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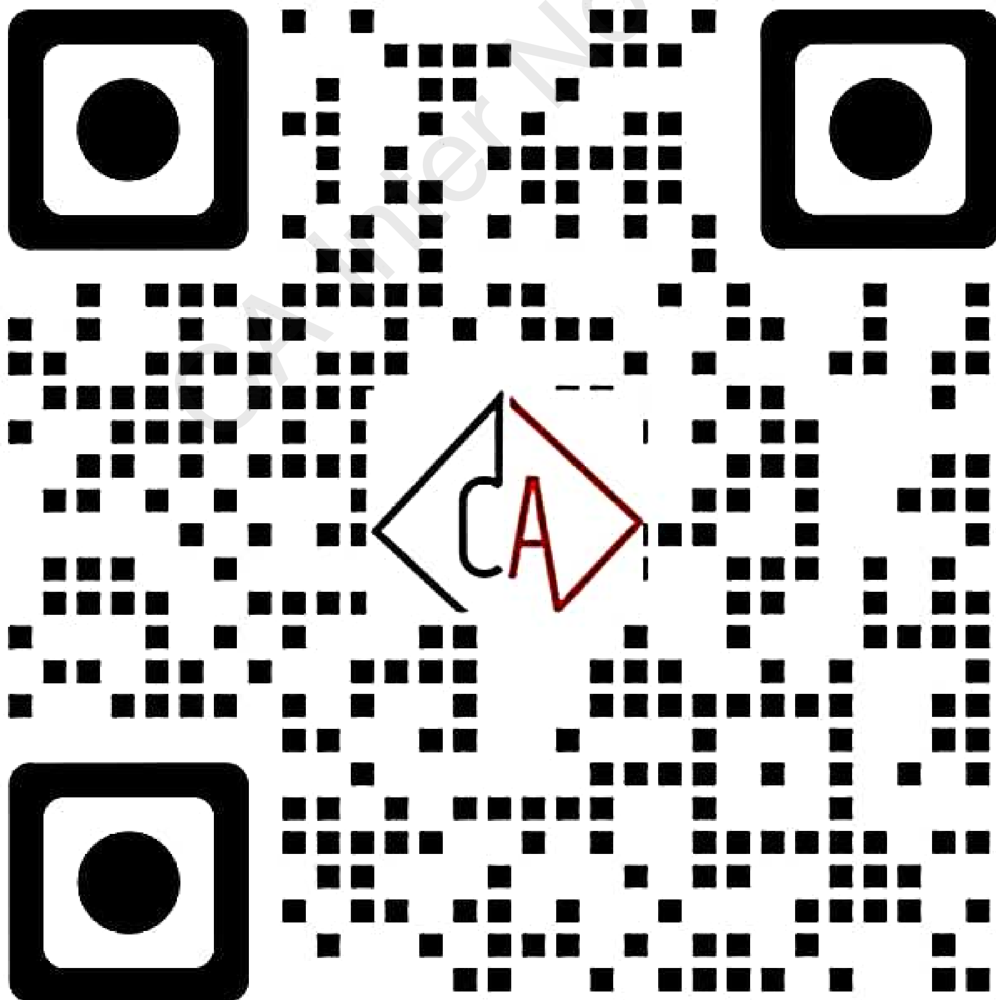

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FM CH:2 Types of financing.

→ Financial Needs of a Business:

Long Term Financial Need.	Medium term Financial Need	Short term Financial Need.
• period exceeding 5-10 years.	• period exceeding 1-5 years.	• period not exceeding 1 year
• funds required to finance permanent or hard core working capital.	• Needed for stores & spares, critical spares, tools, dies, moulds.	• meeting of working capital Requirements

→ Basic Principle for Funding various Needs.

Stage.	Nature of Business.	Sources of funds.
Early stage.	High uncertainity.	Equity; mainly Angle fund.
	High to moderate uncertainity.	Equity; venture capital; Debt.
Growth stage.	Moderate to low uncertainity.	Debt; venture capital; private equity.
Stable stage.	Low uncertainity.	Debt.

