Unit-III

Project Formulation

Till recently, in our country much attention was not paid towards preparation of preliminary feasibility and detailed project reports. Most of the important projects were designed with the help of the foreign collaborators in one form or other. If the project work is done intelligently it will throw up technological research problems the solutions to which would promote accelerated development.

In the formulation of any project an important phase is pre-investment phase. The phase consists of the period from the conception of an idea until the final analysis of the necessary elements in order to decide whether the project should be executed or not.

Project formulation is by itself an analytical management aid. Project development throws up data in a constant stream. The project formulation team has to evaluate alternative approaches and to arrive at the most effective decision either on its own or with the help of the project sponsoring body.

The aim always is to achieve the project objectives with the minimum expenditure of resources.

Project formulation divides the process of project development into **seven distinct and sequential stages**. The stages are

1. Feasibility analysis
2. Techno-economic analysis
3. Project design and network analysis
4. Input analysis
5. Financial analysis
6. Social cost-benefit analysis and
7. Project appraisal

1. Feasibility analysis: -

The purpose of analysis is to examine the desirability of investing in pre-investment studies. For this purpose, examine the project idea in the light of internal and external constraints. Internal constraints are the limitations of the project sponsoring and project implementation body. External constraints are due to the characteristics of the environments.

When a project idea is taken up for development, three situations arise, appear to be a) feasible b) not feasible c) available data may not be adequate for arriving at a reasonable decision which requires additional investment and time.

2. Techno-economic analysis: -

It is concerned with the identification of the project demand potential and the selection of the optional technology which can be used to achieve the project objectives. Project demand is a critical determinant of the optional size of the project. Project size in its own turn determines the technology which will be appropriate to a particular project situation.

Technology includes methodology or the process where technical operations are not involved. Market analysis has to be followed by a detailed search for alternative technologies which can be used to achieve the project objectives.

Techno-economic analysis gives to the project individuality and sets the stage for detailed design development.

3. Project design and Network Analysis: –
Project design defines the individual activities and their inter–relationship with each other. This is most

inter–relationship with each other. This is most conveniently expressed in the form of a network diagram. This is concerned with the development of the detailed work plan of the project and its time profile.

4. Input Analysis:

It concerns with what the project will consume both during the construction phase as also the normalization phase.

The objective is to identify and quantify the project inputs and to assess the feasibility of a sustained supply of these inputs all through the effective life span of the project. Inputs are material and human resources.

Input analysis considers the recurring as well as non–recurring resources requirements of the project and evaluates the feasibility of the project from the point of view of the availability of these resources.

5. Financial analysis: -

It concerns itself with the estimation of the project costs, project operating costs and project funds requirements. It also involves the appraisal of financial characteristics of the project, so as to establish the merits and demerits of the project as compared to other investment opportunities. A large number of financial analytical aids developed are: present worth technique, the cost volume–profit analysis and ratio analysis. The uncertainties have to be taken into account.

6.Cost Benefit analysis: –

The cost–benefit analysis takes into account not only the direct costs and benefits which will accrue to the project implementing body but also the total costs which all entities concerned with the project will have to bear and the benefits which will be enjoyed by all such entities.

Idea is to evaluate the project in terms of absolute costs and benefits rather than in terms of apparent costs and benefits.

7. Pre–investment Appraisal: –

It is the process of consolidating the above i.e., feasibility analysis, techno–economic analysis, Project design and network analysis, input analysis, financial analysis and social cost–benefit analysis so as to give the investment proposition a final and formed shape.

The sum total of the pre-investment appraisal is to present the project idea in a form in which the project sponsoring body the project implementing body and the outside agencies can take an investment decision regarding the proposals.

Analysis of market Demand:

Market and demand analysis is concerned with two broad issues

1. What is likely aggregate demand for the product / service?
2. What share of the market will the proposed project enjoy?

