

ENTREPRENEURSHIP

CHAPTER 6: RESOURCE MOBILIZATION



Resource Mobilization

Resource Mobilization -

- ❖ The term '**Angel**' originally comes from Broadway, where it was used to describe wealthy individual who provide money for Theatrical Productions.

In 1978, Wiliam Wetzel, a professor at the University of New Hampshire and founder of its Center for Venture Research, completed a pioneering study on how entrepreneurs raised seed capital in the USA, and he began using the term 'Angel' to describe the investors who supported them.

- ❖ **Entrepreneurship** may find it difficult to go for equity financing since the goodwill is not yet built up in the market.
- ❖ **Stock exchange** is an investment intermediary and facilitates economical and industrial development of a country. Stock exchange performs a number of functions in respect of marketability of different types of securities for investors and borrowing companies.
- ❖ **Securities and Exchange Board of India (SEBI)** was established as a supervising and regulatory body to curb certain malpractices and to promote the securities markets in India.
- ❖ **Money Market** refers to transactions involving lending and borrowing of money for short periods like a day, a week, a month or 3 to 6 months. It meets the short term requirements.

The major participants of money market are:

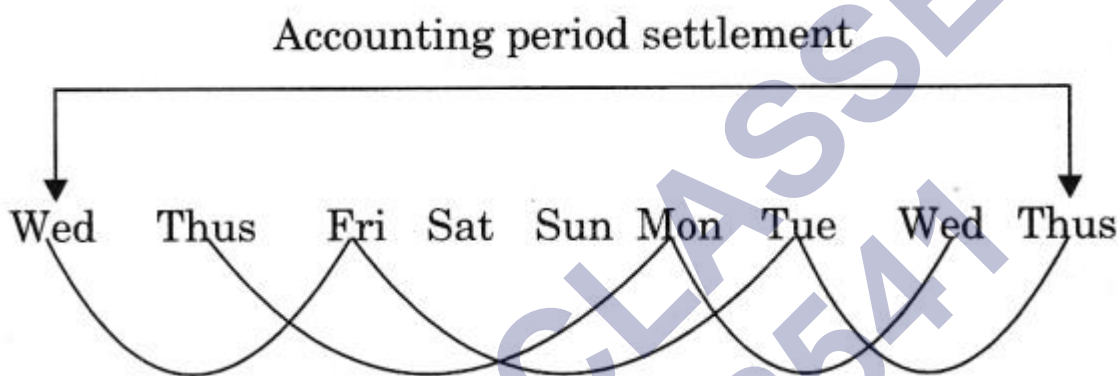
- Treasury Bills.
 - Interbank Call Money.
 - Commercial Papers.
 - Certificate of Deposits.
 - Commercial Bill/ Trade Bill.
- ❖ **Repo rate** is the discount rate at which banks borrow from RBI. Reduction in repo rate will help banks to get money at a cheaper rate, while increase in repo rate will make bank borrowings from RBI more expensive.
 - ❖ **Reverse repo rate** is the rate at which the central bank of a country (Reserve Bank of India in case of India) borrows money from commercial banks within the country. It is a monetary policy instrument which can be used to control the money supply in the country. An increase in reverse repo rate means commercial banks will get more incentives to park their funds with the RBI, thereby decreasing the supply of money in the market. An increase in it will decrease the money supply and vice-versa, other

things remaining constant.

- ❖ **Sensex:** It is an important stock market index in India. If sensdex rises it indicates stock market is doing well. Investors expect better earnings from the issued companies. The sensdex consists of 30 shares/ stock in the stock market.
- ❖ **How trading settlement takes place in the equity spot market?**

Equity spot market follows a T + 2 rolling settlement. This means that any trade taking place on Monday gets settled by Wednesday or trading day plus two day.

- **Diagram of trading settlement:**



(Wednesday - Friday), (Friday - Tuesday), (Tuesday - Thursday), (Thursday - Monday), (Monday - Wednesday).

