Venture capital

Venture

↓

An undertaking involved Risk.

(or)

Dare to do or say something

Capital

Amt invested by the persons / to carry out the newly established Business.

Meaning

Venture capital means funds made available for startup firms and small business with exceptional growth potential.

V.C is the financial support to young, rapidly growing companies / individuals that have potential to develop into significant Economic contributors by the Business man / group to create a pdt or service which has a unique idea.

① "Money obtained through private investments / public investment funds directed to high risk and high potential enterprises."

Definition of V.C

→ It was first adopted in the U.S. in the 1960's to help E^rs start qlty small ventures

② A V.C company is defined as a financing institution which joins an entrepreneur as a co-promoter in a project and shares the risks and rewards of the enterprise.

③ A. venture capital is the bulk fund available from private equity market, (as a substitute for owner's equity) to support profitable but risky ventures.

features of V.C

① V.C is usually in a form of an equity participation. it may also take the form of convertiable debt or long term loans.

② investment is made not only in high risk but high growth potential projects.

③ V.C is available only for commercialisation of new ideas or new technologies.

④ ~~V. capa.~~ venture capitalist joins the entrepreneur as a co-promoter in projects and shares the risks and rewards of the enterprise.

⑤ there is continuous involvement in business after making an investment by the investors.

⑥ V.C is not just injection of money but also an input needed to set-up the firm, design its marketing strategy and organise and manage it.

⑦ investment is usually made in small and medium scale enterprise.

Scope of venture capital

V.C may take various forms at different stages of the project.

✓ There are four successive stages of development of a project.

→ Development of a project idea → seed capital for translating idea into bus. – investigation takes 1 yr or more

→ implementation of the idea → for full-scale mfg.

→ Fledging stage (Additional finance) to face problems in the initial stage.

→ Establishment stage. ← Expansion Diversification

Financial institutions and banks usually start financing the projects only at the 2nd or 3rd stage but rarely from the 1st stage.

But

V.C provide finance even from the first stage of idea formulation.

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① Development of an idea – Seed capital finance

in the initial stage venture capitalists provide seed capital for translating an idea into business proposition.

At this stage investigation is made indepth which normally takes a year or more.

② Implementation stage – start up finance

when the firm is set up to manufacture a pdt / provide a service, start up finance is provided by the venture capitalist.

the 1st & 2nd stage capital is used for full scale manufacturing and further business growth.

③ Fledging stage – Additional finance

in the third stage, the firm has made some headway and entered the stage of manufacturing a product but faces teething problems.

it may not be able to generate adequate funds and so additional round of financing is provided to develop the marketing infrastructure.

(4) Establishment stage - Establishment finance

The firm is established in the mkt and expected to expand at a rapid pace. it needs further financing for expansion and diversification so that it can reap economies of scale and attain stability.

Importance of V.C

(1) promotes Entrepreneurs

Just as a scientist brings out his laboratory findings to reality and makes it commercially successful, similarly, an entrepreneur converts his technical know-how in to a commercially viable project with the assistance of venture capital institutions.

(2) promotes products

New products with modern technology become commercially feasible mainly due to the financial assistance of V.C institutions.

③ **Encourages customers**

The financial institutions provide V.C to their customers not only as a mere (కేవలం) financial assistance but more as a package deal which includes assistance in mgt, mktg, tech and others.

④ **Brings out latent talents**

While funding entrepreneurs, the V.C institutions give more thrust to potential talent of the borrower which helps in the growth of the borrowings concern

⑤ **Creates more employment opportunities**

By promoting entrepreneurship, venture capital institutions are encouraging self employment and this will motivate more educated unemployed to take up new ventures which have not been attempted so far.

⑥ **As catalyst** (ఉత్ప్రేరకం)

A V.C institution acts as more as a catalyst in improving the financial and managerial talents of the borrowing concern. The borrowing concerns will be more keen to become self dependent and will take necessary measures to repay the loan.

⑦ Helps technological growth

Modern technology will be put to use in the country when financial institutions encourage business ventures with new technology.

⑧ Helps sick companies

Many sick companies are able to turn around after getting proper nursing from the venture capital institutions.