Factors to be considered for getting the answers for the above:

1. Patterns of consumption growth
2. Income and price elasticity of demand
3. Composition of the market
4. Nature of competition
5. Availability of substitutes
6. Distribution channels

Steps in market analysis

1. Situation analysis and specification of objectives:

   - ❖ Talk to customers, competitors, middlemen and others

- ❖ For carrying out market survey spell out the objectives clearly
- ❖ Questionnaire can help gathering the information in a way relevant for forecasting the demand

2. Collection of secondary inputs:
   - ❖ Secondary information is the one which was gathered in some other context and is available readily for the present consideration
   - ❖ Primary information is the one, which is collected for the first time to meet the specific purpose on hand.
   - ❖ Secondary information forms the basis and starting point for the market and demand analysis.
   - ❖ General sources of secondary information:

     Censes of India, National sample survey reports, Plan reports, India year book, Statistical year book, Economic survey, Guide lines to industries, Annual survey of industries, Publications of advertising agencies, Monthly bulletin of RBI, etc.

     Annual reports of association of Indian automobile manufacturers

     Journals of industry associations.

   - ❖ The relevance, reliability, accuracy is to be carefully studied in the information available in the secondary information.

3. Conduct of market survey:
   - ❖ Secondary information may not provide a comprehensive basis often thus necessitating gathering primary information through market survey.
   - ❖ Census survey: Entire population is covered. It is suitable for intermediate goods, investment goods - where the number is less.
   - ❖ Sample survey: A sample of the population is contacted or observed. Inferences are made on the basis of the information gathered from the sample. Ex:
     - o Total demand & rate of growth of the demand,
     - o Demand in different segments of the market,
     - o Income & price elasticity of the demand,
     - o Motives for buying, purchasing plan and intentions,
     - o Satisfaction with existing goods,
     - o Unsatisfied needs,
     - o Attitudes towards various products,
     - o Distribution trade practices and preferences,
     - o Socio-economic characteristics of buyers

1.1.1 Steps in conducting Sample survey:

i. Define the target population
ii. Select the sampling scheme and sample size
iii. Develop the questionnaire
iv. Recruit and train the field investigators
v. Obtain the information as per questionnaire from the sample respondents
vi. Scrutinize the information gathered
vii. Analyze and interpret the information

1.1.2 The results of the information can be vitiated by

1. Non representative ness of the sample
2. Questions lack precision and accuracy
3. Failure of respondents to comprehend the questions
4. Deliberate distortions in the answers given by the respondents
5. Inept handling of the interviews
6. Cheating on the part of the investigators
7. Incorrect and inappropriate analysis and interpretation of data

1.1.3 Problems:

1. Heterogeneity of the country
2. Multiplicity of the languages
3. Design of questionnaire

4. Characterization of the market:

❖ The market may be described as follows on the basis of the information gathered in the survey

1. Effective demand in the past and present:

Apparent consumption = Production + Imports – Exports – Change in stock level

Consumption of the product by producers and effect of abnormal factors are to be adjusted.

In a competitive market effective demand and apparent consumption are equal.

2. Breakdown of the demand:

Aggregate demand may be broken down into demand for different segments of the market

Market segments may be defined by

1. Nature of the product
2. Consumer group
3. Geographical division

Segmental information is helpful because the nature of the demand tends to vary from one segment to the other

3. Price:

1. Manufacturer's price quoted FOB(Free On Board)
2. CIF price (Cost, Insurance, Freight)
3. Landed price for imported goods
4. Average whole sale price

4. Methods of distribution and sales promotion

Distribution varies in the nature of the product

Different distribution channels may be used for a given product

Advertisement, discounts, Gift's scheme vary from product to product

5. Consumers:

Demographic & Sociological		Attitudinal
Age	Profession	Preferences
Sex	Residence	Intentions
Income	Social background	Habits
		Attitudes
		Responses

6. Supplies and Competition:

Existing sources - Indigenous / imported

Location, present production Capacity

Planned expansion, capacity utilization level

Bottlenecks in production, Cost structures,

Quantity, Quality, Promotional efforts

7. Government policy:

Production targets in National plan

Import & export trade constraints

Import duties and incentives

Excise duties and sales tax, industrial licensing

Credit controls, preferential purchasing
Financial regulations, subsidies, Penalties

5. Demand Forecasting:

- Quantitative methods:
  1. Jury of executives opinion method
  2. Delphi method: involves converting the views of group experts, who do not interact face to face, into a forecast through an iterative process.
- Time series method:
  1. Trend projection method
  2. Exponential smoothening method
  3. Moving averages method
- Casual models:
  These are based on the cause-effect relationship.

