Financing Options available to Startups

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+91-9870310368

What are the Financing Options available to Startups?

In India, for startups, there are number of financing options available. In the growth of the business, finance is a very big factor. The most feasible financing option varies from business to business. A business venture needs funds to survive. Here we are making an attempt to provide a brief of financing options available to startups.

The startup is always backed by a strong idea and initially, funding seems quite challenging. So let's take in-depth knowledge of financing options available to startups.

You can fund your new venture or startup through the following:

- Self-funding / Personal Savings
- Crowd-funding
- Angel Investment
- Venture Capital
- Loan from Banks/NBFCs
- External Commercial Borrowing (ECB)
- CGTMSE Loans
- Venture Debt

Let's grasp the knowledge of these terms:

Self-funding / Personal Savings

To fund the company, personal savings can be used or you can also take the additional financial support from the family & friends. It is possible but for reasons, you might not prefer to go with this.

Crowdfunding

Crowdfunding is gaining a lot of popularity these days as it is a new way of funding a startup. At the same time, it's more like taking a loan or investments by more than one person. The next question coming in into your mind is "How it works?" On a crowdfunding platform, a detailed description of the business will be provided by an entrepreneur. Under which proper business plan & objective of the business will be set out, along with this details regarding how much funding is required will also be mentioned. This will enable the consumer to know more about the business and if they like the idea then they can make the investment. If they really believe the business then they can help by making a contribution. The best part of crowdfunding is that interest is also generated thus it helps in marketing besides funding. Under this, funding to startups is done by common people, therefore, it eliminates professional investors and brokers. If a company has a successful campaign then it might attract venture-capital investment.

Angel Investment

If you have the ability to visualize the bigger picture of your startup then you can go for angel investment. In angel investment, investors are like angles that have deep pockets. They are termed as High Net worth Individuals (HNIs). Such angel investors make an investment in a business venture in return of ownership equity or convertible debt. Investment can be made by angel investors in the form of a one-time investment or on an ongoing basis in order to give financial support to the business venture to carry out the operations of the business.

In an Indian company, angel funds are regulated by the **SEBI (Alternative Investment Funds) Regulations, 2012:**

There are following restrictions imposed on angel funds:

- In one scheme maximum, 200 funds can be invested
- The company in which investment is made by the investor should not be older than five years

- Lock-in period of investment is one year

Venture Capitalist

Now coming to the venture capitalists, venture capital is invested into the companies having huge potential. Such funds are professionally managed funds. Such funds are invested in a business against equity. In case of an IPO or an acquisition, they make exit. They provide expertise and helps in business evaluation from the sustainability and scalability point of view. A venture capital investment is suitable for such a business entity that is beyond the startup phase and generating revenues. Through this, millions of dollar can be placed quickly by the fast-growing business entities. Moreover, there are some negative points also as investors try to recover the investment within a time frame of 3 to 5 years. This option of funding might not be suitable for you if the market reach of your product is longer. In this, investors look for such business entity which is more stable in comparison to others and have a good track record. Before opting this option for funding, you have to be flexible in taking your business venture. While if you are not comfortable with the too much mentorship or compromise, then we will not suggest you to opt this option.

Loan from Banks/NBFCs

Banks and Non-Banking Financing Companies (NBFCs) are different from angel investment and venture capital. They do not become owner after granting the loan.

They provide loans to fulfill the various business needs such as:

- Inventory and equipment purchase
- Arrange operating capital (working capital) to carry out functions smoothly
- Fulfill fund requirement for the expansion purpose

On the flip side, there are some drawbacks of this funding option also like there is a requirement of making payment of interest on loan periodically irrespective of the growth of your business venture. Apart from this bankers may also ask for substantial collateral money and good credit rating along with the fulfillment of prescribed terms & conditions.

External Commercial Borrowing

The other main option of funding of startup is External Commercial Borrowings (ECB). Under this funds can also be raised from non-resident lenders in the form of **External Commercial Borrowings (ECB).**

External Commercial Borrowings (ECBs) can be procured in the following below mentioned forms:

- Bank loans
- Buyers'/Suppliers' credit
- Securitized instruments such as non-convertible, optionally convertible or partially convertible preference shares, floating rate notes, and fixed rate bonds etc.

In India, External Commercial Borrowings (ECBs) can be done from following two routes:

- Automatic Route; and
- Approval Route

It depends on the following factors:

- Eligibility of borrower and recognized lender,
- Amount of ECB availed,
- Average maturity period etc.