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Angel Funding refers to financial support provided by wealthy individuals, known as angel investors, to startups or early stage companies.

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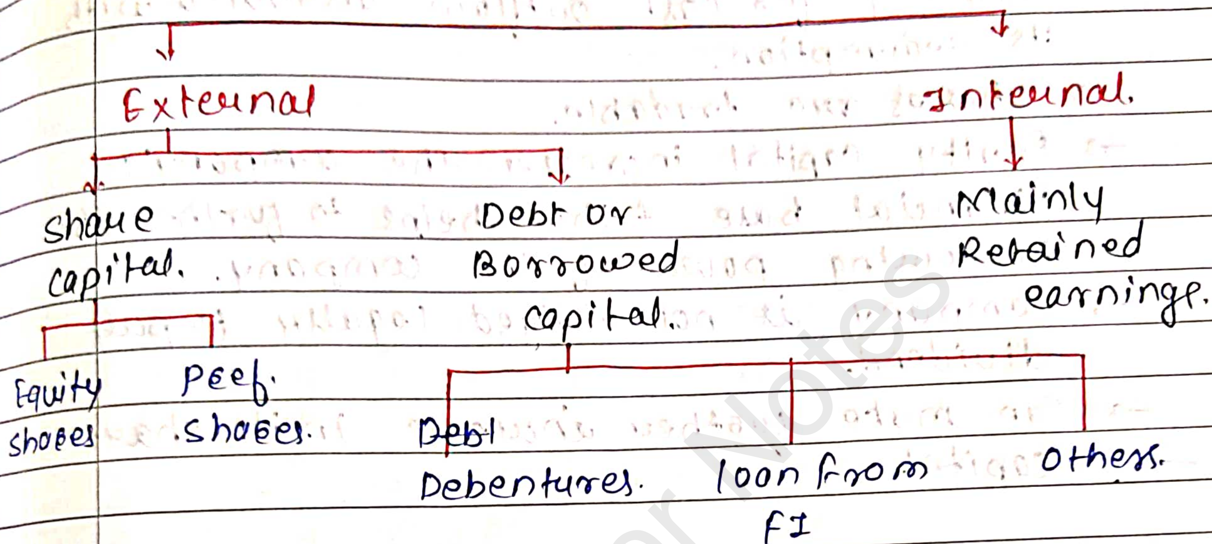

→ Sources of Finance based on Maturity of Payment: [A] Long term sources of Finance

① Owners capital / Equity capital:

Characteristics

→ permanent capital.

→ equity shareholders are practically owners as they take highest risk.

→ entitled to dividend.

→ at the time of winding up, can ~~claim~~ exercise their claim on assets After the claims of other suppliers of capital have been met.

→ shareholders expects higher rate of return Hence cost of ordinary shares is usually the highest.

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Advantages:

→ Permanent source of finance. Company has no liability for cash outflow associated with its redemption.

→ Shares are tradable.

→ Equity capital increases the company's financial base & thus helps to further the borrowing power of the company.

→ Company is not obliged legally to pay dividend.

→ Can make further increase in its share capital.

Disadvantages:

→ Investors funds ordinary shares riskier because of uncertain dividend pattern

→ Issue of new equity shares reduces EPS & ownership & control of existing shareholders.

② Preference Share capital:

— Enjoy priority [payment of Dividend / Repayment of capital on winding up.

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Characteristics:

→ Long term funds.

→ Rate of dividend is normally higher than the rate of interest on debentures.

→ carry a stipulation of period.

→ Hybrid for of financing of [equity → because of dividend / Debt. at fixed rate.

Cumulative Convertible Preference Shares:

The shares carry a cumulative dividend of specified limit for a period of say three years after which the shares are converted into equity shares.

Advantages:

→ No dilution in EPS.

→ advantage of leverage as it bears a fixed charge.

→ Non-payment of pref. dividend does not force a company into liquidation.

→ No risk of takeover as the pref. share holders do not have voting rights except where dividends payment are in arrears.