  1. Chain ratio method – Applies a series of factors for developing a forecast.
  2. Consumption method
     - Income elasticity of demand
     - Price elasticity of demand
  3. End use method – suitable for intermediate products
  4. Leading indicator method – Observed changes in leading indicators are used to predict the changes in lagging variables.
  5. Econometric method – Estimating quantitative relationship derived from economic theory.

6. Market planning:

1. Pricing 2. Distribution 3. Promotion 4. Service

Financial Analysis

1. Cost of Project:
   - Land & site development
   - Buildings & civil works
   - Plant & machinery
   - Technical know-how & engg. Fees
   - Expenses of foreign technicians & training
   - Miscellaneous fixed assets
   - Preliminary & capital issue expenses
   - Pre-operative expenses
   - Provision for contingencies
   - Margin money for working capital
   - Initial cash losses
2. Means of finance:
   - Share capital
   - Term loans
   - Debenture capital
   - Deferred capital
   - Incentive sources
   - Miscellaneous sources
   - Planning the means of finance:
     - Norms of regulatory bodies and financial institutes
     - Key business considerations like cost of capital, risk, control, flexibility etc.

3. Estimates of sales & Production:
   - Capacity utilization
     - 40-50% in 1 year
     - 50-80% in 2 year
     - 80-90% in subsequent years
   - Selling price is realizable value
   - Production & sales assumed to be equal
   - Changes in selling price may be matched with changes in cost of production
4. Cost of Production:
   Material cost, labor cost, utilities cost, factory overheads
5. Working capital requirement & financing:
   - Raw materials & components
   - Work in process
   - Finished goods stock
   - Debtors
   - Operating expenses
   - Sources of WC
     - Advances by commercial banks
     - Trade credit
     - Accruals and provisions
     - Long term sources of financing
     - 25% of current assets must be supported by long term sources of financing i.e. margin money
6. Profitability projections: (Estimates of working results)

   A: Cost of production
   B: Total administrative expenses
   C: Total sales expenses
   D: Royalty & know-how
   E: Total cost of prodn. (A+B+C+D)
   F: Expected sales
   G: Gross profit before interest
   H: Total finance expenses
   I: Depreciation
   J: Operating profit: G-H-I
   K: Other income
   L: Preliminary expenses written off
   M: Profit / loss before taxes: J+K-L
   N: Provision for tax
   O: Profit after tax: M-N
   Less dividend
   - Preference capital
   - Equity capital
   R: Retained profit
   Q: Net cash accrual: P+I+L

7. Breakeven analysis:

   Break-even Point in units = fixed costs/ (unit selling price- unit variable cost)

   $$= \frac{\text{Fixed cost}}{\text{Contribution}} \times \text{Expected prodn. in nos.} \quad \text{Nos.}$$

   BEP (% of installed capacity) = (Fixed cost / contribution) x Expected Capacity utilization in the year.

   $$\text{BEP (in Rs.)} = \frac{\text{Fixed cost}}{\text{Contribution}} \times \text{Expected sales realization in the year}$$

   Contribution = sales realization – variable cost
8. Projected cash flow statements:

Cash flow statement shows the movement of cash into and out of the firm and is net impact on the cash balance with the firm.

Sources of funds	Disposition of funds

9. Projected balance sheet:

Balance sheet shows the balances in various assets and liabilities.

It reflects the financial condition of the firm at a given point of time.

Liabilities	Assets
Share capital	Fixed assets
Reserves & surplus	Investments
Secured loans	Current assets, loans, advances
Unsecured loans	Miscellaneous Expenditure & losses
Current liabilities & provisions	

