.00 lakh (subject to 90% of the total requirement)
  - Form: Grant (no repayment obligation)

PRISM

Phase - I

- **Category-II: Fabrication of working model/process know-how/ testing and trial/patenting/technology transfer etc. (Innovation Incubation)**
  - **For fabrication, refinement and validation of prototypes.**
  - **Any Indian national can apply.**
  - **Maximum support ₹20.00 lakh (subject to 90% of the total requirement).**
  - **Form: Grant (no repayment obligation).**

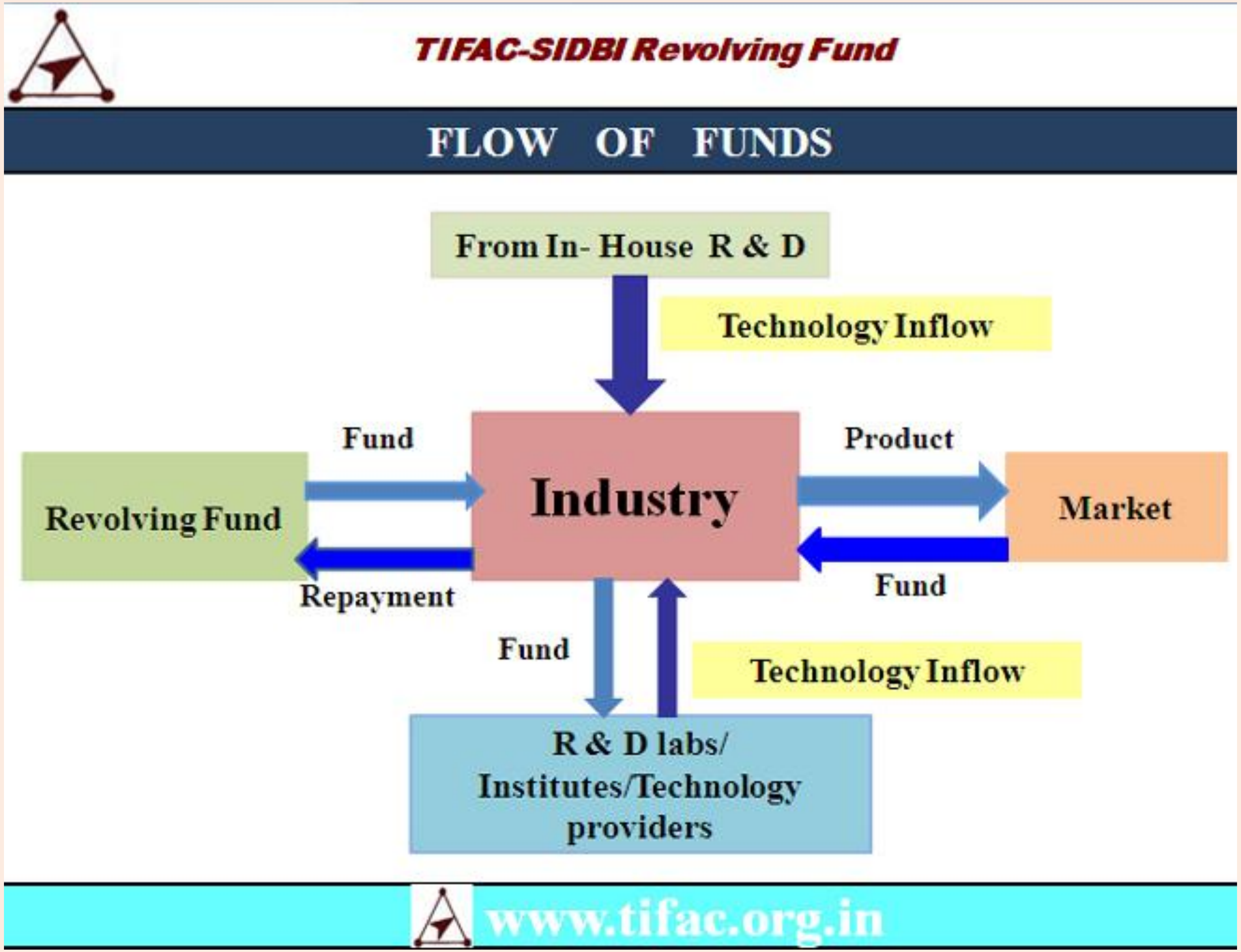
PRISM

Phase - II

- Enterprise Incubation
  - The support is for scaling up technology based innovations, patenting/design registration/trademark registry/ technology transfer to develop a marketable product/process towards enterprise creation.
  - Successful PRISM innovators or those who have received assistance from any other government scheme and demonstrated success.
  - Maximum support ₹50.00 lakh (subject to 50% of the total project cost).
  - Form: Grant (no repayment obligation).

