

FINANCING AN ENTERPRISE

- Need for Financial Planning:
- Finance is one of the most important prerequisites to start an enterprise.
- Financing an enterprise- whether big or small is a critical element for success in business. Therefore , what follows is that every enterprise should clearly chalk out its future financial requirements in its very beginning itself.



WHAT TO ANSWER IN A FINANCIAL PLAN

- How much money is needed ?
- Where will the money come from ?
- When does the money need to be available ?



FACTORS TO CONSIDER WHILE ESTIMATING THE MONEY NEEDED

- There should be adequate money to pay the purchase considerations.
- There should be sufficient capital to support the business operations up to the initial three months of the enterprise.
- Enough provision should be made to meet unexpected/ unplanned business expenses.



CLASSIFYING THE FINANCIAL NEEDS OF THE ENTERPRISE

There are two ways of classifying the financial needs of an enterprise:

On the basis of extent of performance:

- A) Fixed Capital
- B) Working Capital

On the basis of period of use:

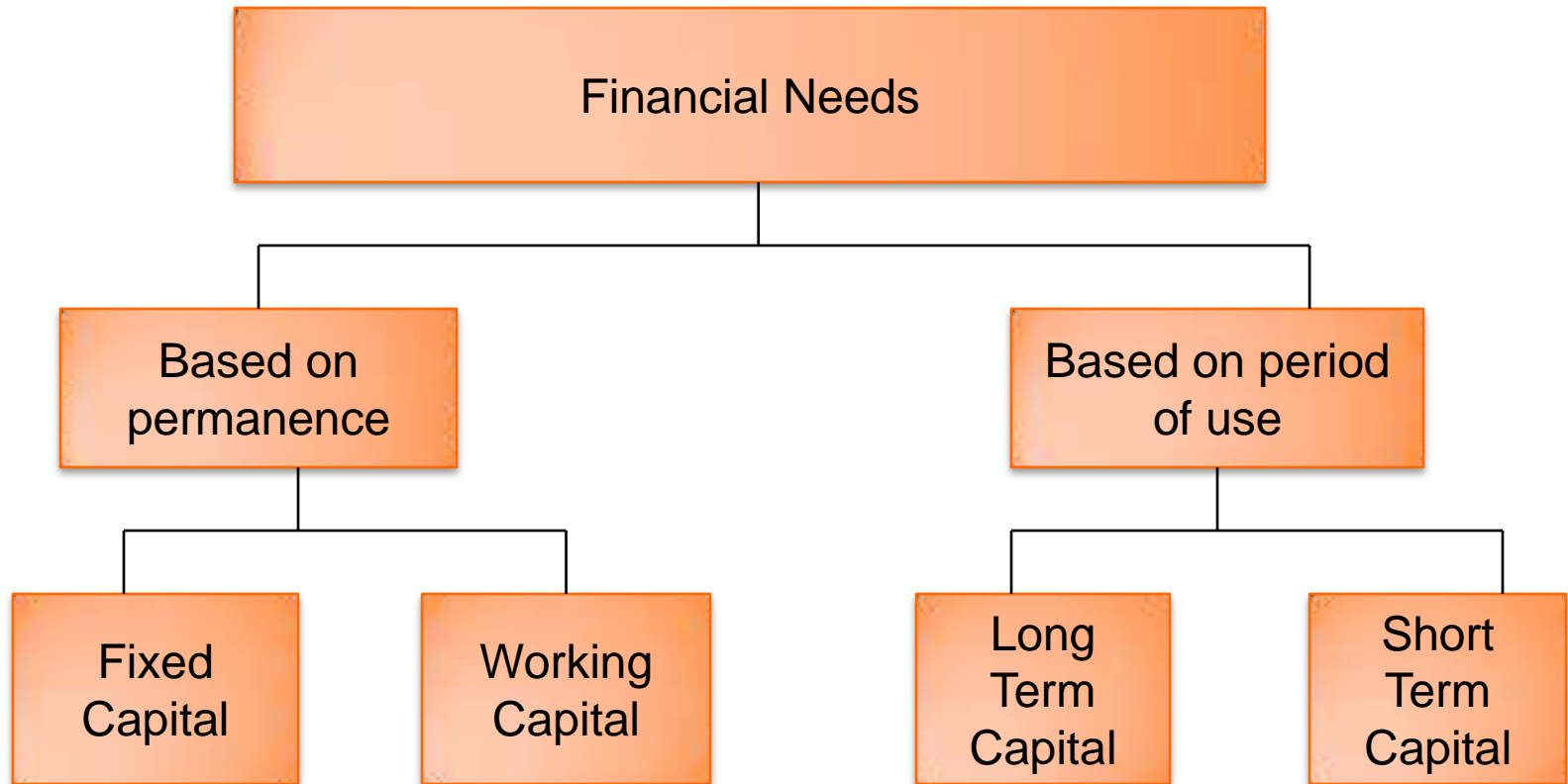
- A) Long-term Capital/ Finance
- B) Short term Capital/Finance



