SNS COLLEGE OF ENGINEERING

Kurumbapalayam (Po), Coimbatore – 641 107
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DEPARTMENT OF MANAGEMENT STUDIES

COURSE NAME : 19BA205 - ENTREPRENEURSHIP DEVELOPMENT

I YEAR /II SEMESTER

Unit IV – FINANCING OF ENTERPRISE

Topic 2: ED –Term Loans

Need for Financial Planning

- Term loan is a short-term or long-term loan approved and disbursed by any financial institution. The offered loan amount shall be repaid in regular payments, such as Equated Monthly Installments (EMIs) over a defined period of time.

- Term loans can be offered in both fixed and floating rate of interest. The repayment tenure of a term loan for business purposes is usually between 12 months to 60 months.

- Term loans are offered among various lending products that include business loan, personal loan, home loan, education loan, etc.,

Purpose of Term Loan

Term Loans Can Be Used For Various Business Purposes, Such As For

- Business Expansion,
- To Purchase Equipment, Machinery Or Raw Materials,
- To Manage Cash Flow,
- To Meet Working Capital Requirements,
- Buying Office Or Business Space/Land,
- Paying-off Rent And Salaries, Hiring New Staff, Debt Consolidation, Etc.

Term Loan Eligibility

- Age Criteria: Minimum age of the applicant should be 18 years at the time of loan application and maximum should be 65 years at the time of loan maturity(This may be change)

- Applicant with good repayment history and high creditworthiness

- Applicant should possess good credit score or CIBIL score, ideally above 700

- Applicant should maintain regular source of income

- Applicant with no defaults with any financial institution

Term Loan Interest Rates

- Term loan interest rates offered to application shall vary from bank to bank and mostly it depends on the applicant's profile and business requirements.

- Good credit score also plays a vital role in getting term loans at lower interest rates.

- Term loan interest rates offered by banks are comparatively lower, as compared to other lending institutions.

Documents Required

- Self-drafted Business Plan

- Duly filled application form with passport-sized photographs

- KYC Documents (Identity, Address and Age Proofs) – Passport, PAN card, Aadhar Card, Voter's ID card, Driving License, Utility Bills (Electricity, Telephone or Water), etc.

- Business establishment proof

- Last 12 months' bank statement
- Minimum turnover as per bank or lender
- Any other document required by the bank or lender

Capital Structure

The capital structure is the particular combination of debt and equity used by a company to finance its overall operations and growth.

Equity capital arises from ownership shares in a company and claims to its future cash flows and profits.

Debt comes in the form of bond issues or loans, while equity may come in the form of common stock, preferred stock, or retained earnings.

Short-term debt is also considered to be part of the capital structure.

Export Finance

- It is no exaggeration to say that finance is the lifeblood of any business. As an exporter, funds received through your financing channels may be used in the preliminary stage while incurring capital expenditures.

- You will, of course, need to find the funds needed to make the business production-ready for day-to-day working capital requirements or to meet unforeseen contingencies.

When Do You Need Export Finance?

- Pre Shipment
- Post Shipment
- Finance against collection of invoices,LC,etc.,

Pre Shipment Finance

➢Pre Shipment finance is provided when an exporter needs funds before the shipment of products or goods.

➢Funds are required for purchasing raw materials, processing of raw materials into finished goods, packaging goods etc.

➢**Packing Credit** : You can avail pre-shipment finance from your financier against an export order received from the importer in the form of Packing Credit.

➢Once the funds are received from the overseas buyer, the concerned export packing credit amount willbe adjusted and loan will be closed against that order.

Post Shipment Finance

➢After you have shipped the products and raised an invoice from the importer, you will have to see through the credit period until you receive payment from your buyer.

➢ You may need working capital for this period to fulfill other orders. This can be resolved with post shipment finance from the following source.