→ Pref. dividends are fixed & pre-decided. Cannot participate in surplus profits.

→ Can be redeemed after specified period.

→

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Disadvantages :

→ Not tax deductible. Do not provide tax shield.

→ cumulative in Nature.
if in a year pref. dividends are not paid they shall be accumulated & paid later.

	Equity share.	Preference shares.
Dividend Payment	After preference dividend.	preferred over equity dividend.
Rate of Dividend	Fluctuating	Fixed.
Convertibility	Non convertible	convertible.
voting Rights	Full voting Rights	very limited voting Rights.

③ Retained Earnings

→ Accumulating the profits of the company & by ploughing them back into business.

→ Almost no Risk.

→ Control of present owners is also not diluted by retaining profits.

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(4) Debentures

Characteristics :

- → Normally issued in diff. nominations & carry diff. rate of interest
- → Issued on the basis of debenture trust deed.
- → instrument for raising long term debt capital.
- → either secured or unsecured.
- → may or may not be listed on stock exchange.
- → cost of capital raised through debentures is quite low i.e. Interest payable on debenture can be charged as an expense before tax.
- → Interest on debenture is payable whether or not the company makes profit.

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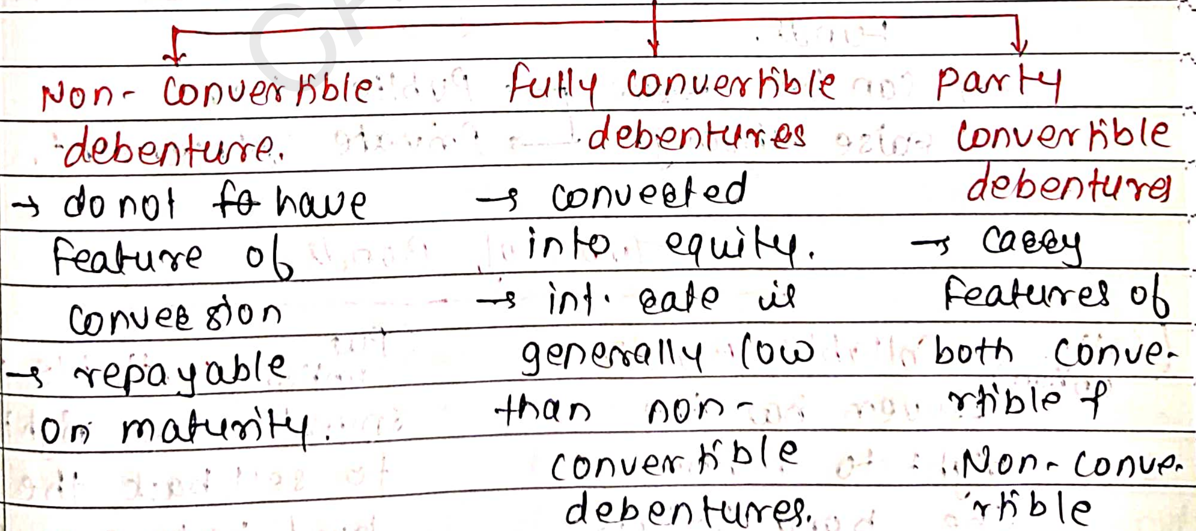
Categories of Debenture based on convertibility.



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Advantages:
→ Does not result in dilution of control.
→ Cost of capital is much lower than cost of pref. or equity shares.
→ The fixed monetary outgo decreases in real term as the price level increases.

Disadvantages:
→ Obligatory payment of → Debenture interest. → Repayment of principal Amt
→ enhances the financial risk associated with the firm.
→ At the time of maturity, large amount cash outflow is needed.

(5) Bonds:
→ Fixed income security created to raise funds.
→ can be ~~issue~~ raise through → Public issue → Private placement.

Types of Bonds,

(Call option) Callable Bonds: Issuer has the right to redeem the bond before maturity at ~~predermined~~ predeteermind price. i.e. call price

(Put option) Puttable Bonds: Investor has right to sell back the bond before maturity

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Various Bonds & their salient features.