Technical analysis

1. Material inputs & utilities:
   - Raw materials – agricultural, mineral, livestock, forest, marine products.
   - Processed industrial materials & Components
   - Utilities – Power, water, fuel, steam, air etc.
2. Manufacturing process / Technology
   - Choice of technology
   - Acquiring technology
   - Appropriateness of technology
3. Product mix
   - Market requirements
   - Variations in size, quality
   - Product, Price, Place & Promotion
4. Plant capacity
   - Technological requirement
   - Input constraints
   - Investment cost
   - Market conditions
   - Resources of the firm
   - Government policy
5. Location & site
   - Proximity to raw materials
   - Availability of infrastructure – water, Power, fuel, transport, communications etc.
   - Nearness to market
   - Government policies
   - Availability of labour and their attitudes
   - Climate, pollution, facilities like schools, entertainment etc.
6. Machinery & equipment
   - Selection, procurement, installation & commissioning
7. Structures & civil works
   - Site preparation
   - Buildings & structures
   - Outdoor works
8. Project charts & layouts
   - General functional layout
   - Material flow diagrams
   - Production line diagrams

- Transport layout
- Utility consumption layout
- Communication layout
- Organizational chart
- Plant layout

9. Work schedule
    - Installation phase
    - Phasing of investment
    - Develop plan of operation

Project financing:

It refers to the means of finance employed for meeting the cost of the project. The long-term sources used for meeting the cost of the project are known as means of finance.

1. Equity (Owned funds)
    - Ordinary shares
    - Preference shares
2. Debt (borrowed funds)
    - Secured from financial institutes
    - Debentures – convertible, non-convertible
    - Public deposits
    - Rupee term loans
    - Foreign currency loans
    - Euro issues – Global depository receipts, Euro convertible bonds
    - Deferred credit
3. Lease financing
    - Maintenance lease
    - Financial lease
    - Operating lease
    - Net lease

Classification of capital:

1. Fixed capital: Funds required for acquiring fixed assets.
2. Working capital: Funds required for operations and includes raw materials; work in processes, finished goods, wages and salaries etc.
3. Venture capital: Venture capital is thought of as a creative capital, which is expected to perform economic functions different from other investment vehicles, which primarily serve as expansion capital.
   It is the equity support to fund new concepts that involves a high risk and at the same time has high growth and profit potential.

   Institutions providing venture capital:
    - The technology Development and Investment corporation of India (a subsidy of ICICI)
    - Technology Development fund set up by IDBI
    - The Equity development Scheme - SBI capital markets Ltd., CANFINA.
    - India Investment Fund. – Grindley's bank.
4. Seed capital
   It is the capital to be subscribed by the promoters as required by the financial institutions. Financial institutions through seed capital assistance supplement the resources of promoters of the small and medium scale industries.

1. Special seed capital assistance scheme: Rs. 2.0 lakhs or 20% of the project cost whichever is less. SFCs
2. Seed capital assistance for projects costing not more than Rs. 200 lakhs – Rs. 15 lakhs max. – by IDBI
3. Risk capital foundation scheme for projects of Rs. 150 to Rs. 200 lakhs – Rs 15 to 40 lakhs - by IFCI.

Financial institutions:

1. Industrial finance Corporation of India (IFCI)
2. The Industrial Development Bank of India (IDBI)
3. The Industrial Credit and Investment corporation of India (ICICI)
4. The National Bank for Agriculture and Rural Development (NABARD)
5. The Small Industries Development Bank of India (SIDBI)
6. Industrial Investment bank of India (IIBI)
7. Life Insurance Corporation of India (LIC)
8. General Insurance Corporation of India (GIC)
9. Export Import bank of India (Exim Bank)
10. Khadi & Village Industries commission (KVIC)
11. National Small Industries Corporation Ltd. (NSIC)
12. State industrial Development Corporations (SIDCs)
13. State Small industries Development Corporations (SSIDCs)
14. State Financial Corporations (SFCs)
15. Commercial banks

Institutions engaged in entrepreneurial development:

1. Small Industries Extension Training Institute, Hyderabad (SIET)
2. Small Industries Service Institute (SISI)
3. Small Industries Development Organization (SIDO)
4. Entrepreneurial Development Institute of India (EDII) set up by IFCI
5. National Institute for Entrepreneurship and Small business Development (NIESBUD)
6. Gujarat Industrial and Investment Corporation (GIIC)
7. Indian Investment Center (IIC)
8. Entrepreneurial Motivation Training Center EMTC)
9. Xavier Institute of Social Sciences Ranchi.
10. Center for Entrepreneurship Development, Ahmadabad (CED)
11. Rural entrepreneurship development (RED) institute.
12. National science and technology Entrepreneurship development Board (NSTEDB)
13. Rural Management and management centers at Maharashtra and Training cum Development centers RMEDC)
14. Management Development Institute (MDI)

