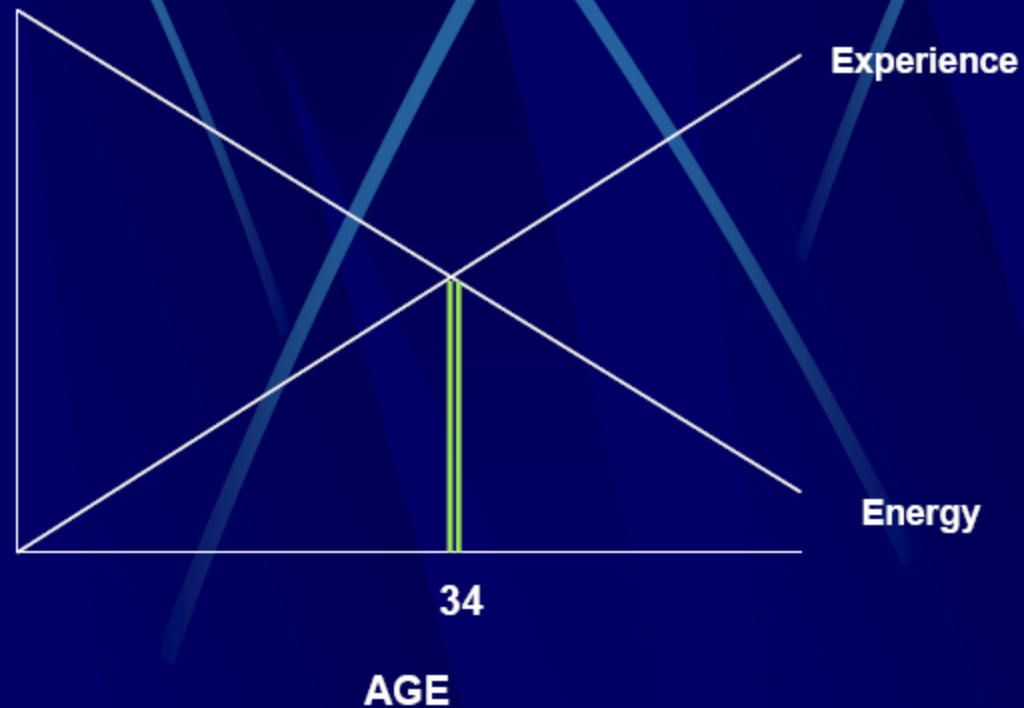


Entrepreneurship: Financial Engineering

- Who is an entrepreneur?

Age of Starting a New Business

Likelihood
of Success



Personal traits

- Vision
- Willingness to take Risk
- Decision making
- Leadership
- Passionate
- Creative
- Committed
- Independent

- “Majority of entrepreneurs fail either when they lack finance to meet business needs or when they are not able to commit appropriate applications of business finance”