⑨ Helps development of Backward areas

By promoting industries in backward areas, venture capital institutions are responsible for the development of the backward regions human resources

(10) Helps growth of economy

By promoting new entrepreneurs and by reviving sick units, a fillip is given to the economic growth. There will be increase in the production of ~~cons~~ consumer goods which improves the standard of living of the people.

Venture capital providers in india

After seeing methods of venture capital financing let's look at the main providers of venture capital in india.

Normally they are classified into $\boxed{\text{four}}$ major categories.

(i) companies promoted by all india financial institutions:

* RCTC (Risk capital & Technology finance corporation)

* TDICI (Technology development & information company of india Ltd)

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Methods of venture financing

Venture capital is available in four forms in India.

1. Equity participation
2. conventional loan
3. conditional loan
4. Income Notes.

① Equity participation

V.C firms participated in equity through direct purchase of shares but their stake does not exceed 49%. these shares are retained by them till the assisted projects making profit.

② conventional loan

under this form of assistance, a lower fixed rate of interest is charged till the assistance assisted units become commercially operational, after which the loan carries normal or higher rate of interest.

The loan has to be repaid according to a predetermined shedule of repayment as per terms of loan agreement.

③ **Conditional loan**

Under this form of finance, an interest free loan is provided during the implementation period but it has to pay royalty (రాజస్వ రుసుము) on sales.

The loan has to be repaid ~~acco~~ according to a pre determined schedule as soon as the company is able to generate sales and income.

④ **Income notes**

It is a combination of conventional and conditional loans.

Both interest and royalty are payble at much lower rates than in case of conditional loans.

Venture capital providers in India

At present several venture capital firms are incorporated in India and they are promoted either by all India financial institutions like IDBI, ICICI, IFCI, state level financial institutions, public sector banks or promoted by foreign banks/ private sectors like Indus venture capital fund. (IVCF)

The present venture capital players can be broadly classified into the following four categories.

(1) companies promoted by all India FIs

(1) Venture capital Division of IDBI

(2) Risk capital and Technology finance corporation Ltd (RCTC)

(3) Technology development and information company of India Ltd (TDICI - 1998)

(2) companies promoted by state FI

(1) Gujarath venture finance Ltd

(2) Andhra pradesh industrial development corporation venture capital Ltd

(3) companies promoted by Bank

(1) Canara Bank venture capital fund

2) SBI venture capital fund

3) Indian investment fund. (promoted by grendlay Bank)

4) Infrastructure leasing (promoted by central Bank of India)

(4) companies in private sector

(1) Indus venture capital fund (promoted by Mafatlal and Hindustan lever)

(2) Credit capital venture fund (India) Ltd

(3) 20^{th} century venture capital corporation Ltd

4) venture capital fund promoted by V. B Desai & co.

① IDBI venture capital fund

IDBI venture capital fund was set up in 1986 for encouraging commercial application of indigenously developed technology and adopting imported technology for wider domestic applications.

financial assistance under the scheme

is available to projects whose requirements range b/w Rs "5 lakhs and 2.5 crores."

The fund extends financial assistance to venture such as chemicals, computer softwares electronics, bio-Technology, food processing, Medical equipment etc.

if the project does not succeed, IDBI can insist on transfer of technology to some other promoter designated by it on mutually agreed terms and conditions.

(2) The Risk capital and Technology finance corporation

RCTC the Subsidiary of IFCI provides venture capital through technology - finance and development scheme to meet the specific needs of such Technology development.

The RCTC, apart from providing assistance in the form of risk capital, is expected to finance high tech projects in the form of V.C for technology upgradation and development.

(3) Technology Development and information company of India limited (TDICI - 1998)

Jointly created by ICICI & UTI.

finance projects of small & medium size industries who take initiative in designing and developing indigenous technology in the country. By 31st march 1993 TDICI disbursed Rs 25.81 crores to 42 companies

(4) State Bank of India capital market Ltd

V.C assistance to technical entrepreneurs who have good technique ability but lack financial strength.

The projects in high priority, thrust areas such as import substitute, high export potential, hi-tech options are preferred.