MEANS OF FINANCE: – To meet the cost of project the following means of finance are available:

1. Share capital
2. Term loans
3. Debenture capital
4. Deferred credit
6. Incentive sources
7. Miscellaneous sources

1. Share Capital:– There are two types of share capital—equity capital and preference capital. 'Equity capital' represents the contribution made by the owners of the business, the equity shareholders, who enjoy the rewards and bear the risks of ownership. Equity capital being risk capital carries no fixed rate of dividend. 'Preference capital' represents the contribution made by preference shareholders and the

dividend paid on it is generally fixed.

2. Term Loans:- Provided by financial institutions and commercial banks, 'term loans' represent secured borrowings which are a very important source (and often the major source) for financing new projects as well as expansion, modernization, and renovation schemes of existing firms. There are two broad types of term loans available in India: 'rupee term loan' and 'foreign currency term loan'. While the former are given for financing land, building, civil works and indigenous plant and machinery and so on, the latter are provided for meeting the foreign currency expenditure towards import of equipments and technical know–how.

3. Debenture Capital:–Akin to promissory notes, debentures are instruments for raising debt capital. (Companies use debentures when they need to borrow the money at a fixed rate of interest for its expansion.) There are two broad types of debentures, non–convertible debentures and convertible debentures. Non–convertible debentures are straight debt instruments. Typically, they carry a fixed rate of interest and have a maturity period of 5 to 9 years. Convertible debentures, as the name implies are debentures which are convertible, wholly or partly into equity shares.The conversion period and price are announced in advance.

4. Deferred Credit: – Many a time the suppliers of plant and machinery offer a deferred credit facility under which payment for the purchase of plant and machinery can be made over a period of time.

5. Incentive Sources:– The government and its agencies may provide financial support as incentive to certain types of promoters or for setting up industrial units in certain locations. These incentives may take the form of 'seed' capital assistance (provided at a nominal rate of interest to enable the promoter to meet his contribution to the project), or 'capital subsidy' (to attract industries to certain locations), or 'tax deferment or exemption' (particularly from sales tax) for a certain period.

6. Miscellaneous sources: – A small portion of project finance may come from miscellaneous sources like unsecured loans as public deposits, leasing and hire purchase finance. 'Unsecured loans' are typically provided by the promoters to bridge the gap between the promoters' contribution (as required by the financial institutions) and the equity capital the promoters can subscribe to. 'Public deposits' represent unsecured borrowings from the public at large. Leasing and hire purchase finance represent a form of borrowing different from the conventional term loans and debenture capital.

Sources of finance for raising capital are:-

1. Equity Capital
2. Preference capital
3. Non-convertible debenture
4. Convertible debentures
5. Rupee term loans
6. Foreign currency term loans
7. Euro issues
8. Differed Credit
9. Bill rediscounting Scheme
10 Suppliers line of credit
11. Seed capital assistance
12. Government subsidies
13. Sales tax deferment and exemption
14. Unsecured loans and deposits
15. Lease and hire purchase finance.

1. Equity Capital: - This is the contribution made by the owners of business, the equity shareholders, who enjoy the rewards and bear the risks of ownership. Equity capital offers two important advantages:

i) It represents permanent capital. Hence there is no liability for repayment,
ii) ii) It does not involve any fixed obligation for payment of dividends.

The disadvantages of raising funds by way of equity capital are:

i) The cost of equity capital is high because equity dividends are not tax-deductible expenses,
ii) The cost of issuing equity capital is high.

2. Preference Capital: - This is like debt capital since rate of preference dividend is fixed. It is similar to equity capital because preference dividend, like equity dividend, is not a tax-deductible payment. Typically, when preference dividend is Skipped it is payable in future because of the cumulative feature associated with it. The, near-fixity of preference dividend payment renders preference capital somewhat unattractive in general as a source of finance. It is, however, attractive when the promoters do not want a reduction in their share of equity and y et there is need for widening the net worth base (net worth consists of equity and preference capital) to satisfy the requirements of financial institutions. In addition to the conventional preference shares, a company may issue Cumulative Convertible Preference Shares (CCPS). These shares carry a dividend rate of 10% (which if unpaid, cumulates) and are compulsorily convertible into equity shares between three and five years from the date of issue.