➢**Bill Discounting and Invoice Factoring** : You can approach your bank or a financial institution and present your invoice to them for faster liquidation. The banker or the financial institution could purchase, collect, or even discount the bill.

Post Shipment Finance

Letter of Credit Discounting : Banks are often ready to finance against Letter of Credit (LC) as there is an inborn security in an confirmed LC that the issuing bank will make the payment in case of default.

Angel financing

- ➢Angel financing refers to an investment model wherein "business angels" – essentially, high net worth individuals – provide financial backing for small businesses in exchange for equity in the company.
- ➢ Angel financing can be a one-time investment, or it can refer to ongoing support.
- ➢ Generally, angel financing is high risk, high reward, as angel investors tend to seek a more favorable return rate than would be provided via traditional investment opportunities.

How angel financing for entrepreneurs works

- Firstly, business angels find out about interesting start-ups from a broad range of sources, including other entrepreneurs, investors looking for partners, or other angels within the same network, fund, or group.

- After an initial screening process, they'll invite the prospective start-ups to pitch, and if the pitch goes well, they will decide to invest.

How angel financing for entrepreneurs works

- When it comes to angel financing for entrepreneurs, it's important to note that the investor won't sit back and wait for you to get the ball rolling. Angel investors play a much more active role in the business.

- They'll provide the founders with advice, make introductions, build your network, and help guide you through any subsequent funding rounds

Angel financing advantages

- An angel investor provides financial backing to entrepreneurs and early-stage businesses, or start-ups.

- Angel financing is far less risky than debt financing, because you won't need to repay the investment capital.

- It's also worth remembering that angel investors tend to think long-term, so they won't be looking for an immediate return.

- Finally, because business angels take a more active role, you'll receive access to their contacts and sector knowledge, which can help speed up your company's growth. (The biggest positive)

Angel financing disadvantages

- Think about the loss of control that you'll need to deal with.(The biggest negative for many is giving up equity or shares in the company.)

- If you accept angel financing, you'll also need to be comfortable with the fact that your investor will have a say in how your business to run, as well as receiving a share of the profits when the company is sold or make profit.

VENTURE CAPITAL

- Venture Capital is a financing tool for companies and an investment vehicle for wealthy individuals and institutional investors.

- Wealthy investors like to invest their capital in startups with a long-term growth perspective.

- This capital is called venture capital and the investors are called venture capitalists, in other words, it is a way for companies to receive money in the short term and for investors to grow wealth in the long term.

VENTURE CAPITAL

- Venture Capitals tend to focus on emerging companies and such investments are risky as they are illiquid, but also have the potential to provide impressive returns if invested in the right venture.

- A venture capital firm can finance a company by equity participation and capital gains, participating in debentures and also extending conditional loans to the firms.

Crowdfunding

- Crowdfunding is the use of small amounts of capital from a large number of individuals to finance a new business venture.

- Crowdfunding makes use of the easy accessibility of vast networks of people through social media and crowdfunding websites to bring investors and entrepreneurs together, with the potential to increase entrepreneurship by expanding the pool of investors beyond the traditional circle of owners, relatives, and venture capitalists.

- Crowdfunding can put money in a business’ bank account without adding to that business’ debt load.

Crowdfunding

- “In simple terms, crowdfunding is the financing of a project or a venture by a group of individuals instead of professional parties (like, for instance, banks, venture capitalists or business angels).

- In theory, individuals already finance investments indirectly through their savings, since banks act as intermediary between those who have and those who need money.

- In contrast, crowdfunding occurs without any intermediary: entrepreneurs ‘tap the crowd’ by raising the money directly from individuals

Crowdfunding

- Crowdfunding offers the above advantages over traditional funding models, but launching a crowdfunding campaign is obviously no guaruntee of immediate success.

- Crowdfunding sometimes requires a steep time investment that may or may not result in a huge payout.

- But remember, short-term failure does not indicate an end.

RECAP

QUESTIONS???

THANK YOU