(5) Canara bank

Canara bank has set up a venture capital fund called can bank venture capital fund worth Rs 10 crore. It sanctions funds to diverse fields like chemicals, machines, food stuffs etc..

problems facing by V.C

① Requirement of an experienced managment team.

② Requirement of an above average rate of return on investment (RoI)

③ longer payback period.

④ uncertainity regarding the Success of the product in the market

⑤ Questions regarding the infrastructure details of production.

⑥ skills and training required

⑦ Time period

⑧ interference in Business.

permission to enable Unit Trust of India (UTI) set up a separate venture capital fund unit. However, a select list of venture capital fund companies, registered with Securities and Exchange Board of India, has been entered in Appendix C.

Regulatory measures. The Securities and Exchange Board of India (SEBI) has issued comprehensive orders to regulate the functioning of venture capital activity in India. Some of the salient features of the regulatory framework currently in force are:

I. Any company or trust proposing to carry on, or already carrying on, any activity as a venture capital fund must send an application to SEBI for grant of a certificate, without which none will be allowed to operate.

II. A venture capital firm, set up as a company or trust, may raise monies from any investor, Indian or non-resident Indian. It cannot accept investment from an investor for an amount less than rupees five lakh. But this restriction does not apply to investors who are non-resident Indians, persons or institutions of foreign origin, and employees, principal officers or directors of a venture capital company or trust.

III. A venture capital company or trust may receive monies for investment in its venture capital funds through private placement of its securities. But it cannot issue any document or advertisement inviting offers from the public for subscription to or purchase of its securities. It cannot get its securities enlisted on any stock exchange till the completion of three years from the date of issue of its securities for its venture capital funds.

IV. At least 80 per cent of the funds raised by a venture capital company or trust must be invested in (a) the equity or equity related securities issued by a company whose securities are not listed on any recognized stock exchange and (b) the equity or equity related securities of a financially weak company or a sick industrial company, whose securities may or may not be listed on any stock exchange. It cannot invest in the equity shares of any company or institution providing financial services.

GOVERNMENT GRANTS

In order to facilitate rapid growth and development of small scale industries, the central as well as state governments have introduced varied promotional schemes of financial subsidies, concessions and incentives. These include:

1. Every small scale unit is entitled to receive upto 24 per cent of its equity finance from large and medium scale industries, foreign investors and/or non-resident Indians.
2. The national equity fund will provide equity support of upto 15 per cent or Rs 10 lakh.

3. Every small scale unit, irrespective of its location, will be given the recognition and will be entitled to eligible facilities, concessions and incentives.
4. Seed capital, soft loan and risk capital under various schemes operated by development banks may be available to small scale units.
5. Subsidies on interest payment and consultancy service fees may be available from Industrial Finance Corporation of India.
6. Constructed sheds in industrial estates may be allotted to entrepreneurs.
7. Certain categories of new units may be eligible for exemption from payment of income tax, property tax, sales tax and stamp duty for certain periods.
8. With regard to purchases made by government for its own use, preference will be given to certain products made in small scale units.

Besides, some SSI units are granted concessionary technical and financial support services and, in this context, the relevant provisions are being discussed in brief hereunder.

Hire purchase. National Small Industries Corporation (NSIC) may provide machinery and equipment to small scale units on hire purchase basis against concessional terms and conditions. This facility is available to projects with a total investment in plant and machinery not exceeding Rs 2 lakh. Small entrepreneurial units may get some of the required machinery, provided those located in backward areas pay 10 per cent as earnest money and those in other areas pay only 15 per cent.

Subsidy on consultancy services. Entrepreneurs proposing to set up new units in medium or medium-large sector can avail facilities for market studies conducted by technical consultancy organizations sponsored by various financial institutions and commercial banks. The fees payable for such market studies are generally subsidized to the extent of 75 per cent by Industrial Finance Corporation of India (IFCI) provided the rest is borne by the entrepreneur concerned.