PACE - Patent Acquisition and Collaborative Research and Technology Development - DSIR

- **The scheme supports development and /or adoption of new technologies or creative/innovative application to solve unmet needs of industry.**
- **For projects in collaboration with R&D organization/ academic institution/ university, support is up to 100% of the project cost.**
- **For projects of industry alone, support is up to 50% of the project cost in the form of secured loan.**



SRIJAN by TIFAC & SIDBI

TIFAC
Technology Think Tank
Capturing Aspirations

SRIJAN

- **Loan assistance is not more than Rs. 10 million for each project.**
- **This is development loan on soft terms & conditions.**
- **The interest rate is not more than 5% per annum (simple).**
- **The repayment shall commence within one year after the project completion and shall be fully repaid in five years.**
- **The duration of the project should not normally exceed 18 months.**
- **The soft loan is limited to maximum 80% of the estimated project cost and the promoter has to contribute minimum 20%.**

Salient Features of सृजन (SRIJAN)

- Development Loan on flexible terms & conditions
- Assistance up to ~ 80% of total project cost with minimum ~ 20% contribution from promoter
- Loan assistance normally not more than `100 lakhs for each project
- Rate of Interest not more than 5% p.a.
- Repayment in easy installments spacing over 5 years from date of completion of project
- Security through personal guarantee, hypothecation of assets created / to be created under the project, collaterals, CGTMSE guarantee

www.tifac.org.in

Funds for Prototyping

Besides the schemes of DSIR and TIFAC, several startup funds launched by the Government of India and is administered through the Ministry of Small & Medium Enterprises (MSME).

MSME has many funding schemes to support startups (http://msme.gov.in/).

- **Atal Incubation Centers (AIC)**
- **Atal Innovation Mission (AIM)**
- **AIM will provide a grant-in-aid of INR 10 Cr to each AIC for a maximum of five years to cover the capital and operational expenditures to establish the AIC.**
- **The applicant would have to provide at least 10,000 sq.m. space**
- **https://aim.gov.in/atal-incubation-centres.php**

SBIRI of Biotechnology Industry Research Assistance Council (BIRAC) under DBT

- SBIRI : The following structure of funding will be available to industry depending on the project cost and own resources brought in by the promoter to the project.
- If the actual project cost is up to Rs. 25 lakhs, 80% of the project cost will be available as a government grant.
- If the actual project cost is between Rs. 25 lakhs and Rs. 100 lakhs, 50% of the project cost will be available as government grant subject to a minimum of Rs. 20 lakhs and maximum of ₹50 lakhs.
- Higher grant is available for collaborative research project.

Biotechnology Industry Research Assistance Council (BIRAC)

- **SEED - Sustainable Entrepreneurship and Enterprise Development Fund to incubators**
- **ACE – Accelerating Entrepreneurs’ Fund [Fund of Funds]**
- **NABARD – fund for incubation agro-based startups.**

Government Funding Schemes for MSME

1. Business Loan or Working Capital Loan: Loan up to ₹ 1.00 crore @ concessional interest rate of 8%.
2. Mudra Business Loan: three sub-categories: Shishu: up to ₹50,000; Kishore: up to ₹5,00,000; and Tarun: up to ₹15,00,000
3. Credit Guarantee Fund Scheme:
4. Udyogini: to empower women: up to ₹ 15,00,000
5. National Small Industries Corporation Subsidies: i. marketing support and ii. Credit support

More Government Schemes

- Hardly 5% of MSMEs have access to formal credit. There is almost no possibility of getting credit at idea or early stage of startup.
- Indian government has recently rolled out initiatives to offer business loans for startups and MSMEs through authorized channels.
- One of the important ones was the recently-launched 59-minute loan platform enabling online easy access to credit for MSMEs.
- Furthermore, the Small Industries Development Bank of India (SIDBI) has started lending to companies directly bypassing banks.
- The interest rate on these loans is at least 300 basis points lower than the usual rates.