- A) **Fixed Capital**: The money invested in some fixed assets or durable assets like land, building, machinery
- B) **Working Capital**: The money invested in current assets.
- C) **Long-term Capital/ Finance**: This is such money whose repayment is arranged for more than five years in future.
- B) **Short term Capital/Finance**: This is a borrowed capital/money that is to be repaid within one year.



○ Classification of Financial Needs



SOURCES OF FINANCE

- The various sources from which an enterprise can raise the required funds could broadly be classified into two sources.

These are:

Internal Sources

External Sources



Internal Sources

- Equity
- Deposits and loans given by the owner, the partners, the directors, as the case maybe.

External Sources:

- Deposits or borrowings from relatives and friends
- Borrowings from banks for working capital purposes.
- Term Loans from Financial Institutions
- Hire purchase or leasing facility from National Small Industries Corporation (NSIC) and State Small Industries Corporation (SSICs)
- Seed/ Margin money, subsidies from Govt and financial institutions.



EXTERNAL SOURCES OF FINANCE CAN BROADLY CLASSIFIED AS

- Personal funds or Equity Capital
- Loans from relatives and friends
- Mortgage Loans
- Term Loans
- Subsidiaries



CAPITAL STRUCTURE

- The composition of equity and debt in overall capital of an enterprise is called capital structure.
- Capital structure is the ratio between debt and equity capital.
- **OPTIMUM CAPITAL STRUCTURE :**
- The capital structure should involve the minimum cost and the maximum yields.
- The adopted capital structure should be flexible enough to fulfill the future requirements of the capital as and when needed.
- The use of debts should be within the repaying capacity of the enterprise.
- The capital structure should ensure the proper control over the affairs of the enterprise.



FACTORS DETERMINING CAPITAL STRUCTURE

- Nature of business
- Size of the Enterprise
- Trading on Equity
- Cash flows
- Purpose of financing
- Provision for future



TERM LOANS

- Long Term Loans:
- These are loans taken for a fairly long duration of time ranging from 5yrs to 10 years or 15 years.

SOURCES:

- Issue of shares
- Issue of debentures
- Loans from financial institutions
- Loans from commercial banks
- Public Deposits
- Retention of Profits



SOURCES OF SHORT TERM FINANCE

- Loans from Commercial Banks
- Public Deposits
- Trade Credit
- Factoring
- Discounting of Bills of Exchange
- Bank Overdraft and Cash Credit
- Advances from Customers
- Accrual Accounts



VENTURE CAPITAL

- Venture Capital is a form of financing especially designed for funding high technology, high risk and perceived high reward new projects .
- International Finance Corporation, Washington (IFCW) defines venture capital as equity or equity featured capital seeking investment in new ideas, new companies, new products, new processes or new services that offer the potential of high returns on investment.



