



Presentation on
Fundraising and Legal forms of Business

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Agenda

Promoter Vs Investor

Fund Raising

- Need for funds
- Opportunities
 - Capital/ Equity
 - Debt/ Borrowings
- Risk & Rewards - Choosing the best

Forms of Business

- Various forms of Business
- Comparison
- Regulatory requirements

Promoter Vs Investor

Promoter Vs Investor

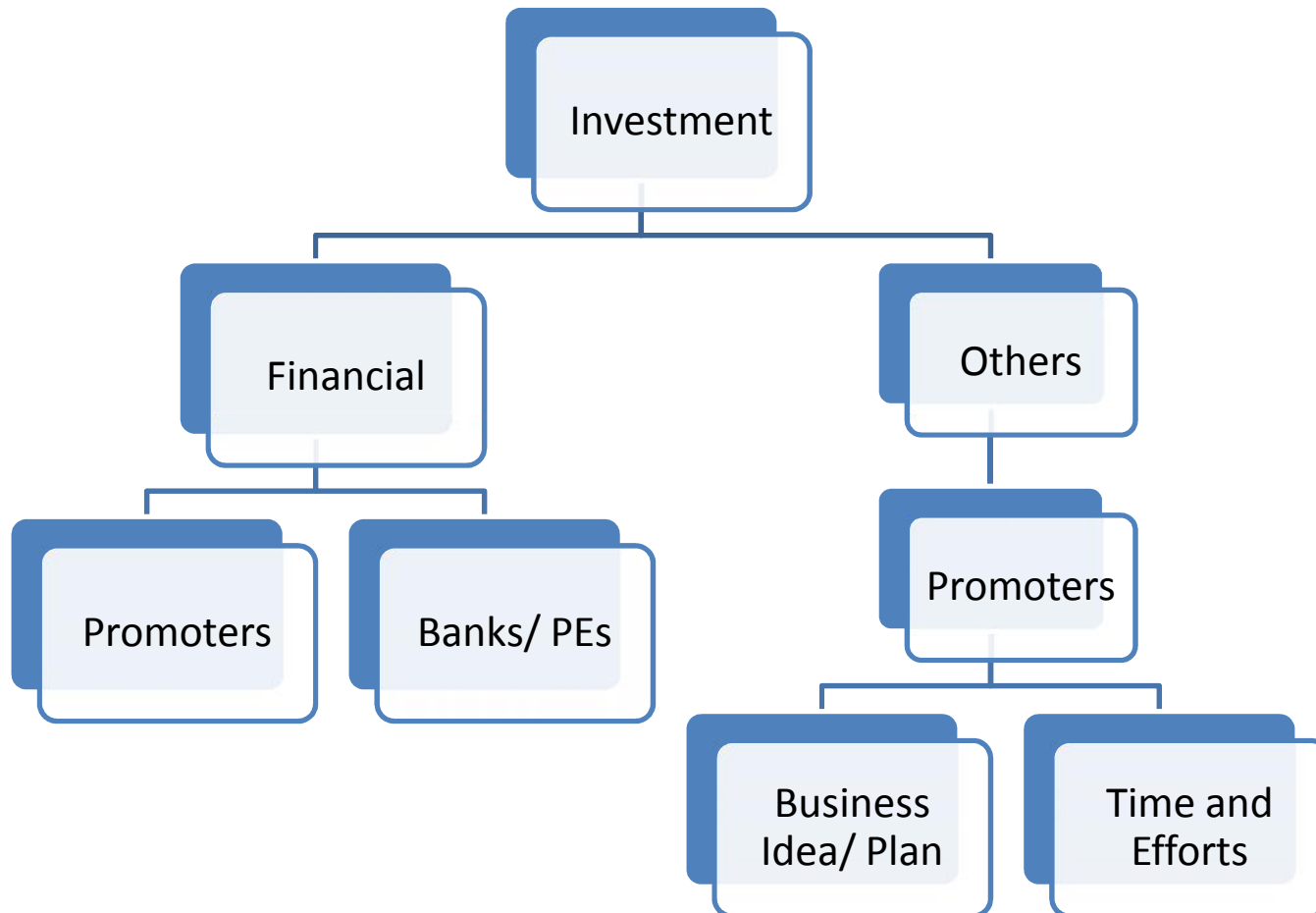
Promoter

- Principal owner of the Company
- Generates and converts an idea into a Business opportunity
- Fathers the opportunity into a reality

Investor

- Interested in earning long term and short term returns – Return on Investments
- Closely monitors the progress
- Concerned with the return and has an exit plan

Partners in Growth



Fund Raising

Fund Raising - Need

Why and when do we require funds

- To set up the business and invest in infrastructure [Start-ups]
- To meet day to day operations/ working capital requirements [Stabilisation]
- To meet the additional capital requirements [Growth/ Expansion]

Fund Raising – Opportunities

Infusion of Capital

- Promoters Infusion
- Private Investors
 - Angel Funding
 - Venture Capitalists
 - Private Equity
 - Other Corporates
- Public Issue

Debt/ Borrowings

- Financial Institutions including Banks
 - Long term Debt
 - Working Capital requirements
 - Non fund based facilitates
- Other Financial Institutions (NBFC)
- Others (Market Lenders)

Capital - Forms of Capital

- Equity Share Capital
- Preference Share Capital
 - Convertible/Non- Convertible
 - Redeemable
- Stock Options - ESOPs
- Other Options – Convertible debentures, equity warrants, etc.