Foreign Bonds	Salient Features
Foreign Currency Convertible Bond (FCCB)	→ very low rate of int. → advantage — issuer can get foreign to issuer. currency at very low cost. → redeemed at the date of maturity.
Plain Vanilla Bond.	→ issuer would pay principal amt. & interest together at maturity. → would not have any option (call / put) → can be issue in form of: → Discounted bond. → coupon bearing bond.
Convertible Floating Rate Notes (FRN):	→ holder has an option to convert it into a longer term debt security with a specified coupon. → protects investor against falling int. rate. → Tradable. → capital Gain is not applicable.
Drop lock Bond.	→ It is a Floating Rate Note with a Normal Floating Rate. → Floating Rate bond will automatically converted into fixed rate bond if interest rate falls below a predetermined level. → The new fixed rate stays till the drop lock bond reaches its maturity

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Variable Rate Demand obligations.	→ Normal Floating rate note with a nominal maturity. → holder can sell the obligation back to the trustee at par plus accrued interest. → Gives the investor an option to exit. More liquid than the Normal FRN.
Yield curve Note (YCN)	→ structured debt security. → yield ↑ when int. rate ↓ & vice versa. → used to hedge the int. rate. → works like inverse floater.
Euro bonds.	→ 'euro' - is used more generally to refer to deposit outside the jurisdiction of the domestic central bank. → issue by multinational corporation → Euro bonds are issued or traded in a country using a currency other than the one in which the bond is demi denominated. This means that the bond uses a certain currency, but operates outside the jurisdiction of the central Bank that issues that currency.

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Indian Bonds:

Masala Bond.	→ An Indian name used for Rupee denoted denominated bond that Indian corporate borrowers can sell to investors in overseas market. → Issued outside india but denominated in Indian Rs.
Municipal Bonds	→ used to finance urban infrastructure
Government / Treasury Bonds.	→ bonds issued by → GOI. → RBI. → state Govt. → Govt. department

Other Bonds:

Deep Discount Bond.	→ Form a zero int. bond. → sold at discounted value & on Maturity, FV is paid to investor. → No int. payout during lockin period.
Zero Coupon Bond.	→ Does not carry any int. but sold by issuing company at discount. → int. to be earned by investor = Maturing/FV − Disc. value

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Option Bonds.	→ cumulative & non-cumulative bonds → interest is payable on maturity or periodically.
Inflation Bonds.	→ interest rate is adjusted for inflation.
Floating Rate Bonds.	→ interest rate is not fixed & is allowed to float depending upon the market conditions.

⑥ Loans from financial institutions.

(i) Financial Institutions: National.

a) Industrial Finance Corporation of India (IFCI)

b) State Financial Corporations (SFCs)

c) Industrial Development Bank of India (IDBI)

d) National Industrial Development Corporation (NIDC)

e) Industrial Credit & Investment Corporat^n of India.

f) Life Insurance Corporation of India. (LIC)

g) Unit Trust of India (UTI)

h) Industrial Reconstruction Bank of India (IRBI)

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(ii) Financial Institutions: International:
a) The world bank / International bank for Reconstruction & Development (IBRD)
b) The international finance corporation (IFC)
c) Asian Development Banks (ADB)

(7) Loans from Commercial Banks:

Primary Role: To cater to the short term requirements of industry.

However, banks have started taking an interest in long term financing of industries in several ways
- provide long term loans for the purpose of expansion or setting up of new units.
- fund the long term working capital requirement. which is always required, not impacted by seasonal requirement.

→ Bridge Financing:
→ loan taken by a company normally from commercial banks for a short term period because of pending disbursement of loans sanctioned by financial institutions.
→ repaid / adjusted out of the term loans as & when disbursed by the concerned institutions.

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→ generally the rate of interest is higher than the int. rate on term loan.

→ secured by hypothecation of movable assets, personal guarantee & demand promissory notes.

[B] Venture Capital Financing:

→ Financing of new high risky venture promoted by qualified entrepreneurs who lack experience & funds to give shape to their idea.