- **Two Indian Stock Market Index:**

(i) SENSEX (ii) NIFTY

- **Two National Stock Exchanges:**

- NSE (National Stock Exchange of India)
- OTCEI (Over the Counter Exchange of India)

- **Two Regional Stock Exchanges:**

- Bombay Stock Exchange.
- Calcutta Stock Exchange.
- Compliance with the SEBI guidelines is to be done for the investor's protection.

- ❖ **Initial Public Offer (I.P.O.'s):** A company proposing to raise resources by a public issue should first select the type of securities i.e. share and/or debentures to be issued by it. The various steps involved in public issue of shares are enumerated below:

- **Compliance with the SEBI guidelines:** Before making any issue of capital, it is to

be ensured that the proposed issue complies with the provisions of the SEBI guidelines.

- **Holding of general meeting:** If it is required by the Articles of Association, that consent of shareholder is to be obtained, then meeting of the shareholders will be called.
- **Intimation to stock exchange:** A copy of the Memorandum and Articles of Association of the company is to be sent to the Stock Exchanges where the shares are to be listed, for approval.
- **Appointment:** A company, which issues shares, has to appoint one or more Merchant Bankers, registrars, underwriter, brokers, etc.
- **Drafting of prospectus:** Apart from the notice of offer to issue shares to public,

Prospectus should also disclose:

- Justification of premium, if called.
 - Net Assets Value (NAV)
 - High and low price of the shares of the company for the last two years.
 - A clause that company shall refund the entire application money if minimum subscription is not received.
 - A statement by the lead managers that in their opinion the assets of the underwriters are adequate to meet their obligations.
- **Approval of Prospectus:** The draft prospectus along with the application from the issue of shares should be approved by the solicitors/legal advisors/stock exchange.
 - **Approval of Board of Directors:** After approving the draft prospectus and the application form, the board of directors of the company should approve the final draft, before filing the Registrar of Companies.
 - **Registration of prospectus with ROC:** Before the prospectus is issued to the public it must be filed with the registrar of companies. The prospectus must be registered with ROC within 3 months of vetting of SEBI.
 - **Application to stock exchange to list shares:** Before filling prospectus with the Registrar of Companies, the company should submit on enlistment of securities stock exchange.
 - **Printing and distribution of prospectus** and application forms to issue the prospectus within 90 days of it's registration with Registrar of Companies.
 - **Announcements and advertisement** proposed issues should be made at least ten (10)days before the subscription list opens.

- **Subscription List:** As stipulated by SEBI guidelines the subscription list for public issue is to be kept open for atleast three working days and for a total period of not exceeding ten working days, which is to be disclosed in prospectus as well.
 - **Separate bank account:** A separate bank account is opened for the purpose of collecting the proceeds of the issue. Further, the date of opening and closing of the subscription list should be intimated to all the collecting and controlling branches of the bank with whom the company has entered into an agreement for the collection of application forms.
 - **Minimum subscription:** As per the SEBI guidelines, if the company does not receive 90% of the issue amount from the public subscription including development from underwriters within 120 days from the date of the issue, the amount of subscription received is required to be refunded to the applications. In case of disputed development also, subscription is required to be refunded if 90% of the issued amount plus is accepted. Development from underwriters if any, is not received within 120 days of the issue of prospectus, all the money received from the applicants for shares is required to be repaid forthwith without interest and if any such money is not so repaid in the next 10 days (after the expiry of 120 days), the directors of the company are jointly and severally liable to repay that money, with interest from the expiry of the 130 days. The company should refund the amount within 10 weeks of the closing of the subscription list and pay interest, if refunds are delayed by more than 8 days after this period.
 - **Allotment of shares:** A return of allotment in form No. 2 of the Companies' (central government's) General Rules and Form, 1956 should be filed with registrar of companies within 30 days of the date of allotment along with the fees payable, as prescribed in schedule X of the Act. In case, the issue is over-subscribed, the basis of allotment has to be decided in consultation with the stock exchange authorities as per the guidelines laid down by the stock exchange.
 - **Over subscription:** The over-subscribed amount after the finalization of allotment, should be refunded to the applicants within 10 weeks of the closure of subscription list. If the money is not so refunded, the company is liable to refund the money with interest as specified from the expiry of the 8 days after 10 weeks of the closure of subscription list.
 - **Compliance report:** As stipulated by SEBI guidelines within 45 days of the closure of issue, a report in the prescribed form along with a compliance certificates from statutory auditor/practicing chartered accountant or by a company secretary in practice is to be forwarded to SEBI by the lead managers.
- ❖ **Right Shares:** Under Sec. 94 of Companies Act, a company can issue additional shares at any time by passing an ordinary resolution at its General Meeting. However, under