Investors

➤ What do investors look at before investing

- Business with high potential to grow
- Propositions to have sharp differentiators
- Demonstration of market study
- Background of Entrepreneur
- The quality of the management team
- The plan linked with past achievements
- Commitment towards the deal

Investors

➤ How the pricing of investments are determined

- Business plan in near and long term
- Valuation of the Company
 - Projected revenues and cash flows
 - Price recently paid
 - Based on net worth
- Comparable Company analysis

➤ Expectation by the Investors

- Angel funding – expects a very high return on investments because of the risks involved with an exit strategy in place.
- PEs – (a) Long term association based on promoters commitment (b) Appropriate exit strategy (c) expects a rate of return higher than their cost of capital

Forms of Debt Financing

Long Term

- Term Loans - Capital Intensive where the returns are spread over a period
- Debentures - Similar to Long term loans with a definitive redemption period

Short term (Fund Based)

Working Capital facility/ Overdraft/ Cash Credits

Non Fund Based

- Bank Guarantee – Performance/ Financial – Secure the Credential through Bank
- Letter of Credits – FLC/ ILC – Establish trade between two or more countries

Debt Financing – Cost?

Long term

- Term Loans – Fixed Interest – Repaid periodically incl the principal loan (10.5% - 14% per annum)
- Debentures - Carry a fixed interest rate – with a fixed repayment schedule

Short term

- Working Capital facility/ Overdrafts/ Cash Credits - Subjected to drawings – interest is charged monthly (11 to 14% per annum)

Non Fund based

- Bank Guarantee –Fixed rate of commission charged. (Ranging between 2-3%)
- Letter of Credits (Ranging between 1.5 to 3% depending upon period)

Debt Financing – what it takes to get it

Long term Loans

- Promoters credentials
- Market demand for the proposed products
- Technology used
- Realistic projection
- Mortgage
- Preferable for manufacturing Companies
- Environmental issues
- Personal Guarantee

Short Term loans

- Trade Receivables
- Gap
- Client Credential
- Credit Period
- Collaterals

Non Fund Based

- Orders in Hand
- Export Requirements
- Import
- Margins
- Collaterals
- Personal Guarantee

Choosing the Best – Capital Vs Debt

- **Interest or dividends:** Interest must be paid on a contractual basis. Dividends can be cut or suspended with no legal recourse.
- Review the **tax implications:** Interest payments on debt are tax-deductible, whereas dividend payments are not tax-deductible.
- Dividends are taxed before distribution. Investors will also be benefited from appreciation in share price.
- **Cost – Cost of Capital Vs Debt**
- Long-term debt is a means of financing that allows firms access to capital without diluting equity. **Principal & interest is repaid** paid over a period.
- **Risk Appetite** of the entity
- Financial distress: **Stock does not need to be paid back.** However, debt and must be paid back. In case of bankruptcy, lenders have seniority over stockholders.

Legal forms of business

Legal forms of business

- Proprietorship
- Partnership
- LLP (Limited Liability Partnership)
- Company
 - Private Limited
 - Public Limited
 - Listed
 - Unlisted

Comparison

Company

- Governed by RoC – Needs to be incorporated/ registered
- Assets belong to the Company
- Liability is limited
- No limitation on the members
- Any additional contributions shall be governed by the provisions of the Companies Act. Withdrawal is not permissible

Partnership

- Governed by the Partnership Act 1932. Registration is not mandatory
- Assets belong to all the partners
- Unlimited Liability - Joint
- Maximum partners – 20
- Capital contributed can be altered/ withdrawn

Comparison (contd.)

Company

- Managed by the Board of Directors appointed by the members
- Profits are distributed by way of dividends
- Minimum capital
 - Private Limited – Rs. 1 lakh
 - Public Limited – Rs. 5 lakhsEquivalent Shares will be issued

Annual Accounts are required to be audited and filed with RoC

Partnership

- Managed by the partners
- Profits can be withdrawn
- Minimum capital contribution at will
- No specific requirement of audit except for under the tax laws

Comparison (contd.)

Company

- Offers continuity (Separate legal entity)
- Large amount of capital may be raised
 - No limit on shareholders
 - Shares sold to all
- Flexibility for shareholders (Buy, sell or transfer without agreement/ dissolution)
- Greater transparency and limited liability will facilitate lenders/ investors

Partnership

- Instability
- Risk of implied authority

- Non-transferability of interest

Regulatory requirements

Requirements/ Registrations

- Incorporation as a Company
- PAN/ TAN
- Shops & Establishment/ Profession Tax
- Excise/ Customs
- Service Tax/ VAT/ CST
- Provident Fund/ ESI
- IEC

Regulatory Compliances

- TDS payments/ quarterly TDS returns/ advance tax payments
- Service tax – monthly payments/ half yearly returns
- VAT – monthly payments/ monthly returns
- Excise – monthly payments/ monthly returns
- Annual audits & filing of returns with Income Tax and Register of Companies



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