Report on “Angel Investment/ VC Funding Opportunity for Early-Stage Entrepreneurs”

However, the most fundamental and important question is- “How to fund your start-up?” if you don’t have the cash in your wallet, what do you do?

Overview of financing options

Non- Equity Financing

Self-Finance/ Bootstrapping

Debt/ Bank Finance

Equity Financing

Angel financing

Venture capital

Private equity

Public stock markets

Understanding the options

It is important to explore and understand the full range of options available to an entrepreneur. Luckily, there are still options for funding new companies, but finding and securing the cash will take careful research, good negotiating skills, and, above all, dedicated commitment to launch your business. Few options for raising funds by start-ups are provided below: -

1) Family and friends
2) Crowd funding
3) preferred stock and convertible debt
4) Angel investment
5) Venture capital

Angel Investment

Angel investment can go beyond the purely financial. The advice and connections that a good angel investor can offer can be equally as valuable. Angel investors are willing to take on a risk of a brand-new start-up.

Venture Capital

Venture capitalists aim to invest in early-stage businesses with high growth potential. Traditionally venture capitalists received equity in the business in exchange for funding it. However, these days they typically demand a mixture of equity and debt financing.

Source of Funding/ Raising Capital

Both long term funds and working capital- is one of the biggest issues and challenges for any start-up looking towards scale, sustainability and success. Depending on the business model and regulatory considerations, choice of entity will play a key role in determining the options of capital available (i.e., grant capital vs. commercial capital), sources of capital available (i.e., domestic capital vs. foreign capital) and manner of engagement with the funders- therefore, choice of legal entity should also be made through the lenses of the proposed sources of capital.

Funding for start-ups in India

Debt financing; - invested funds to be repaid within a stipulated time frame with interest. Banks, non- banking financial institutions, government loan schemes (CGTMSE, Mudra loan, Stand-up India) are sources of funding.

Equity funding: - there is no component of repayment of the invested funds. Equity fund investors share the risk and usually prefer to involve themselves in decision making process. Sources of funding includes angel investors, self-financing, family and friends, venture capitalists, crowd funding, incubators/ accelerators.

What is Venture Capital Investing?

Venture capital investing is a type of private equity investing that involves investment in a business that requires capital. The business often requires capital for initial setup (or expansion).

Venture capital investing may be done at an even earlier stage known as the "idea phase".

Venture capitalists provides funds in 3 stages: - seed stage capital (R &D of new products and services), early stage capital (initial operation and basic production) and later stage production (after business starts revenue).

Difference between VC and Angel investor

As two of the most common alternative sources of funding, angel investors and venture capitalists cater to innovative start-up businesses, and both tend to prefer companies related to technology and science. There are some important differences between venture capitalists and investors: -

An angel investor works alone, while venture capitalists are part of a company.

As angel investors work alone, they have relatively limited financial capacity and may not always fund to full capacity. Venture capitalists, on the other hand, invest an average of $7 million in a company.

A venture capitalist looks for a strong product or service that holds a strong competitive advantage, a talented management team and a wide potential market. Angel investors are primarily there to offer financial support and may not be obliged to get involved in the business.

Small industries development bank of India (SIDBI)- Fund of Funds

In line with the start up India action plan, the cabinet approved the establishment of ‘Fund of Funds for start-ups (FFS) at SIDBI for contribution to various alternative investment funds (AIFs) with a corpus of INR 10000 crore.

To encourage the government agenda of boosting entrepreneurship by providing indirect funding to emerging start- ups through the provision of funds to venture capital (VC) funds present in the Indian start up ecosystem.