Sec. 81 of that, such additional shares must be 1st offered to the existing equity shareholders in the proportion of the shares already held by them. Such additional shares are called “Rights Shares”.

- Stock exchange performs a number of functions in respect of marketability of different types of securities for investors and borrowing companies.

❖ **Brokers/ Intermediaries:** A fee charged by an agent, or agent’s company to facilitate transactions between buyers and sellers. The brokerage fee is charged for services such as negotiations, sales, purchases, delivery or advice on the transaction.

❖ **Bombay Stock Exchange:**

- BSE Limited formerly known as Bombay Stock Exchange (BSE), is the oldest stock exchange in Asia.
- It is a stock exchange located on Dalai Street, Mumbai.
- It the 6th largest stock exchange in Asia and the 14th largest in the world.
- The BSE has the largest number of listed companies in the world.
- The BSE Sensex, also called “BSE 30”, is a widely used market index in India and Asia.
- While both have similar total market capitalization (about USD 1.6 trillion), share volume in NSE is typically two times that of BSE.

❖ **National Stock Exchange:**

- The National Stock Exchange (NSE) is stock exchange located at Mumbai, India.
- It is the 16th largest stock exchange in the world by market capitalization and largest in India by daily turn over and number of trades, for both equities and derivative trading.
- The NSE’s key index is the S&P CNX Nifty, known as the NSE NIFTY (National Stock Exchange Fifty), an index of fifty major stocks weighted by market capitalization.
- NSE is mutually owned by a set of leading financial institutions, banks, insurance companies and other financial intermediaries in India but its ownership and management operate as separate entities.
- It is the second fastest growing stock exchange in the world with a recorded growth of 16.6%.
- NSE and BSE are the two most significant stock exchanges in India, and between them are responsible for the vast majority of share transactions.

❖ **Acronym of Stock Exchange:**

- S - Serves as economic barometer Transfer of Ownership

- O - Online Trading
- C - Continuous and Ready Market for Securities
- K - Knowledge of Profit or Loss on Investment to the Investors
- Ex - Exchange of Securities
- C - Capital Formation Increases
- H - Higher returns
- A - Allow Dealings only in Listed Securities
- N - Nation's Prosperity and Growth G Genuine Guidance about the Securities Listed E Economic Development.

Words That Matter -

- ❖ **Business:** The etymology of "business" relates to the state of being busy either as an individual or society as a whole doing commercially viable and profitable work.
- ❖ **Finance:** It may be defined as the provision of money at the time it is wanted.
- ❖ **Business Finance:** It refers to the acquisition and utilization of capital funds in meeting the financial needs.
- ❖ **Need of Finance:**
 - Promote or establish the business.
 - Acquire fixed assets.
 - Make market investigations and wages payment and others.
- ❖ **Various sources of an enterprise can raise the required funds:**
 - Internal sources.
 - External sources.
- ❖ **Sources available to an entrepreneur to raise finance:**
 - **Capital Market:** A capital market may be defined as an organized mechanism meant for effective and smooth transfer of money capital or financial resources from the ' investors to the entrepreneurs.
 - **Primary Market:**
 - **Secondary Market:**
 - **Angel investors:** They fill the gap in startup between family and friends and venture capitalists.
 - **Venture capital:** It is a type of private equity capital provided as seed funding to early stage, high potential, high risk, growth up companies/entrepreneurs who

lack the necessary experience and funds to give shape to their ideas.