3 & 4. Debenture Capital: - It is similar to promissory note. In the last few years, debenture capital has emerged as an important source for project financing. There are three types debentures that are commonly used in India:

Non-Convertible Debentures (NCDs), Partially Convertible Debentures (PCDs) and Fully Convertible Debentures (FCDs). NCDs are used by companies for raising debt that is generally retired over a period of 5 to 10 years. They are secured by a charge on the assets of the issuing company. PCDs are partly convertible into equity shares as per pre-determined terms of conversion. The unconverted portion of PCDs remains like NCD. FCDs, as the name implies, are converted wholly into equity shares as per pre-determined terms of conversion. Hence FCDs may be regarded as delayed equity instrument.

5.Rupee Term Loans: - Provided by financial institutions and commercial banks, rupee term loans which represent secured borrowings are a very important source for financing new projects as well as expansion, modernization, and renovation schemes of existing units. These loans are generally repayable over a period of 8 - 10 years which includes a moratorium period of 1 - 3 years.

6.Foreign Currency Terms Loans:- Financial institutions provide foreign currency term loans for meeting the foreign currency expenditures towards import of plant, machinery, and equipment and also towards payment of foreign technical know-how fees. Under the general Scheme, the periodical liability towards interest and principal remains in the currency/currencies of the loan/s and is translated into rupees at the then prevailing rate of exchange for making payments to the financial institution.

Apart from approaching financial institutions (which typically serve as intermediaries between foreign agencies and Indian borrowers), companies can directly obtain foreign currency loans from international lenders. More and more companies appear to be doing so presently.

7.Euro issues: -

From middle of 1992, a number of companies have been making euro issues. They have employed two types of securities: Global Depository Receipts (GDRs) and Euro convertible Bonds (ECDs).

Denominated in US dollars, a GDR is a negotiable certificate that represents the publicly traded in local currency (Indian Rupee) equity shares of a non-US (Indian) company (of course, in theory, a GDR may represent a debt security, in practice it rarely does so) GDRs are issued by the Depository Bank (such as the Bank of New York) against the local currency shares (such as Rupee shares) which are delivered to the depository's local custodial banks. GDRs trade freely in the overseas markets.

A Euro convertible Bond (ECB) is an equity-linked debt security. The holder of an ECB has the option to convert it into equity shares at a pre-determined conversion ratio during a specified period. ECBs are regarded as advantageous by the issuing company because i) they carry a lower rate of interest compared to a straight debt security, ii) they do not lead to dilution of earnings per share in the near future, and iii) they carry very few restrictive covenants.

8.Deferred Credit: - Many a time the suppliers of machinery provide deferred credit facility under which payment for the purchase of machinery is made over a period of time. The interest rate on deferred

credit and the period of payment vary rather widely. Normally, the supplier of machinery when he offers deferred credit facility insists that the bank guarantee should be furnished by the buyer.

9.Bills Rediscounting Scheme: - Operated by the IDB1, the bills rediscounting scheme is meant to promote the sale of indigenous machinery on deferred payment basis. Under this scheme, the seller realizes the sale proceeds by discounting the bills or promissory notes accepted by the buyer with a commercial bank which in turn rediscounts them with the IDBI. This scheme is meant primarily for balancing equipments and equipments and machinery required for expansion, modernization, and replacement schemes.

10. Suppliers' line of Credit: -

Administered by the ICICI, the Suppliers' Line of Credit is somewhat similar to the IDBI's Bill Rediscounting Scheme.Under this arrangement IC1C1 directly pays to the machinery manufacturer against issuance of bills duly accepted or guaranteed by the bank of the purchaser.

