The New Age of Capital Raising Techniques

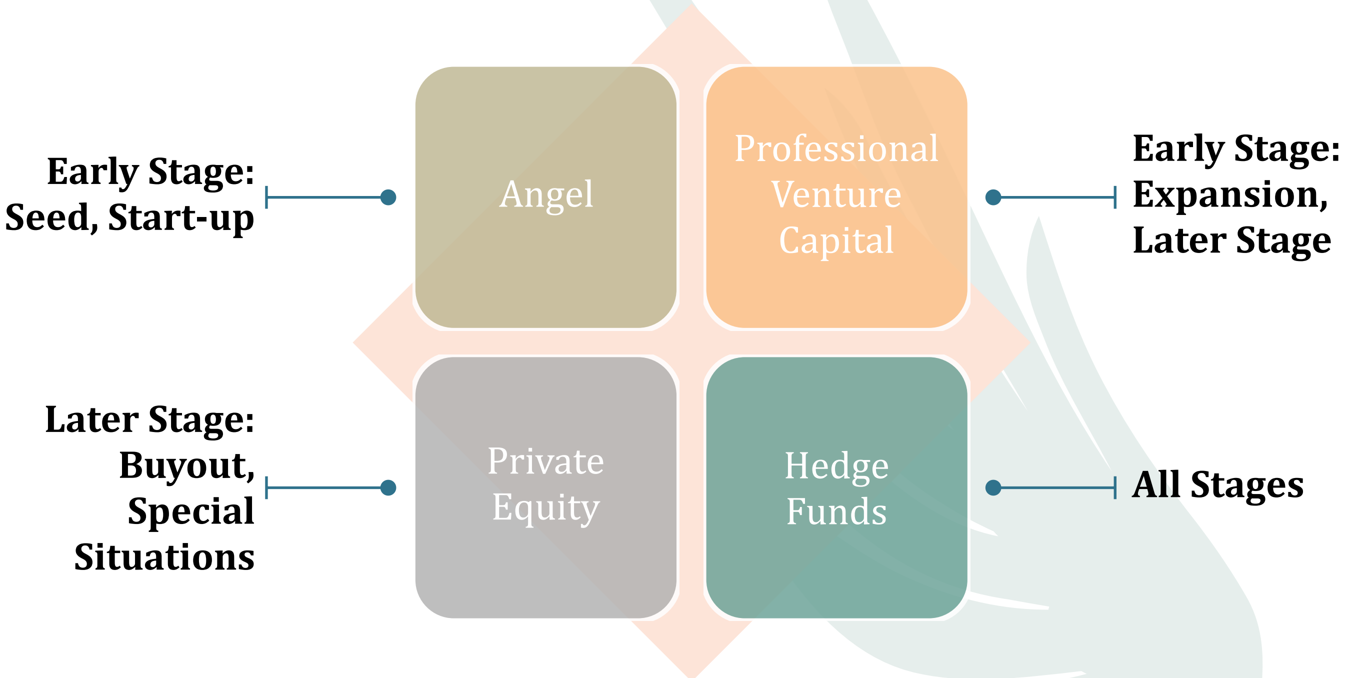
Webinar by Mr. Jaideep Shirali

'Capital Raising' has become a very popular word these days. Most newspapers and online articles speak about funding and with the recent onset of start-ups cropping up at every juncture; this is only going to grow from here on.

Mr. Jaideep Shirali is a veteran in the space of capital markets and financial services and has recently started his own investment advisory. He conducted this session for us on April 15. This session was attended by a vast number of students from all parts of India and overseas.

He started this session with a quick introduction to the key types of fund raising techniques – Equity and Debt. In the equity route, private placements and IPOs are the main capital raising techniques, whereas in the Debt route, commercial papers and Bonds form the key techniques. Thereafter, we also looked at the hindrances faced in capital raising, specially with respect to risk.

During any capital infusion round, investors generally seek clarity on a few important questions. These include: the (i) Business Idea, (ii) Key Differences, (iii) Cost structure, (iv) Income Streams, (v) Break-even Point, (vi) Expansion Plan, (vii) Team structure, etc. Jaideep then moved on to the Private Equity arena, with a special focus on Angel funding, Venture Capitals, Private Equity and specialized Hedge Funds.



Next, we had a look at innovative capital raising techniques, including:

(I) Crowd funding – A capital raising technique where a crowd of people donate a defined amount of money for a specific cause or project in exchange for various rewards. It is the practice of funding a project or venture by raising many small amounts of money from a large number of people, typically via the Internet. Crowd funding is a form of alternative finance, which has emerged outside of the traditional financial system.

There are 3 main entities in any crowd funding process – (i) the Project Initiator, or the entity looking to raise capital, (ii) The Supporters, who are individuals or groups who support the idea and (iii) The Platform, which is a moderating organization that brings the parties together. The SEBI, India's market regulator, will soon specify norms for crowd-funding, which will conform with corporate law.

(II) Start-up India – This is a Government of India program as part of the Make-In-India initiative which has allocated a Rs. 10,000 crore fund to lend to start ups. A start up is defined as any entity, private, partnership or limited liability partnership (LLP) firm headquartered in India, which was opened less than 5 years ago and has an annual turnover less than Rs. 25 crore.

There are several benefits of partnering with the Start-up India initiative, including fewer audits and inspections, 80% discount on patent costs and exemption of Income Tax.

(III) Venture Debt – This form of debt financing is provided to a company that is still dependent on venture capital financing to fund its operations. Unlike a bank loan, in Venture Debt, the promoter is not required to pledge or guarantee his own funds. Also, unlike bank loans, these are readily available to early-stage companies.

To summarize, there are many traditional and new age capital-raising techniques that entrepreneurs can use to fund their innovation and start-ups. There is no shortage of investor capital channels if entrepreneurs create value for themselves and other stakeholders, including their investors.