Subsidy on investment. The Government of India offers subsidy, on capital invested by promoters, to certain units located in specified 101 out of 247 backward districts/areas. The 101 specified backward districts/areas are now classified under three groups, namely A, B and C. The units located in districts/areas designated under group A are each entitled to receive investment subsidy to the extent of 25 per cent of the capital invested or a maximum amount of Rs 25 lakh. Each of those located in districts/areas falling under group B may get this subsidy to the extent of 15 per cent or a maximum of Rs 15 lakh and each of those in group C districts/areas may receive upto 10 per cent or a maximum of Rs 10 lakh

247 – 101 — A — 25%

of the capital invested. However, this subsidy is normally granted to only those industrial units that are registered with the concerned Directorate of Industries. Subsidy under this scheme is channelized mainly through Industrial Development Bank of India (IDBI), ICICI Limited, Industrial Finance Corporation of India (IFCI) and the State Financial Corporations (SFCs) at the state level.

Technical assistance. Entrepreneurs proposing to set up small scale or tiny units or planning to modernize, expand or diversify existing units in backward areas may get technical assistance in matters concerning market studies, project analyses or preliminary market surveys conducted by technical consultancy organizations and sponsored by financial institutions or commercial banks. Expenses in consultancy services may be subsidized to the extent of 80 per cent or a maximum amount of Rs 5,000 and the balance 20 per cent is to be borne by the interested entrepreneurs. This subsidy may also be arranged by Industrial Finance Corporation of India (IFCI).

Finance related services. Industrial Finance Corporation of India (IFCI), Industrial Credit & Investment Corporation of India (ICICI) and Industrial Development Bank of India (IDBI) undertake public issue of shares and debentures at reduced rate of commission. They also provide other facilities such as moratorium on repayment of loans at the initial period as also longer amortization period ranging from 15 to 20 years, and in certain cases also offer risk capital. Besides, IDBI also offers limited refinancing facilities at reduced rate of interest.

Income tax relief. Under Section 80-1B of the Income Tax Act 1961, deduction to the extent of 30 per cent profit is allowed for the assessment year relating to the previous year in which an industrial unit goes into commercial production. This relief is extendable to a period of nine subsequent assessment years following the first year of assessment.

Effective assessment year 1994-95, new units situated in the specified areas, as notified in the new Schedule Eighth of the Income Tax Act, and commencing production after April 1, 1993 are allowed income tax relief at 10 per cent of profit for the first five assessment years beginning with the assessment relating to the accounting year in which they commence commercial production. Under this new Schedule Eighth, the areas specified are: Arunachal Pradesh, Assam, Goa, Himachal Pradesh, Jammu & Kashmir, Manipur, Meghalaya, Mizoram, Nagaland, Sikkim, Tripura, Andaman & Nicobar Islands, Dadra & Nagar Haveli, Daman & Diu, Lakshadweep and Pondicherry.

Backward area benefits. Altogether 226 districts all over the country have been marked as backward areas. Other than the general benefits and facilities ordinarily available to industries regardless of their locations, additional incentives are offered for setting up new industries in backward areas, as discussed earlier. Industrial units already existing in these

private placements / offerings

P-O

→ obtaining funds from private investors through a private offering.

→ A P-O is diff from a public offering

→ public-O involve a great deal of time and expenses, in large part due to the numerous regulations and requirements

→ A. P-O is faster and less costly when a limited number of sophisticated investors a p-o is are involved who have the necessary business acumen and ability to absorb risk.

→ these investors still need access to material infor^n about the company and its mgt.

what constitutes material infor^n

who is a sophisticated investor

How many is a limited number

Answer this Questions are provided in Regulation D.

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Private offerings :-

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Private offerings is a formulized method for funds from private investers.

→ It involve a greate deal of time and expense because It requires to full fill various regulations and requirments.

→ the process of registring the secualties with the securities and exchange commission is an difficult task requiring a significant no of reporting procedures once the fund as worn public.

→ The private offerings process was establish primarly to protect unsoftigiphisticated investors and a private offering is faster and less costly when immetate no of soffistigcated investers are involve who have the necessary business acumun ability to observe risk.

Regulation D

Regulation D contains 3 Important things. Those are 1. Brought provisions design to simplify the private offerings.

2. General definations of what constitues a private offering

3. Specific opperating rules

→ Rule 504

→ Rule 505

→ Rule 506

Regulation D requires the issuer of a private offering to file 5 copies "form D" with the securities and Exchang commission (SEC) 15 days after the first sale, every 6 months there after 30 days after the final sale.