CGTMSE Loans

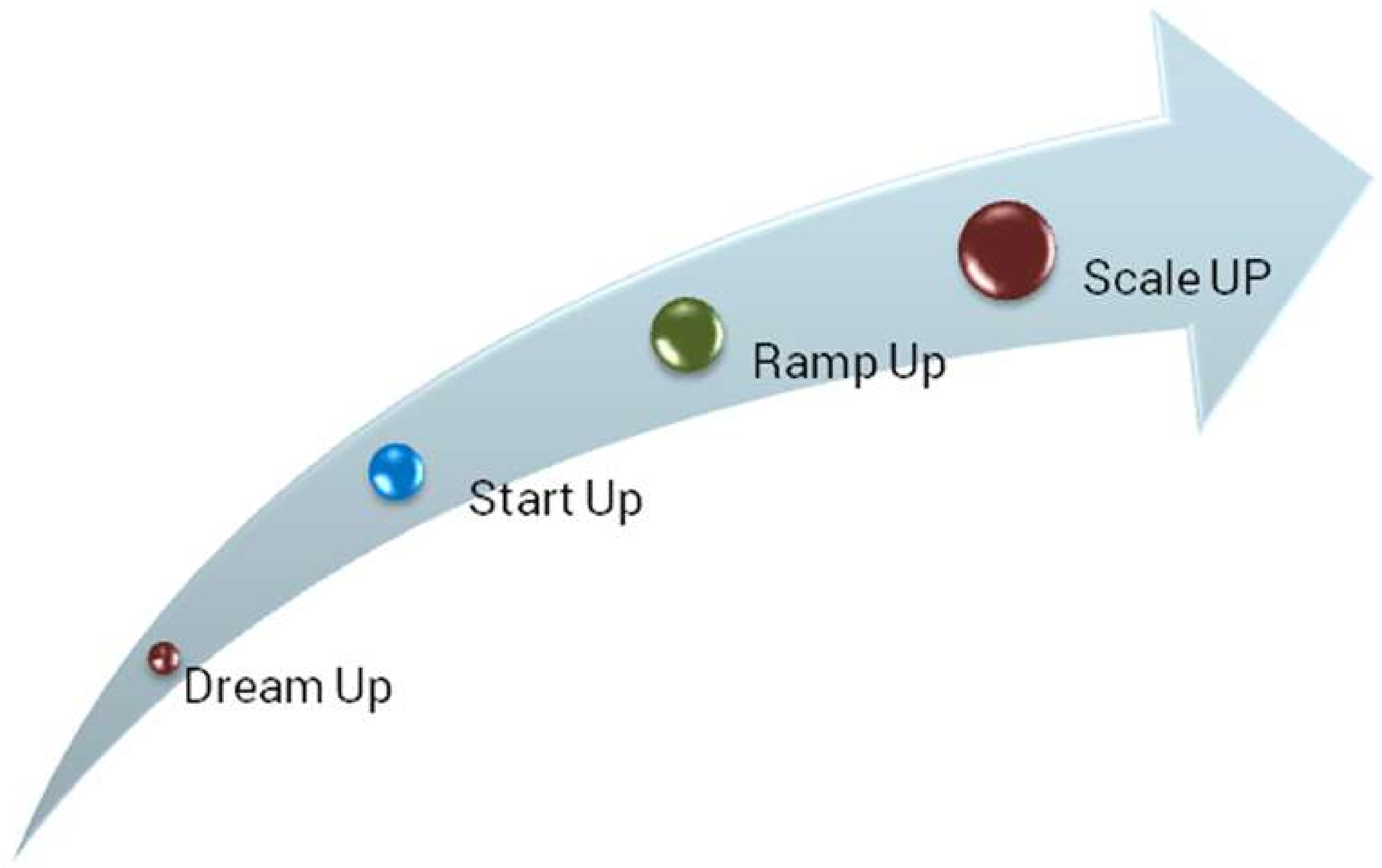
In order to encourage entrepreneurs and startups, Ministry of Micro, Small & Medium Enterprises (MSME), Government of India has launched the Credit Guarantee Trust for Micro and Small Enterprises.

Without collateral or surety, the loan can be availed up to Rs. 1 crore. Fresh as well as existing MSMEs can obtain a loan from all scheduled commercial banks and specified Regional Rural Banks and those authorities which entered into an agreement with the Credit Guarantee Trust. For opting this option you have to check the eligibility criteria first. For more information click here.

Venture Debt

This option of funding is available with the venture-backed companies. In these companies, investment is made by the specialized banks or non-bank lenders in order to fulfill the working capital requirement like the purchase of inventory & equipment. They appreciate the value of the fast-growing companies. Venture debt is accessible to such companies/startups which do not possess sufficient cash flows as well as significant assets which can be used as collateral or security.

Stages in Startup



Wrapping Things Up

So these are some funding options which can cater the financial needs of any startup. However, there are some other unconventional modes of funding like approaching incubators, winning contests etc. For funding, startups can consider incubator and accelerator programs.

Every year such programmes help various startups. The number of opportunities has been increased for startups through these contests.

Are you interested in getting more knowledge on funding options? If yes then we can guide you the right option as we have a team of expert professionals who can solve your any sort of legal query.

Thank You!