- **Specialized financial institutions:**

	National Level		State Level
(a)	Industrial Development Bank of India (IDBI) – established in 1964	(a)	State Finance Corporation (SFC) – established in 1951
(b)	Small Industries Development Bank of India (SIDBI) established in 1990	(b)	Tourism Finance Corporation of India (TFCI) - established in 1989
(c)	Industrial Finance Corporation of India (IFCI) - established in 1948	(c)	State Industrial Development Corporation (SIDC) - established in 1956
(d)	Investment Credit and Investment Corporation of India (ICICI) - established in 1955		
(e)	National Bank of Agriculture and Rural Development (NABARD) - established in 1982		
(f)	Industrial Investment Bank of India (IIB)		

❖ **Methods of flotation of new issues:** An entrepreneur can raise the required capital in the primary market by the following methods:

- **Public issue:** Raising of funds directly from the public through the issue of prospectus.
- **Rights issue:** Rights issue is a method of raising additional finance from existing shareholders by issuing additional shares.
- **Private placement:** Private placement means the direct sale by a company of its securities to a limited number of sophisticated investors.

- **Offer to the employees:** Offering shares to the employees has gained much popularity in many countries of the world.
- ❖ Financial markets can be for initial issue and further issue.
 - Primary market (New issues market)
 - Secondary market (Further issues)
 - Capital markets aid in the mobilization of individual savings to make them readily available to those who need them like:
 - Industry
 - Trade
 - Finance
 - Government
- ❖ **Stock exchange:** “A stock exchange means anybody of individuals, whether incorporated or not, constituted for the purpose of assisting, regulating or controlling the business of buying and selling or dealing in securities.”
 - **Financial Intermediation:** The role of transforming financial resources from the surplus units to the deficit units.
 - Money market is a place where the demand for and the supply of short term funds meet.
- ❖ **A capital market** may be defined as an organized mechanism meant for effective and smooth transfer of money capital or financial resources from the inventory to the entrepreneur.
 - **Features of Stock Exchange:**
 - Association of persons.
 - Recognition from central government.
 - Market for securities.
 - Deals in second hand securities
 - Regulates trade in securities
 - Allow dealings only in listed securities
 - Transactions effected only through members.
 - **Working as per rules:**
 - Specific location
 - Financial barometers.
- ❖ **Seed Capital:** It is an initial capital of the enterprise provided to an entrepreneur to prove

the feasibility of a project.

- ❖ **Venture Capitalist:** These are investors and investment companies whose specialty is financing new, high-technology oriented entrepreneurial ventures.
- ❖ **Personal Financing:** The initial investment made by an entrepreneur through his personal cash or converts his assets into cash for investment.
- ❖ **Debt-financing** is a financing method involving an interest-bearing instruments or it is a loan. The entrepreneur is to pay back the amount of funds borrowed and interest amount within the term period.
- ❖ **Debentures:** A debenture is a written instrument acknowledging a debt containing fixed rate of interest and repayment of debt after specific period.
- ❖ **Public Deposits:** When an entrepreneur invites the general public to deposit their savings with his company, for a period not exceeding 36 months with some rate of interest.
- ❖ **Overdraft:** A temporary arrangement in the form of a permission granted to the customers to withdraw more than the amount standing to his account.
- ❖ **Discounting of bills:** It is an arrangement, where the bank encashes the customer's bills before maturity date.
- ❖ **Loans and Advances:** A loan is a lump sum advance made for a specified period by bank or other financial institutions with certain rate of interest.
- ❖ **Securities and Exchange Board of India (SEBI)** was established as a supervising and regulatory body to curb certain malpractices and to promote the securities markets in India.