Regulation D provides Rules governing the notices Involved of any commission of sale and the payment.

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1. Rule 504 :-

Rule 504 provide the first exemption to a company seeking to raise a small amount of capital from nuemerous investors. Under this rule a company can sale upto 5 lakhs dollers of securities to any no of investors regardless of there sophistication in any 12 months period.

→ Some of the States do no allow investor's to resale there shares unless the security is registered.

2. Rule 505 :-

It changes both the investors and the amount of money offering. Under this rule it permits the sale of 5 million dollers of unregistered securities in the private offering in any 12 months period.

→ This securities can be sold to any 35 investors and to an unlimited no of accredited investors. This eliminates the need for sophicigation test and disclose the requirments given by Rule 504.

Accredited Investors :-

* Accredited Investors are like equity shareholder which includes 1. Institutional investors - like bank, Insurance,

2. Investors who purchase over \$1,50,000 of the securities.

3. Investors whose network is \$1million or more than that at the time sale.

4. Investors with income in excess of \$2,00,000 in each of the last 2years.

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5. Directors, executives, officers, general partners of the issue of the company.

(53)

Rule 506 :-

It allows an issueing company to sale an unlimited no of securities to 35 Investors and unlimited no of accredited investors and relatives of issues.

Types of Investors :-

1. Individual
2. Institutional

1. Individual Investors

Individual investors are large numbers but there investable resources are comparatively smaller.

→ Individual Investors are lacking in skills to carry out the expensive evoluation and analysis before investing.

→ They does not have time & resources to engage in such analysis.

2. Institutional Investors :-

→ Institutional investors are the organisation with surplus funds who engage in investment activities

→ Ex: Banking and non-banking companies, mutual fund investment companies, insurance corporation etc.

→ They are fewer in number but they investment resource are larger.

→ Institutional investors are engage in profissional funds man... to carryout the expensive analysis and evolu... investment opportunities so that ... funds to the ...

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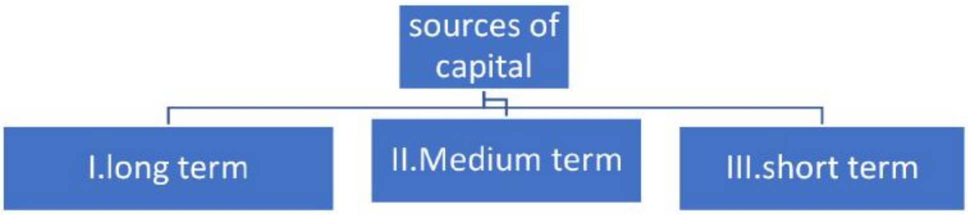
<u>Sources of capital</u>



• Own capital • Share capital • Debentures • Govt grants and subsidies • Long term loans	• Bank loans • Hire purchasing • Leasing/renting • Venture capital	• Commercial paper • Bank over draft • Trade credit

1. **Long term finance**:

Long term finance available for a long period say five years and above. The long term methods outlined below are used to purchase fixed assets such as land and buildings, plant and so on.

a) **Own capital** : irrespective of the form of organization such as soletrader, partnership or a company, the owners of the business have to invest their own finances to start with. Money invested by the owners, partners or promoters is permanent and will stay with the business throughout the life of business.

b) **Share capital** : normally in the case of a company, the capital is raised by issue of shares. The capital so raised is called share capital. The share capital can be of two types, preference share capital and equity share capital.

c) **Debentures**: debentures are the loans taken by the company. It is a certificate or letter by the company under its common seal acknowledging the receipt of loan. A debenture holder is the creditor of the company. A debenture holder is entitled to a fixed rate of interest on the debenture amount.

d) **Government grants and loans**: government may provide long term finance directly to the business houses or by indirectly subscribing to the shares of the companies. The government gives loans only if the project satisfies certain conditions, such as setting up a project in a notified area, or ventures into projects which are beneficial for the society as a whole.