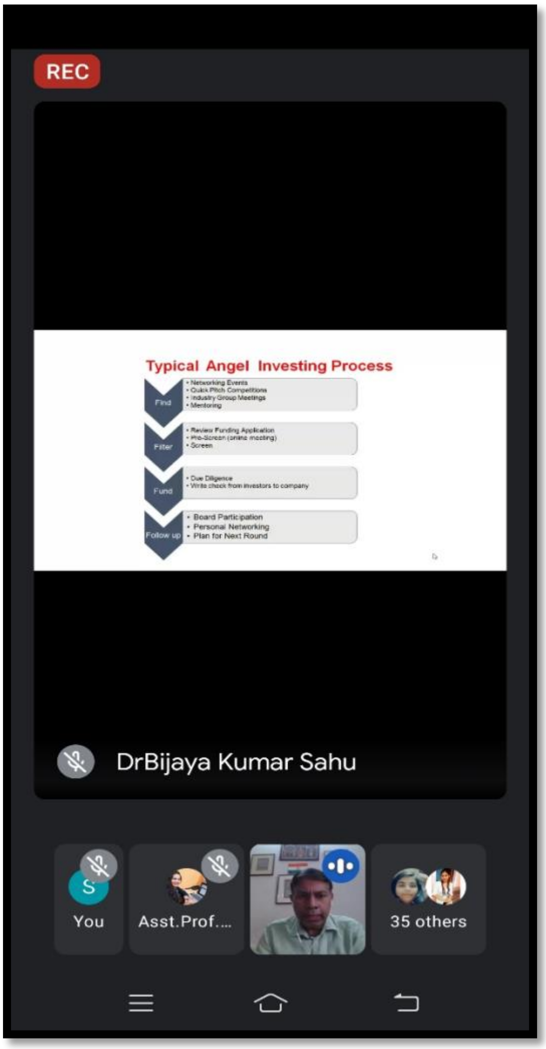
SIDBI has committed cumulatively more than Rs. 5400 crores to over 120 funds under its various fund of funds operations.

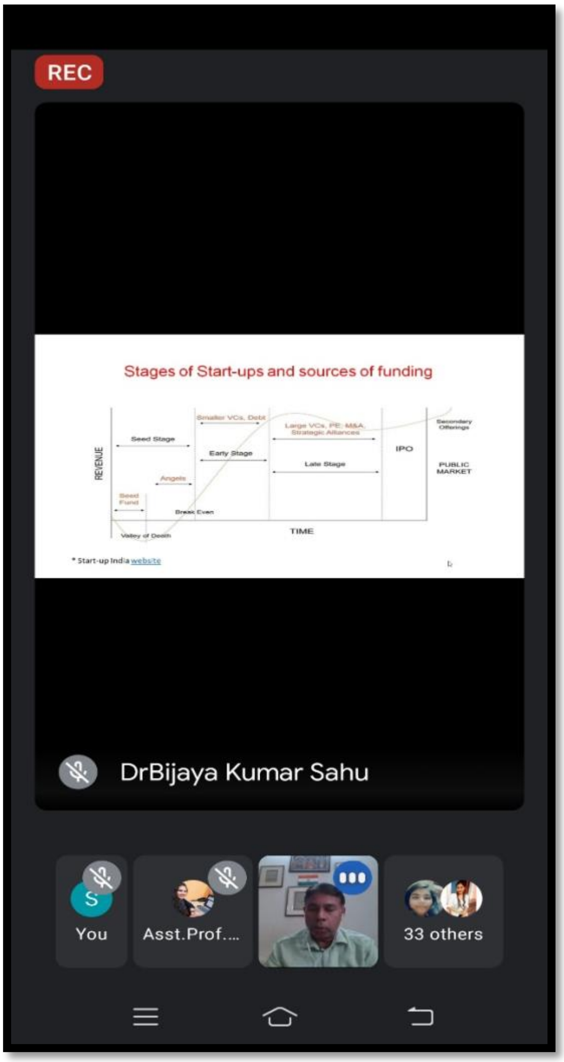
Ministry of micro, small and medium enterprises also entrusted SIDBI with the management of ASPIRE Fund with corpus of 310 crore to support various AIFs, which in turn would invest twice of SIDBI’s contribution in various MSME/ start-up businesses, including rural and agro space.

Invigorating techno- entrepreneurship zeal

National research developmeny corporation

Ideas > R&D > Technology > Transformation > product





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