Characteristics:

→ an equity finance in new companies.

→ can be viewed as long term investment in growth oriented medium /small firms

→ investors also provide support in form of sales strategy, business networking & management expertise, enabling the growth of entrepreneurs.

Methods:

① Equity financing:

→ Equity contribution of venture capital firm does not exceed 49% of the total equity capital of venture capital undertakings.

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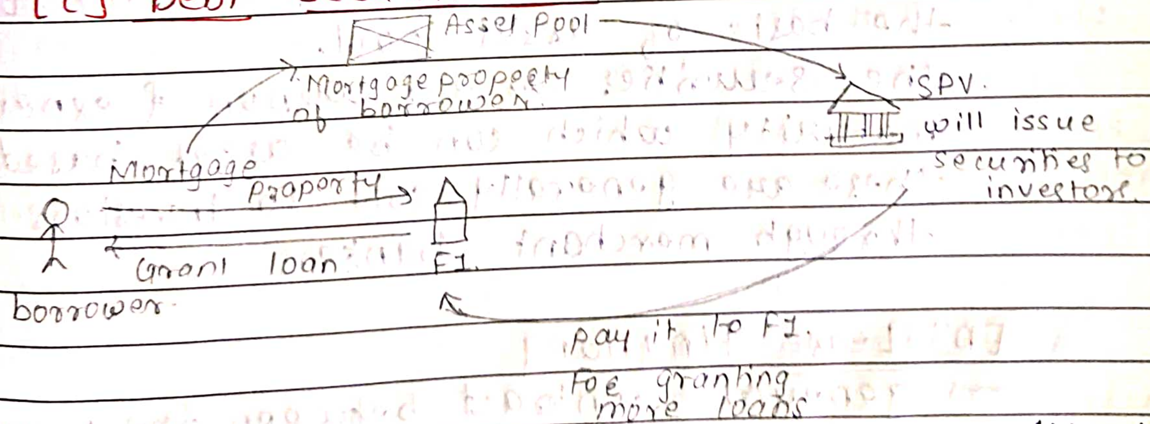
② Conditional Loan:
→ Repayable in the form of a royalty after the venture is able to generate sales.
→ No interest paid on such loans.
→ royalty ranging between 2 & 15 percent.

③ Income Note:
→ hybrid → combined features of → conditional loan, → conventional loan security.
→ Has to pay both int. & royalty but on substantially low rate.

④ Participating Debenture:
→ carries charges in three phases
→ start-up phase → no int.
→ Next stage → low int rate.
→ after that → high int. rate.

[C] Debt Securitisation:



→ Securitisation is a process in which illiquid assets are pooled into marketable securities that can be sold to investors.
→ Method of recycling the funds.

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Process of Debt Securitisation

① The origination function:

A borrower seek a loan from a finance company, banks. The credit worthiness of borrower is evaluated & contract is entered into with repayment schedule structured over the life of the loan.

② Pooling function:

Similar loans on receivables are clubbed together to create an underlying pool of asset.

The pool is transferred to special purpose vehicle (SPV), which acts as trustee or investor.

③ The securitization function:

SPV will structure & issue securities on the basis of asset pool.

The securities carry a coupon & expected maturity which can be asset based.

These are generally sold to investors through merchant bankers.

[D] Lease Financing

→ general contract between the owner & the user of asset over a specified period of time.

→ The asset is initially purchased by the owner (lessor) & thereafter leased to the user (lessee) which pays a specified.

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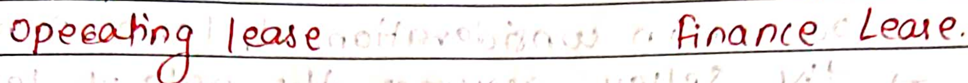
Rent at periodical intervals.

Types of Lease Contracts.