2. Medium term finance

a**. Bank loans** ; bank loans are extended at a fixed rate of interest. Repayment of the loan and interest are scheduled at the beginning and are usually directly debited to the current account of the borrower. These are secured loans.

b**. Hire purchase:** it is a facility to buy a fixed asset while paying the price over a long period of time. In other words , the possession of the asset can be taken by making a down payment of a part of the price and the balance will be repaid with a fixed rate of interest in agreed number of installments.

c**. Leasing or renting:** where there is a need for fixed assets, the asset need not be purchased. It can be taken on lease or rent for specified number of years. The company who owns the assets is called lessor and the company which takes the asset on lease is called lessee. The agreement between the lessor and lessee is called a lease agreement.

d. Venture capital: this form of finance is available only for limited companies. Venture capital is normally provided in such projects where there is relatively a higher degree of risk. For such projects, finance through the conventional sources may not be available. Many banks offer such finance through their merchant banking divisions, or specialist banks which offer advice and financial assistance. The financial assistance may take form of loans and venture capital.

3. SHORT TERM FINANCE

a. Commercial paper: it is new money market instrument introduced in india in recent times. Cps are issued in large denominations by the leading, nationally reputed, highly rated and credit worthy, large manufacturing and finance companies in the public and private sector. The proceeds of the issue of commercial paper are used to finance current transactions and seasonal and interim needs for funds.

b. Bank overdraft: this is special arrangement with the banker where the customer can draw more than what he has in his saving/ current account subject to a maximum limit. interest is charged on a day to day basis on the actual amount overdrawn .

c. Trade credit: this is short term credit facility extended by the creditors to the debtors, normally, it is common for the traders to buy the materials and other supplies from the suppliers on credit basis. After selling the stocks the traders pay the cash and buy fresh stocks again on credit. Sometimes , the suppliers may insist on the buyer to sign a bill.

Types of investors

Investors can be called upon during almost any stage in the life of a startup. Below are five of the most common types of investors, as well as recommendations for when they should be considered.

Banks

Banks are a classic source for business loans, Inc. explains. Loan-seekers will usually be required to produce proof of collateral or a revenue stream before their loan application is approved. Because of this, banks are often a better option for more established businesses.

Angel investors

Angel investors are individuals with an earned income that exceeds $200,000 or who have a net worth of more than $1 million. They are found across all industries and are useful for entrepreneurs who are beyond the seed stages of financing but are not yet ready to seek out venture capital.

Peer-to-peer lenders

Peer-to-peer lenders are individuals or groups that offer funding to small business owners, Time reports. To work with these investors, entrepreneurs must apply with companies that specialize in peer-to-peer lending, such as Prosper or Lending Club. Once their application is approved, lenders can then determine the businesses they wish to support.

Venture capitalists

Venture capitalists are used only after a business begins to show a significant amount of revenue. These investors are notable, as they usually invest a substantial amount of money (often around $10 million). They gain most of their returns through "carried interest," or a percentage received as compensation from the profits of a hedge fund or private equity.

Personal investors

Business owners often rely on family, friends or close acquaintances to invest in their companies, particularly in the beginning. However, there is a limit to how many of these individuals can invest in startups because of legal limitations, Legal Zoom explains. While it may be easy to convince loved ones to help, thorough documentation is highly recommended.

Seed Capital

Definition: Seed capital is the initial fund or money which is required by a budding entrepreneur to start a new business venture. '*Seed*' here refers to the business which is at the beginning stage. '*Capital*' refers to the money or funds required at the very beginning of a business.

A '*budding entrepreneur*' is the business aspirant who looks forward to making money from his or her business idea. But sometimes a person lacks sufficient money for funding the plan, and there comes the role of seed capital.

Sources of Startup Seed Capital

The startups require a substantial financial backup at the initial stage of the business to fulfil various requirements, such as meeting the operating expenses and grabbing new business opportunities.

Therefore, to acquire the initial capital for the business, the budding entrepreneur has the following means:

Friends and Family

The easiest way of raising fund for a startup is through family or friends since they are familiar with the budding entrepreneur and his/her idea. However, one must be careful while opting this source, as losing money may spoil relations with the lender.

For Example; A father withdraws his fixed deposit for seed funding his son's startup business.