EXPORT FINANCE

- The term ' export finance ' refers to credit facilities and techniques of payment at the pre- shipment of post shipment stages.
- Export finance, whether short term or long term or medium term is provided exclusively by the Indian and foreign commercial banks which are the members of the Foreign Exchange Dealers Association.



PRE SHIPMENT FINANCE

- It refers to the financial assistance provided to the exporters before actual shipment of goods.
- Pre shipment finance is provided to the exporters for the purpose like purchase of raw materials, their processing, and converting into finished goods and packaging them. **The following pre shipment finance is made available:**
- Packaging credit
- Advance against incentives
- Advance against duty drawback
- Pre shipment credits are granted by banks under concessional rates of interest at 7.5 % . Credit can be extended up to a maximum period of 6 months.



POST SHIPMENT FINANCE

- It may be defined as “ any loan or advance granted or any other credit provided by a bank to an exporter of goods from India from the date of extending the credit after shipment of goods to the date of realization of export proceeds.
- Thus post shipment finance serves as bridge loan for the period between shipment of goods and the realization of proceeds. Such loan is usually provided for a maximum period of 6 months.
- Interest is charged at a rate of 8.65 %.
- The Govt has set up Export Credit and Guarantee Corporation (ECGC) which provides export assistance in the form of insurance cover and guarantees. There is also an Export Inspection Council of India (ECIC) which extends financial assistance to the exporters for the quality control process.





INSTITUTIONAL SUPPORT TO ENTREPRENEURS

NATIONAL SMALL INDUSTRIES CORPORATION (NSIC)

- The NSIC an enterprise under the Union Ministry of Industries was set up in 1955 to promote, aid and foster the growth of small scale industries in the country.
- To provide machinery on hire purchase scheme to small scale industries.
- To provide equipment leasing facility.
- To help in export marketing of the products of small scale industries.
- To participate in bulk purchase programme of the Government.
- To distribute basic raw material among small scale industries through raw material depots.
- To help in development and up gradation of technology and implementation of modernization programmes of SSI.
- To impart training in various industrial trades.
- To set up SSI in other developing countries on turn-key basis.
- To undertake the construction of industrial estates.



SMALL INDUSTRIES DEVELOPMENT ORGANIZATION (SIDO)

- SIDO is an apex body and nodal agency for formulating, coordinating and monitoring the policies and programmes for promotion and development of small scale industries.
- Functions relating to coordination:
- To evolve a national policy for the development of SSI
- To co ordinate the policies and programmes of various state governments.
- To maintain proper liaison with the related Central Ministries, Planning Commission, State Govt, Financial Institutions etc.
- To coordinate the programmes for the development of industrial estates.



SMALL INDUSTRIES DEVELOPMENT ORGANIZATION (SIDO)

- Functions relating to industrial development:
- To reserve items for production by small scale industries.
- To collect data on consumer items imported and then encourage the setting of industrial units to produce these items by giving coordinated assistance.
- To render required support for the development of ancillary units.
- To encourage small scale industries to actively participate in Govt Stores Purchase Programme by giving them necessary guidance, market advice and assistance.



SMALL INDUSTRIES DEVELOPMENT ORGANIZATION (SIDO)

- Functions relating to extension:
- To make provision for technical services for improving technical process, production planning, selecting appropriate machinery, preparing factory lay-out and design.
- To provide consultancy and training services to strengthen the competitive ability of SSI.
- To render marketing assistance to SSI to effectively sell their products.
- To provide assistance in economic investigation and information to SSI.



SMALL SCALE INDUSTRIES BOARD (SSIB)

The SSIB was set up in 1954 to advise on development of SSI in the country.

The SSIB is also known as Central Small Industries Board.

The Industries Minister of Govt of India is the Chairman of SSIB

The SSIB comprises 50 members including State Industry Minister, some members of the Parliament, secretaries of various departments of Govt of India, financial institutions, public sector undertakings, industry associations and eminent experts in the field.