- **The initiative aims to automate various processes to loan appraisal in such a way that one gets an eligibility letter, in-principle approval in less than 60 minutes and chooses the bank that one may prefer to ease access to credit to smaller and micro enterprises.**
- **You update your credential online, choose the bank you prefer, and receive an in principle approval in 59 minutes.**
- **Actual sanction is expected within 7 to 8 days. Interest rate starts at 8%.**
- **Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE): Loans up to ₹ 1 crore is covered.**

A number of other government startup loans and schemes for entrepreneurs in India have been introduced in the past few years. Here is a list of some of the most popular and notable government schemes that offer business loans for startups And MSMEs in India.

- New Gen IEDC (Innovation and Entrepreneurship Development Centre) scheme.
- Bank Credit Facilitation Scheme
- Credit Guarantee Scheme (CGS)
- Credit Linked Capital Subsidy for Technology Upgrades
- Coir Udyami Yojana
- MSME Business Loans For Startups In 59 Minutes
- Pradhan Mantri Mudra Yojana (PMMY)
- SIDBI Make in India Soft Loan Fund for MSMEs (SMILE)
- Standup India
- Sustainable Finance Scheme

SIDBI Make in India Soft Loan Fund for MSMEs (SMILE)

Small Industries Development Bank of India (SIDBI)

- **New enterprises in manufacturing as well as the services sector can apply.**
- **Support 20 lakh or 10% of the project cost.**

- **Comprehensive List Of Venture Capital Funds Managed By SIDBI That Have Catalysed More Than 500 MSMEs And Startups.**
- **SIDBI funds many venture capital funds.**
  - Maharashtra State Social Venture Fund (MS Fund)
  - **Investment Size:** Not more than $3.9 Mn (INR 25 Cr) per investee company.
- **West Bengal MSME VC Fund (WB Fund)**
  - **Investment Size:** Not more than $1.4 Mn (INR 9 Cr)
- **India Opportunities Fund**
- **SME Growth Fund**
- **Samridhi Fund**

See here for details
https://www.sidbiventure.co.in/

- **Fund of Funds for Startups**
- **In April 2017, the Union Cabinet, chaired by PM Narendra Modi, approved the establishment $1.4 Bn (INR 10, 000 Cr) corpus for a ‘Fund of Funds for Startups (FFS) proposed by the government in June 2016.**
- **ASPIRE Fund**
- **India Aspiration Fund**
- **SIDBI Make in India Loan For Enterprises (SMILE) Fund**
- **SAARC Development Fund**

See here for details
https://www.sidbiventure.co.in/

REACHING SIDBI FUNDS

Fund	Where Startups Can Mail
Maharashtra State Social Venture Fund	msfund@sidbiventure.co.in
Tex Fund	texfund@sidbiventure.co.in
West Bengal MSME VC Fund	wbfund@sidbiventure.co.in
Samridhi Fund	samridhi@sidbiventure.co.in
India Opportunities Fund	iof@sidbiventure.co.in
Fund	Where Startups Can Mail
Maharashtra State Social Venture Fund	msfund@sidbiventure.co.in
Tex Fund	texfund@sidbiventure.co.in
West Bengal MSME VC Fund	wbfund@sidbiventure.co.in

Tax exemption under section 80 IAC

- The recognized startups are eligible to receive Income Tax exemption.
- They enjoy tax holiday for 3 consecutive financial years out of its first ten years of operation since incorporation.
- Eligibility Criteria (80IAC)
- The entity should be a recognized Startup.
- Only Private limited companies and Limited Liability Partnerships are eligible for Tax exemption under Section 80IAC
- The Startup should have been incorporated after 1st April, 2016

Some Does and Donts

- **Do not keep information from investors – both positive and negative.**
- **"I like to send out a monthly update to our entire investor base with most of our metrics, regardless of whether they're good or bad, to further nurture this trust with our partners." – Giuseppe Stuto**
  - **It Maximizes the Probability of Getting the Right Help at the Right Time**
  - **It prepares you to accept failure and move on.**
  - **It helps the investors to come to your rescue at times of distress.**

- Financing New Ventures: An Entrepreneur's Guide to Business Angel Investment by **Andrew Zacharakis, 2013**
- Harvard Business Review Entrepreneur's Handbook (HBR Handbooks) Paperback – 23 Mar 2018
- https://encycolorpedia.com/
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- **https://slidebean.com/templates/investor-deck-template**
- **https://guykawasaki.com/the-only-10-slides-you-need-in-your-pitch/**
- **https://slidebean.com/templates/investor-deck-template**
- **Various Wikipedia pages**