Operating lease	Finance Lease.
• right to use the asset is given by the lessor to lessee.	• lessee has the right to use the equipment, lessor retains legal title.
• the ownership right remains with the lessor.	• long-term in nature & Non-cancelable.
• lessee bears the insurance, maintenance & repair costs etc. of asset.	• lessee has to bear the maintenance, insurance, & other related costs.
• lease period is short	• lease term is generally full economic life of asset.
• lease term is shorter than the asset's economic life.	• Risk & Reward are transferred to lessee.
• Risk incident to ownership belong wholly to the lessor.	• lease is usually full payout.
• lease is usually non-payout.	

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→ Other types of leases:

① Sale & Lease Back:
→ The owner of the asset sells the asset to the party (the buyer), who in turn leases back the same asset to the owner in consideration of lease rentals.
→ The seller assumes the role of lessee
→ Seller gets the agreed selling price & the buyer gets the lease rentals.

② Leveraged Lease:
→ A third party is involved besides lessor & lessee
→ The lessor borrows a part of the purchase cost of the asset from third party i.e. lender & asset so purchased is held as security against loan.
→ The lender is paid off from the lease rentals directly by the lessee & the surplus after meeting the claims of the lender goes to the lessor.
→ The lessor is entitled to claim depreciation allowance.

③ Sale-aid lease:
→ The lessor enters into a tie up with a manufacturer for marketing the latter's product through his own leasing operations.
→ The manufacturer may either grant either credit or commission to the lessor.

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④ Close - ended & Open ended lease:

- The assets get transferred to the lessee at the end of lease.
- lessee has option of purchasing the asset at the end of the lease period.

→ Limitations of Lease financing

① The leased assets are purchased by the lessor who is the owner of the equipment. The seller's warranties for satisfactory operations of the leased assets may not be satisfactory for the lessee.

② lessor generally obtain credit facility from banks to purchased the leased equipment which are subject to hypothecation charge in favour of bank. Default in payment by the lessor may sometimes result in seizure of assets by bank causing lose to lessee.

③ Lease financing have a very high cost of interest as compared to interest charge on term loans by financial institutions / Banks

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[E] Short term sources of finance!

① Trade Credit :

- → Credit Granted by suppliers of goods.
- → usual duration of credit period is 15 to 190 days.
- → can be in the form of 'open account' or 'bills payable'.
- → It enhances automatically with the increase in the volume of business.

② Accrued Expenses & Deferred (unearned) Income

- liabilities which a company has to pay for the services which it has already received like wages, taxes, int, etc.

The amount of funds received by a company in lieu of goods & services to be provided in the future.

③ Advances from Customers:

→ Manufacturers & contractors engaged in producing or constructing costly goods involving considerable length of manufacturing or construction time usually demand advance money from their customers at the time of accepting their orders.

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④ Commercial Papers :

→ an unsecured money in market instrument issued in the form of a promissory note.

→ It was introduced by RBI in view to enabling highly rated corporate borrowers to diversify their sources of short-term borrowings & to provide an addition instrument to investors.

→ All eligible issuers are required to get the credit rating from credit rating agency.

⑤ Treasury Bills :

→ Central Government securities.

→ meet short term borrowing requirements with maturities ranging between 14 to 364 days.

⑥ Certificate of Deposit :

→ saving certificate with a fixed maturity date of not less than 15 days up to a maximum of one year.

⑦ Bank Advances :

Some of facilities provided by banks are:

a) Short term Loan:

→ It is a single advance & given against securities.

→ Except by way of interest & other charges, not further adjustment are made in account.

→ Repayment
- → by way of repaying full amt.
- → by way of schedule of repayment agreed upon.

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b) Overdraft:

→ customers are allowed to withdraw excess of credit balance standing in their current account.

→ though overdrafts are repayable on demand, they generally continue for long periods by annual renewal of the limits.

c) clean overdrafts:

→ The bank has to rely upon the personal security of the borrowers.

→ while entertaining proposals for clean advances, banks exercise a good deal of restraint since they have no backing of any tangible security.

→ Banks take guarantee from other persons who are credit worthy before granting this facility.

→ A clean advance is generally granted for a short term & must not be continued for long.

d) cash credits:

→ customer is allowed an advance up to certain limit against credit granted by bank.

→ he can only draw to the extent of his requirements & deposit his surplus funds in his account.