Functions: It is an apex advisory body constituted to render advice to the Govt on all issues pertaining to the development of SSI.



STATE SMALL INDUSTRIES DEVELOPMENT CORPORATIONS (SSIDC)

The SSIDC were set up in various states under the Companies Act, 1956.

Functions:

- ❑ To procure and distribute scarce raw materials.
- ❑ To supply machinery on hire purchase systems.
- ❑ To provide assistance for marketing of the products of SSI.
- ❑ To construct industrial estates/sheds, providing allied infrastructure facilities and their maintenance.
- ❑ To extend seed capital assistance on behalf of the State Govt concerned. Provide management assistance to production units.



SMALL INDUSTRIES SERVICE INSTITUTES (SISIs)

The SISIs are set up to provide consultancy and training to small entrepreneurs- both existing and prospective.

Functions:

To serve as interface between Central and State Govt.

To render technical support services.

To conduct Entrepreneurship Development Programmes.

To initiate promotional programmes.

The SISIs also render assistance in the following areas:

Economic Consultancy

Trade and market information.

Project Profiles

District and State industrial potential surveys.

Modernization and implant studies.

Workshop facilities.

Training in various trade activities.



DISTRICT INDUSTRIES CENTRES (DIC)

The DIC was started in 1978 with a view to provide integrated administrative framework at the district level for promotion of SSI in rural areas.

Functions:

- To conduct industrial potential surveys keeping in view the availability of resources in terms of material and human skill, infrastructure , demand for product etc.
- To prepare an action plan to effectively implement the schemes identified.
- To guide entrepreneurs in matters relating to selecting the most appropriate machinery and equipment, sources of its supply and procedure for procuring imported machinery if needed.
- To appraise the worthiness of various proposals.
- To undertake product development work appropriate to small industries.
- To undertake artisan training programmes.



INDUSTRIAL ESTATES

An industrial estate is a place where the required facilities and factory accommodation are provided by the Govt to the entrepreneurs to establish their industries there.

TYPES OF INDUSTRIAL ESTATES:

On the basis of functions:

General type industrial estates : Also called conventional industrial estates. These provide accommodation to a wide variety of industrial concerns.

Special type industrial estates: This type of industrial estates are constructed for specific industrial units.



INDUSTRIAL ESTATES

TYPES OF INDUSTRIAL ESTATES:

On the basis of Organizational Set up:

Govt Industrial Estates

Private Industrial Estates

Cooperative Industrial Estates

Municipal Industrial Estates.



INDUSTRIAL ESTATES

TYPES OF INDUSTRIAL ESTATES:

On the basis of Other Variants:

Ancillary Industrial Estates: In such industrial estates, only those small scale units are housed which are ancillary to a particular large industry.

Functional Industrial Estates: Industrial units manufacturing the same product are usually housed in these estates. These serve as the base for expansion of small units into larger units.

The Workshop –bay: Such types of industrial estates are constructed mainly for very small firms engaged in repair work.



INDUSTRIAL ESTATES

OBJECTIVES OF INDUSTRIAL ESTATES:

To provide infrastructural and accommodation facilities to entrepreneurs.

To encourage the development of SSI in the country.

To decentralize industries to rural and backward areas.

To encourage ancillarisation in surrounding major industrial units.

To develop entrepreneurship by creating a congenial climate to run the industries in these estates/areas/ townships etc.



TECHNICAL CONSULTANCY ORGANIZATIONS (TCOs)

TCOs was established to cater to consultancy needs of small industries and new entrepreneurs. At present there are 17 TCOs operating in various states.

Functions:

To prepare project profiles and feasibility profiles.

To undertake industrial potential surveys.

To identify potential entrepreneurs and provide them with technical and management assistance.

To undertake market research and surveys for specific products.

To conduct Entrepreneurship Development Programmes.

To offer merchant banking services.

To undertake export consultancy for export oriented projects based on modern technology.

