Funding support for Start-ups in India

Start-up India Hub, India

http://startupindia.gov.in

One of the key challenges faced by Start-ups in India has been accessed to finance. Often Start-ups, due to lack of collaterals or existing cash flows, fail to justify the loans. Besides, the high-risk nature of Start-ups wherein a significant percentage fails to take-off, hampers their investment attractiveness.

Fund of funds

In order to provide funding support to Start-ups, Government will set up a fund with an initial corpus of INR 2,500 crore and a total corpus of INR 10,000 crore over a period 4 years (i.e., INR 2,500 crore per year) . The fund will be in the nature of 'Fund of Funds', which means that it will not invest directly into Start-ups, but shall participate in the capital of SEBI-registered Venture Funds.

Key features of the 'Fund of Funds' are highlighted below:

- The 'Fund of Funds' shall be managed by a Board with private professionals drawn from industry bodies, academia and successful Start-ups.
- Life Insurance Corporation (LIC) shall be a co-investor in the 'Fund of Funds'.
- The 'Fund of Funds' shall contribute to a maximum of 50% of the stated daughter fund size. To be able to receive the contribution, the daughter fund should have already raised the balance 50% or more of the stated fund size as the case maybe. The 'Fund of Funds' shall have representation on the governance structure/ board of the venture fund based on the contribution made.
- The fund shall ensure support to a broad mix of sectors such as manufacturing, agriculture, health, education and so on.

Credit guarantee fund for start-ups

To overcome traditional Indian stigma associated with failure of Start-up enterprises in general and to encourage experimentation among Start-up entrepreneurs through disruptive business models, credit guarantee comfort would help flow of Venture Debt from the formal Banking System.

Debt funding to Start-ups is also perceived as a high-risk area and to encourage Banks and other Lenders to provide Venture Debts to Start-ups, Credit guarantee mechanism through National Credit Guarantee Trust Company (NCGTC)/SIDBI is being envisaged with a budgetary Corpus of INR 500 crore per year for the next 4 years.

Tax exemption on capital gains

Due to their high-risk nature, Start-ups are not able to attract investment in their initial stage. It is therefore important that suitable incentives are provided to investors for investing in the Start-up ecosystem. With this objective, exemption shall be given to people who have capital gains during the year, if they have invested such capital gains in the 'Fund of Funds' recognised by the Government. This will augment the funds available to various VCs/ AIFs for investment in Start-ups.

In addition, existing capital gain tax exemption for investment in newly formed manufacturing MSMEs by individuals shall be extended to all Start-ups. Currently, such an entity needs to purchase 'new assets' with the capital gain received to avail such an exemption. Investment in 'computer or computer software' (as used in core business activity) shall also be considered as purchase of 'new assets' to promote technology driven Start-ups.

Tax exemption to start-ups

Innovation is the essence of every Start-up. Young minds kindle new ideas every day to think beyond conventional strategies of the existing corporate world. During the initial years, budding entrepreneurs struggle to evaluate the feasibility of their business idea. Significant capital investment is made in embracing ever-changing technology, fighting rising competition and navigating through the unique challenges arising from their venture. In addition, there are limited alternative sources of finance available to the small and growing entrepreneurs, leading to constrained cash funds.

With a view to stimulate the development of Start-ups in India and provide them a competitive platform, it is imperative that the profits of Start-up initiatives are exempted from income tax for a period of 3 years. This fiscal exemption shall facilitate growth of business and meet the working capital requirements during the initial years of operations. The exemption shall be available subject to non-distribution of dividend by the Start-up.

Tax exemption on investments

Under The Income Tax Act (1961), where a Start-up (company) receives any consideration for issue of shares which exceeds the Fair Market Value (FMV) of such shares, such excess consideration is taxable in the hands of recipient as income from other sources. In the context of Start-ups, where the idea is at a conceptualisation or development stage, it is often difficult to determine the FMV of such shares. In majority of the cases, FMV is also significantly lower than the value at which the capital investment is made. This results into the tax being levied under section 56(2) (viib).

Currently, investment by venture capital funds in Start-ups is exempted from operations of this provision. The same shall be extended to investment made by incubators in the Start-ups.

Raising Finance for Business in Viet Nam

Agency for Enterprise Development Business Portal, Viet Nam

http://en.business.gov.vn

Finding the capital you need will always be your most basic business activity throughout the entire life of your business. If you are just starting up or even if you have a well-established enterprise, your own savings and soft loans from family and friends are likely to play a significant role in your sources of finance. When you are trying to raise finance from formal financial institutions, you need to know how to approach them, what they would expect from you and how they would assess your proposals.

For example, Banks and People's Credit Funds will require you to have a well-prepared business plan, show concrete evidence that you are willing to invest your own funds in your proposed business activity as well as provide considerable amounts of collateral (e.g., land and house that you or your family owns) to secure your loan. Learn more on the overall requirements of formal financial institutions in the next sections: How to work with banks and 5C's of Credit?

How basic financial statements help you to run your business

Balance sheet

- The balance sheet is used to evaluate how the business is progressing. You can use the balance sheet to access the financial position and the liquidity of your business.
- The balance sheet is useful when looked at alongside the profit and loss figures, because then you will get the whole picture.
- Use the balance sheet to secure a loan: when you apply for a loan, the bank usually requests that you provide the balance sheet to assess your ability to repay the loan. Having a strong balance sheet helps when it comes to borrowing.

Income statement (profit and loss statement)

The income or profit and loss statement shows as how much money your business will make after all expenses are accounted for. Income statements are read from top to bottom and represent earnings and expenses over a period of time. An income statement does not reveal hidden problems such as insufficient cash flow problems. You should prepare a cash flow statement to see if you have a problem with insufficient cash flow during your operations.

Cash flow statement/a cash flow forecast

A cash flow forecast can be an important business tool if it is used effectively. Bear in mind that it is dynamic – you will need to change and adjust it frequently depending on business activity, payment patterns and supplier demands.

It is helpful to set up a regular review of the cash flow forecast, changing the figures in light of your sales, purchases and staff costs. Legislation, interest rates and tax changes will also impact on the forecast.

Having a regular review of your cash flow forecast will enable you to:

- see when problems are likely to occur and sort them out in advance;
- identify any potential cash shortfalls and take appropriate action and
- ensure you to have sufficient cash flow before you take on any major financial commitment.

Having an accurate cash flow forecast will help ensure that you can achieve *steady growth* without overtrading. You will know when you have sufficient assets to take on additional business – and, just as importantly, when you need to consolidate. This will enable you to keep staff, customers and suppliers happy. It is important that you incorporate *warning signals* into your cash flow forecast. For example, if predicted cash levels come close to your short-term credit limits, then this should sound an alarm and trigger an action to bring cash back to an acceptable level.

Managing your accounts payable

Accounts payable are money your companies owe to vendors and suppliers for products and services purchased on credit. These are items that your company has already received but must pay for in the future. Managing accounts payable is very important, since inability to pay your debts can cause serious problems for your business, including bankruptcy. It is, therefore, essential to record in detail all purchases made, the date of payment is required and the resources available to pay when due.

Managing your accounts receivable

Accounts receivable are money owed to your company by other companies who have purchased goods or services from you on credit. These are items you have already provided to customers but are awaiting for payment in the future. Purchases on credit are considered to be accounts receivable when you send the customer an invoice. Managing accounts receivable is very important. If customers do not pay, then your company will lose money. In addition, the timing of payment is important as this will affect your ability to pay your own debts and costs of production. Recording in detail all sales and the due dates of payments is essential to ensure that your company receives the money that are on due.