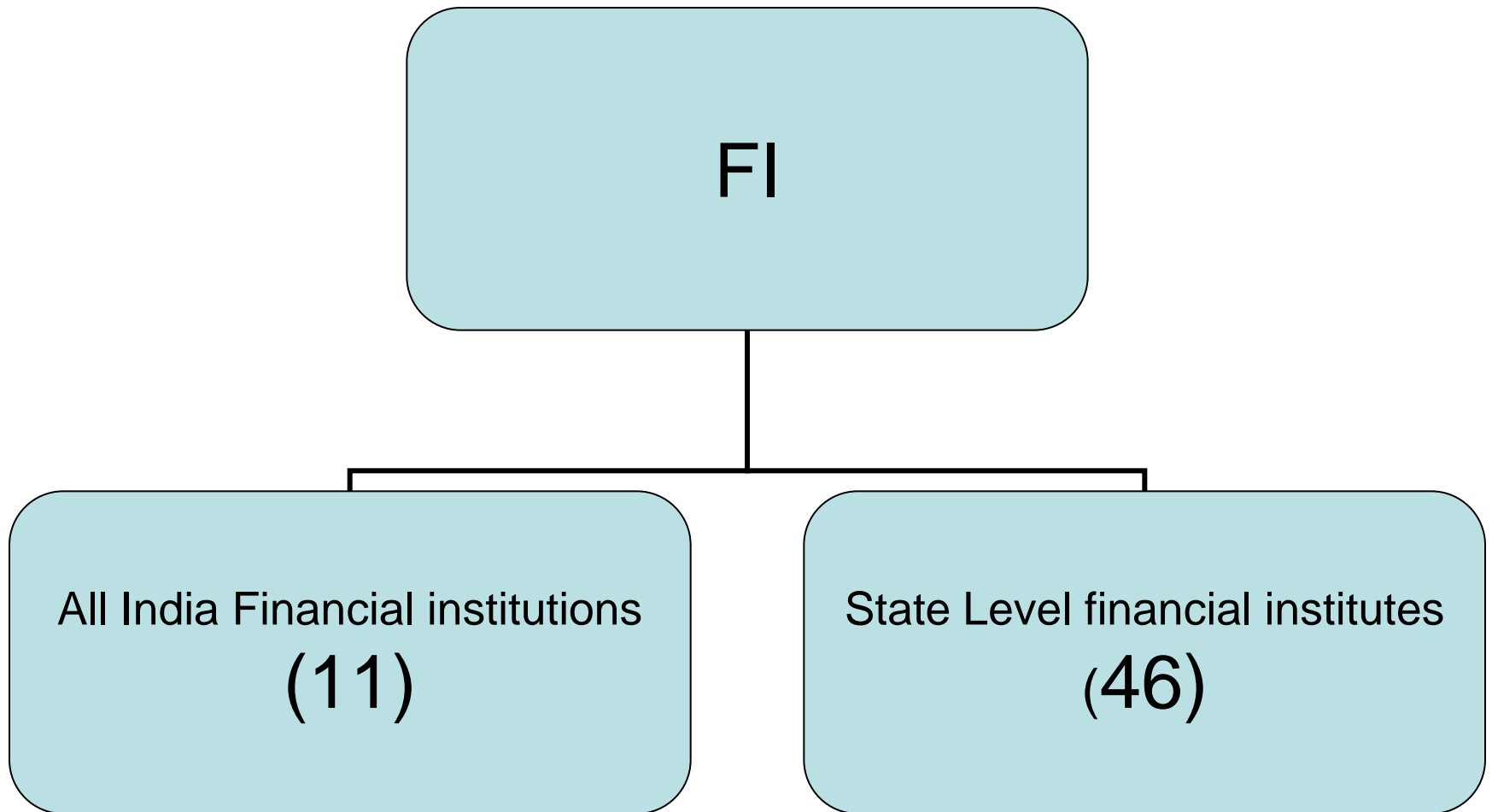
Financial Networking

- With the increasing integration of Indian economy with the global economy, financial requirements of corporate entrepreneur have undergone tremendous changes and accordingly financial institutions in India have re-oriented their policies/ product range with much sharper customer focus to suit the varied needs.

Financial System

- Financial Institutions/financial Intermediaries
- Financial Products/Financial Instruments
- Financial Markets

Indian Financial institutions



AIFI

All India Devp Banks

IDBI
IFCI
ICICI
IIBI
IDFC
SIDBI

Special Financial Institutions

EXIM Bank
NABARD

Investment institu

LIC
UTI
GIC

State Level FIs

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graph TD; A[State Level FIs] --> B[State Financial Corporations (18)]; A --> C[State Industrial Development corporations (28)];
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State Financial Corporations
(18)

State Industrial
Development corporations
(28)

Financial Products

- Commercial Papers (CPs)
- Certificate of Deposits (CDs)
- Treasury bills (T-bills)
- Participatory notes (P Notes)
- ADR/ GDR

Financial Markets

- Money market
- Capital Market

Financial Management for Innovative Entrepreneurs

- Financing decision
- Investment decision
- Dividend decision

Business Funding : Parameters

- Liquidity
- Cost
- Risk
- Time

Sources of Finance

Long term Sources

- Shares (Equity+ Preference)
- Debentures
- Loan from specialized financial institutions
- Ploughing back of profits

Sources of Finance (contd....)

Short Term Sources

- Bank credit
- Customer advances
- Trade credit
- Commercial papers
- Factoring
- Hire Purchase
- Lease financing
- Deferred Incomes

Investment decision

- Capital Budgeting
- Working capital Management

Evaluating investment proposals

- Mr Ravinder Modi is facing acute dilemma to select proposals for Project X and Project Y for which the approximate investment is as follows;

Project X

Rs 2,00,000

Project Y

Rs 2,00,000

Financial forecasting reveals that return from project 'X' is Rs 25,000 p.a for next 12 years and from project 'Y' it is as follows:

Illustration (contd.....)

- Project 'Y'

Year	Amount
1	40,000
2	50,000
3	10,000
4	50,000
5	10,000
6	30,000
7	20,000
8	15,000
9	40,000
10	30,000

Financing Working Capital

- **Aggressive Strategy**

An approach that believes in relying on mainly short term sources as their cost is comparatively very less.

- **Conservative Strategy**

An approach that believes in relying on mainly long term sources so as to ensure liquidity of funds

- **Hedging Strategy**

Most Optimal approach that suggests finance current assets through short term liabilities and Fixed assets through Long term/ permanent Liabilities

Venture capital

- VC represents financial investment in a highly risky project with the objective of earning a high rate of return.
- Venture capital is the risk money, which is used in risky enterprise either as equity or debt capital.
- Capital invested by professionals who invest alongside management in young, rapidly growing companies that have very high potential of growth.

Incubators

- Non-profit entities that provide value added advisory, informational and certain support infrastructure, that includes productive office environment, finance and complimentary resources.

Types of venture capital

- Angel investors
- Venture Capital Subsidiaries set by Corporations
- Private capital firms

Modes of Financing

- **Equity capital**

Financial support in the form of equity fund restricting to maximum 49% to ensure overall control remains with entrepreneur

- **Conditional loans**

It involves either no interest or coupon payment at nominal rate along with royalty on sales

- **Convertible Loans**

A loan that is converted into equity if loan payments are not made within appropriate time.

Stages of Financing

Early stage Financing

Seed Capital

Start Ups

Second round Financing

Later stage financing

Development Capital

Expansion Finance

Replacement Capital

Buy Outs

SFIs and their financing Schemes

- Risk capital and Technology Finance (RCTF)

A wholly owned subsidiary of IFCI established with the objective of providing financial support in areas of innovative technology, energy conservation, environment Pollution etc.

- Technology Development and Investment Corporation of India (TDICI)

A joint venture initiated by UTI and ICICI .Apart from financial support they also provide consultancy services and business management

SFIs and their financing Schemes

- Seed Capital Scheme

IDBI's scheme is intended to help create a new generation of entrepreneurs who have requisite traits but lack financial support.

Project cost- Rs 5 Lakh-Rs 250 Lakh

Venture Capital Funds by Commercial Banks

- SBI CAPS
- CANFINA