Bootstrapping

Savings is a vital source of raising initial funds for a startup. Even the investors hesitate to put in their money in a new business which lacks self-raised capital.

For Example; A person withdraws the amount from his bank's savings account to start his business.

Loans or Lines of Credit

To avail small borrowings from external sources, a budding entrepreneur may go for loans or lines of credit from commercial banks. However, this source may require to keep personal collateral with the lender for security.

For Example; A budding entrepreneur approaches a bank to get a business line of credit to meet the working capital needs of the organization.

Small Business Grants

If one is lucky enough, he/she may get a small business grant from central, state or local government or big business entities. The funds so acquired need not be repaid by the budding entrepreneur.

For Example; In the USA, any female entrepreneur owning a startup business in the fields of design, art, music or fashion may be awarded a grant of $15000 by the Girlboss Foundation.

Microloans

These are small business loans offered by an individual or a group of individuals at a slightly lower interest rate for startups.

For Example; A person approaches another individual who provides money on a monthly interest of 1%, for availing the initial capital for the new business unit.

Angel Investors

An angel investor is the one who can invest between 10K to 100K in a new business venture only if the budding entrepreneur can convince the angel of the business idea and its profitability. Remember, they keep control over the operations and actively participate in the decision making of the business.

For Example; A person with a startup business in the field of robotics convinces and acquires fund from angel investors looking forward to investing in a similar idea.

Venture Capital

Though it is the source of high capital, i.e. more than one million, it should be avoided in the initial stage of the business. The venture capital investors look forward to owning a share in equity along with control and decision-making power.

For Example; One of India's leading online furniture brand Pepperfry.com acquired USD 100 million for expansion of its business in Tier III and Tier IV cities through venture capital from Goldman Sachs and Zodius Technology Fund.

Incubators

The budding entrepreneur may avail the initial capital from incubators who not only provide funds but also give the required training and helps develop a network for the business. *Accelerators* are another similar source of funds, the only difference being that the accelerators support the company to take a significant transformational step.

For Example; UnLtd India acts as a business incubator for the entrepreneurs engaged in social startups in India.

Bartering

Another good option for small business organizations is the exchange of some commodity, i.e. any goods or services for other products or services.

For Example; An interior designer wanted to purchase the latest laptop for her startup but lacks the required money for it. The owner of an electronics store agrees to give her the laptop in exchange for the interior designing services for his premises.

Form a Partnership

Some of the well-established business organizations invest in the new business units and initiating a partnership with them since they find these startups to be of high potential.

For Example; A running Thai restaurant owner provides initial funding to an upcoming Italian cafe in the nearby locality to earn a dual profit. Thus, both the parties enter into a partnership deed.

Crowdfunding

The last one is the acquisition of initial funds from a massive group of individuals who get attracted to the budding entrepreneur's business idea through crowdfunding websites or social media.

For Example; One of the most popular crowdfunded business was SkyBell Video Doorbell. It successfully collected $600000 in 30 days on Indiegogo for their idea of sending a live video of the person on the front gate, who rings the doorbell.

Advantages of Seed Capital for Start-ups

As we know that no business can be run successfully without the availability of the required funds, seed capital is considered to be the backbone of any startup.

Given below are the multiple benefits of seed capital for the startup owners:

- **Investors Willing to Take Risk**: The most significant advantage of seed capital is that the investors are ready to take the high risk of failure involved in the startup business.
- **Usually, No-Debt Financing**: Most of the times, the budding entrepreneur is not overburdened by the debts or liability. Instead, he/she needs to give away some share in equity to the investors.
- **High Growth Prospectives**: The seed capital provides financial leverage to the startups for grabbing new opportunities and accelerate growth.

- **Flexible Business Agreements**: The terms of a seed funding business agreement are negotiable and flexible, which is not the case in venture capital and bank borrowings.
- **Angels Share Knowledge and Experience**: In sources like an angel investor, venture capital, incubator, partnership and accelerator, the investor takes an interest in the business. He/she also share relevant knowledge and information with the budding entrepreneur.
- **No Monthly Fees**: Many of the investors (except in case of loans and borrowings) are interested in the ownership of the new venture rather than charging interest or monthly fees.
- **Builds Relationship, Network and Community**: Some sources of funds like angel investors, crowdfunding and incubators allow the budding entrepreneur to access their business networks and community to build public relations.