11. Seed Capital Assistance: -

Financial institutions, through what may be labeled broadly as the 'Seed Capital Assistance scheme', seek to supplement the resources of the promoters of the small and medium scale industrial units which are eligible for assistance from all-India financial institutions and/or state-level financial institutions. Broadly three schemes have been formulated:

i) Specia1 Seed Capital Assistance Scheme: The quantum of assistance under this scheme is Rs.0.2 million or 20% of the project cost, whichever is lower. This scheme is administered by the State Financial Corporations.

ii) Seed Capital Assistance Scheme: The assistance under this scheme is applicable to projects costing not more than Rs.20 million. The assistance par project is restricted to Rs.1.5 million. The assistance is provided by IDBI through state level financial institutions. In special oases, the IDBI may provide the assistance directly.

iii) Risk Capital Foundation Scheme: Under this scheme, the Risk Capital Foundation an autonomous foundation set up and funded by the IFCI, offers assistance to promoters of projects costing between Rs.20million and Rs.150million. The ceiling on the assistance provided between Rs.1.5million and Rs.4million. depending on the number of applicant promoters.

12. Government Subsidies: -

Previously the central government as well as the state governments provided subsidies to industrial units located in backward areas. The central subsidy has been discontinued but the state subsidies continue. The state subsidies vary between, 5% to 25% of the fixed capital investment in the project, subject to a ceiling varying between RS.0.5million and Rs.2.5million depending on the location.

13.Sales, Tax Deferments and Exemptions: -

To attract industries, the states provide incentives, in the form of sales tax deferments and sales tax exemptions.

Under the sales tax deferment scheme, the payment of sales tax on the sale of finished goods may be deferred for a period ranging between 5 to 12 years. Essentially it implies that the project gets an interest free loan, represented by the quantum of sales tax deferred, during the deferment period.Under the sales tax exemption scheme, some states exempt the payment of sales tax applicable on purchases of raw material, consumables, packing, and processing materials from within the state which are used for manufacturing purposes. The period of exemption ranges from three to nine years depending upon the state and the specific location of the project within the state.

14.Unsecured Loans and Deposits: - Unsecured loans are typically provided by the promoters to fill the gap between the promoter's contribution required by financial institutions and the equity capital subscribed to by the promoters. These loans are subsidiary to the institutional loans. The rate of interest chargeable on these loans is less than the rate of interest on the institutional loans. Finally, these loans cannot be taken back without the prior approval of financial institutions.

Deposits from public, referred to as public deposits, represent unsecured borrowing of 2 to 3 years duration. Many existing companies prefer to raise public deposits instead of term loans from

financial institutions because restrictive covenants do not accompany public deposits. However, it may not be possible for a new company to raise public deposits. Further, it may be difficult for it to repay public deposits within 3 years.

15. Leasing and Hire Purchase Finance: –
With the emergence of scores of finance companies engaged in the business of leasing and hire purchase finance, it may be possible to get a portion, albeit a small portion, of the assets financed under a lease or a hire purchase arrangement. Typically, a project is financed partly by financial institutions and partly through the resources raised from the capital. market. Hence, in finalizing the financing schemes for a project, you should bear in mind the norms and policies of financial institutions and the guidelines of Securities Exchange Board of India and the requirements of the Securities Contracts Regulation Act (SCRA).

Unit-III

A start-up is a young company born out of a desire to solve a problem, fulfil a demand, or bring a unique product or service to market.

Start-up Policy

The Innovation Policy of the Government of Telangana is based around five broad pillars

- Developing physical infrastructure & program management capabilities

- Focus on creating sustainable funding models, through funds and other instruments

- Develop human capital, by creating the right environment and support systems for learning, experimentation and innovation from the early phases of education

- Proactive engagement with industry to continuously promote and identify innovation

- Encourage start-ups in the Rural and Social Enterprise space by providing additional incentives

Start-up strategy

Progress of start-ups in India:

Principles of future organizations

Start-up sectors

Different sectors where startups exist:
With the importance and encouragement given to digitalization and the Government's campaign of Digital India, the startup trend saw a significant rise in the technology sector. In 2019, the number of tech startups in India grew to from 8900 to 9300 with around 1300 startups being added in the year 2019 itself.