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→ interest is not charged on full amount of advance but on the amount actually availed by him.

→ cash credit limits are sanctioned against the security of tradable goods by way of pledge or hypothecation.

→ Repayable on demand.

e) Advance against goods:

→ The term 'goods' includes all form of movables which are offered to the bank as security. They may be agricultural commodities or industrial raw materials or partly finished goods.

→ Advance against them are safe & liquid.

→ goods are charged to the bank either by way of pledge or hypothecation.

f) Bills Purchased / Discounted:

→ Banks give advances against the security of bills which may be clean or documentary

→ The banker satisfies himself as to the credit worthiness of the drawer.

→ Bills purchased → bank holds the bills only as security for the advances.

→ bank can also exercise a pledgee's right over the goods covered by the documents.

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⑧ Inter Corporate Deposits:

→ Companies can borrow funds for a short period, say 6 months, from other companies which have surplus liquidity.

→ Rate of interest varies depending upon the amount involved & time period.

⑨ Certificate of Deposit:

→ Document of title similar to a time deposit receipt issued by bank except there is no prescribed int. rate on such funds.

→ Main advantage
- Banker is not required to encash the deposit before maturity period.
- The investor is assured of liquidity because he can sell the CD in secondary market.

⑩ Public Deposits:

→ A company can accept public deposits subject to the stipulations of Reserve Bank of India from time to time upto a maximum amount of 35% of its paid up capital & Reserves.

→ Repaid within a period of 3 years.

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(11) Financing of Export trade by Banks:

→ The commercial banks provide short term export finance mainly by way of pre & post shipment credit.

→ Export finance is granted in Rupees as well as in foreign currency.

→ RBI has initiated several measures in the recent years to ensure timely & hassle free flow of credit to the export sectors.
  - → rationalization & liberalization of export credit interest rates.
  - → Flexibility in repayment / prepayment of pre-shipment credit.
  - → special financial package for large value exporters.
  - → Export finance for agricultural exports
  - → Gold card scheme for exporters.

The advances by commercial Banks for export financing.

- (i) pre-shipment finance i.e. before shipment of goods
- (ii) Post shipment finance i.e. after shipment of goods.

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(i) Pre- shipment finance:

→ This generally takes the form of packing credit facility

→ Packing credit is an advance extended by banks to an exporter for the purpose of
  → Buying.
  → Manufacturing
  → Processing.
  → Packing.
  → shipping goods.

→ An advance so taken by an exporter is required to be liquidated within 180 days from the date of its commencement by negotiation of export bills or receipt of export proceeds in an approved manner

→ Packing credit, in the case of customers of long standing, may also be granted against firm contracts entered into by them with overseas buyers.

Types of Packing credit.

a) Clean Packing Credit:

→ advance made available only on production of a firm export order or a letter of credit without exercising any charge or control over raw material or finished goods.

→ A suitable Margin has to be ~~made.~~ maintained

→ Export Credit Guarantee Corporation cover should be obtained by bank.

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b) Packing Credit against hypothecation of goods:
→ Export credit is made available on certain terms & conditions where the exporter has pledgeable interest & the goods are hypothecated to the bank as security with stipulated margin.

c) packing credit against pledge of goods:
→ Export finance is made available on certain terms & conditions where the exportable finished goods are pledged to the banks with approved clearing agents who will ship the same from time to time as required by the exporter.

d) E.C.G.C. Guarantee:
→ Any loan given to an exporter for the manufacture, processing, purchasing, or packing of goods meant for export against a firm order qualified for the packing credit guarantee. issued by export credit Guarantee corporation.

e) Forward Exchange Contract:
→ If the export bill is to be drawn in a foreign currency, the exporter should enter into a forward exchange contract with the bank, thereby avoiding risk involved in a possible change in the rate of exchange.