Disadvantages of Seed Capital for Start-ups

It is essential for the budding entrepreneur to plan the source of seed capital wisely. An inappropriate selection may even lead to business failures.

Following are the various limitations of the seed capital for new business entities:

May Lead to Diversions: Acquisition of funds for business is a time consuming, and tedious work with diverts the entrepreneur's attention from the underlying business operations towards fulfilling seed capital requirement.

Loss of Control and High Interference: An investors, especially the angel investors, exercise control over the company's decision making and operations, in the sake of providing guidance. This excessive involvement of the investors trouble the entrepreneurs a lot.

Giving Up Equity: The budding entrepreneurs by opting for means like angel investors, venture capitalists and incubators may land up giving away a share of business ownership in the form of equity and limiting the future profits for himself or herself.

Interpreting Seed Capital Acquisition as Success: Some budding entrepreneurs falsely consider the acquisition of funds as their most significant achievement. Thus, going into a relaxation mode when they need to perform in making their business a success.

Costly Affair Due to High-Risk Involvement: Since startups involve a high risk of failure and loss, the investors provide funds at a high rate of interest or in exchange for a significant business share.

Sometimes Investors Lack Expertise: In the practice of creating a diversified portfolio, the investors sometimes put their money in less-known business, thus increasing the risk of loss.

Limits Future Profits: Since some sources of capital acquisition demand giving up of a portion of business ownership by issuing equity shares to the investor, the budding entrepreneur needs to share all future profits with such investors.

Investments May Not Stay Lifelong: The investors purposefully pool in their money in a new venture. They aim at making profits, and when the business reaches a saturation point, they tend to withdraw their investments.

Conclusion

Going for an external source of seed capital may not be a suitable decision every time. It may lead to sacrificing business ownership, high-interest payments, high dividend payments sand losing control over the business.

However, if the budding entrepreneur wisely decides and acquires fund from a suitable source in the appropriate proportion with a planned repayment strategy; it can make the best utilization of such funds for the business growth and development.

Venture capital

What does Venture Capital mean? Venture Capital comprises of two words that are, "Venture" and "Capital". **Venture Capital: Introduction, Definition,**

Characteristics, Advantages, and Disadvantages; Meaning of Venture Capital, Introduction of Venture Capital, Definition of Venture Capital, Characteristics of Venture Capital, Advantages of Venture Capital, and Disadvantages of Venture Capital. Venture capitals a type of funding for a new or growing business. It usually comes from venture-capital firms that specialize in building high-risk financial portfolios.

Meaning of Venture Capital:

Venture capital's a type of private equity, a form of financing that is provided by firms or funds to small, early-stage, emerging firms that are deemed to have high growth potential, or which have demonstrated high growth. This is a very important source of financing for a new business. Here money is provided by investors to start a business that has a strong potentiality of high growth and profitability. The provider of venture-capital also provides managerial and technical support. Venture-capital is also known as risk capital.

#Introduction of Venture Capital:

Venture capital's considered the financing of high and new technology-based enterprises. It is said that Venture-capital involves investment in new or relatively untried technology, initiated by relatively new and professionally or technically qualified entrepreneurs with inadequate funds. The conventional financiers, unlike Venture capitals, mainly finance proven technologies and established markets.

However, high technology need not be pre-requisite for venture-capital. Venture capital has also been described as "unsecured risk financing". The relatively high risk of venture capital's compensated by the possibility of high returns usually through substantial capital gains in the medium term. Venture-capital in the broader sense is not solely an injection of funds into a new firm, it is also an input of skills needed to set up the firm, design its marketing strategy, organize and manage it.

Thus it is a long term association with successive stages of the company's development under high-risk investment conditions, with a distinctive type of financing appropriate to each stage of development. Investors join the entrepreneurs as co-partners and support the project with finance and business skills to exploit the market opportunities. Venture capital's not passive finance.

Definition of Venture Capital:

"The support by investors of entrepreneurial talent with finance and business skills to exploit market opportunities and thus obtain capital gains."