So, the startups sectors in India can be broadly divided into two segments- tech-based startups and non-tech based startups. The tech-based segment includes sectors like Fintech, E-Commerce, Edtech and Healthtech, whereas, the non-tech based segment includes Agri-products, Construction, Textiles, etc.

While sectors like e-commerce have become mature and seen a lot of growth, industries like Fintech, Edtech and Healthtech have really been in the limelight recently. Let's take a look at some of these industries in detail.

Fintech Sector

With the advent of technology, finance has grown from what it used to be traditional. Now, technology is very much integrated in it, and it is growing rapidly. Robo Advisory, Insurtech Digital Payments, etc. are all developing.

This is definitely one of the up and coming sectors in the ecosystem of startups in India. It is still in the beginning phase, but there is a lot of growth potential. With India moving towards a cashless economy and digital payments gaining trend, Fintech is a booming industry.

Also, India is one of the fastest-growing fintech markets in the world with its adoption rate being ranked the highest, along with China.

A good example of a company from this sector in India is,

Paytm, which was founded in 2010, by Vijay Shekhar Sharma. The company started off as a prepaid mobile platform and a recharge platform. It created the Paytm Wallet for enabling digital payments and also started e-commerce services on its website and mobile application. Recently, it also started stockbroking services. Paytm is also a Unicorn, currently valued at about $10 billion. It also has a lot of investment from foreign investors which include Alibaba Group, Softbank, etc.

EdTech Sector

This sector is also growing very rapidly, especially now during the coronavirus. Schools and colleges have not been able to function properly, and many had to go online and embrace the world of tech with the virtual mode. Due to this, the demand for online modes of learning has also grown tremendously.

Further now, with the New Education Policy that has been introduced recently, more emphasis will be given to technology-driven education systems, with an introduction to coding as well.

According to a report, India's edTech market might reach a value of $3.5 billion by the year 2022. This includes the estimation that Class 1-12 will create a valuation of about $1.7 billion, and post-class 12 will create a valuation of about $1.8 billion.

In the Edtech sector, one startup that has been doing really well is,

BYJU'S, which has enjoyed a significant growth potential in the past few years. The lockdown attracted a lot of new customers to their website. During April, the company earned a revenue of around Rs. 350 crore. Recently, taking advantage of the New Education policy, Byju's also acquired another ed-tech company called WhiteHat Jr. which provides coding classes to school students.

This clearly shows how there is so much scope for growth in the education sector and how technology can play a key role in the coming years and how new startups can leverage it.

HealthTech Sector

After IndiaStack, the next goal is the National Health Stack, which aims to do the same job as IndiaStack and transform the way data storage works. This might help build the infrastructure in the health care sector. The APIs for the National Health Stack also recently began with its testing phase. If it works out well, then it might be a step in the right direction, which will help make the hopes of health tech a reality. However, for that, it must be safe and reliable for its users.

In the midst of the Coronavirus Pandemic, India has been struggling in this war. However, in order to fight this situation, Niti Aayog has even approached startups to come up with new innovations that can boost the healthcare infrastructure of our country and also result in solutions like telemedicine, conference solutions, etc.

Healthplix is a startup that provides software for clinical purposes to doctors. It provides the service of Electronic Medical Record software (EMR) to doctors and also provides them with the service of Clinical Decision Support (CDS) and enables the doctors to generate e-prescriptions within seconds. Recently, the startup was able to raise funds to the tune of $6 million, which brings its total funding amount to around $10 million.

Action plan for start-ups by Govt. of India

Startup India is an initiative of the Government of India. The campaign was first announced by Indian Prime Minister, Narendra Modi during his speech in 15 August 2015.[1]

The action plan of this initiative is focussing on three areas:

1. Simplification and Handholding.
2. Funding Support and Incentives.
3. Industry-Academia Partnership and Incubation.

Key points:

- 10,000 crore startup funding pool.
- Reduction in patent registration fees.
- Improved Bankruptcy Code, to ensure a 90-day exit window.
- Freedom from inspections for the first 3 years of operation.
- Freedom from Capital Gain Tax for first 3 years of operation.
- Freedom from tax for the first 3 years of operation.
- Self-certification compliance.
- New schemes to provide IPR protection to startup firms.
- Built Startup Oasis as Rajasthan Incubation Center.