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(ii) Post-shipment finance:

a) Purchase / discounting of documentary export bills:
→ Finance is provided to exporters by purchasing export bills drawn payable at sight or by discounting usance export bills covering confirmed sales & backed by documents.

b) E.C.G.C. Guarantee:
→ Post-shipment finance, given to an exporter by a bank through purchase negotiation or discount of an export bill against an order, qualifies for post shipment export credit guarantee.

c) Advance against export bills sent for collection:
→ Finance is provided by banks to exporters by way of advance against export bills forwarded through them for collection taking into account the creditworthiness of the party, nature of goods exported, usance, standing of drawee.

d) Advance against duty draw back, cash subsidy, etc:
→ To finance export losses sustained by exporters, bank advance against duty-draw back, cash subsidy, etc. receivable by them against export performance.

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→ An advance so availed by an exporter is required to be liquidated 180 days from the date of shipment of relative goods.

[F] Other Sources of Financing:

(1) Seed Capital Assistance:

→ Designed by IDBI for professionally or technically qualified entrepreneurs & / or persons possessing relevant experiences, skills & entrepreneurial traits but lack adequate financial resources.

→ It is interest free but carries a service charge of one percent annum for the first five years. & at increasing rate thereafter.

→ Repayment schedule is fixed depending upon the repaying capacity of the unit with an initial moratorium up to five years.

(2) Internal Cash Accruals:

→ surplus generated from operations, after meeting all contractual, statutory requirements of bonds funds, & working capital requirements, is available for further capital expenditure.

(3) Unsecured Loan:

→ typically provided by promoters to meet the promoter's contribution norms.

→ subordinate to institutional loans.

→ rate of interest charged should be less or equal to rate of interest on institutional

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loans & interest can be paid only after payment of institutional interest.
→ Cannot be repaid without prior approval of inst financial institutions.
→ Unsecured loans are considered as part of equity for the purpose of calculating debt equity ratio.

④ Deferred payment Guarantee:
→ Bank guarantee where the bank guarantee payment to the beneficiary (often a seller or exporter) at a future date.
→ It does not have a moratorium period for repayment.

⑤ Capital Incentives:
→ financial benefits or advantages provided by government or other organizations to encourage businesses to invest in specified areas, industries or projects.
→ these incentives aim to stimulate economic growth, attract foreign or domestic investments, promote regional development or support specific sectors that are deemed important for the economy.

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⑥ Secured Premium Notes:
→ issued with detachable warrants.
→ redeemable after notified period of say 4 to 7 years.
→ No interest paid during the lock-in-period
→ conversion of detachable warrants into equity shares will have to be done within time period notified by the company.

⑦ Zero interest fully convertible debentures:
→ fully convertible debentures which do not carry any interest.
→ compulsorily & automatically converted after a specified period of time & holders thereof are entitled to new equity shares of the company at predetermined price.

[G] International financing:

① Commercial Banks:
→ extends foreign currency loans for international operations.
→ also provide to overdraw over & above the loan amount.

② Development Banks:
→ offers long & Medium term loans including foreign currency loans.

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③ Discounting of trade Bills:
→ short term financing method.
→ widely used in europe & Asian countries to finance both domestic & international business.

④ International Agencies:
→ to finance international trade & business
The international finance corporation (IFC)
- the International Bank of Reconstruction & Development (IBRD)
- the Asian Development Bank. (ADB)
- the International Monetary Fund (IMF)

⑤ International Capital Markets:
In international capital market, the availability of FC is available under the four main systems, viz;
① Euro - currency Market:
→ The dollar denominated bank deposits & loans in europe particular in london.
→ funds are made available as loans through syndicated Euro - credit of instruments such as FRN's, FR certificates of deposits.
(ii) Export credit facilities
(iii) Bonds issues
(iv) Financial Institutions

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(c) Financial Instruments

a) External Commercial Borrowings:

- Commercial loans availed from Non-Resident lenders with minimum average maturity of 3 years.
- Can raise through
  - International Banks.
  - International capital markets.
  - Multilateral financial institutions
  - Export credit Agencies.
  - Suppliers of equipments.
  - Foreign collaborator.
  - Foreign equity holders.
- Can be accessed through two routes.

Automatic Route.	Approval Route
- No need to take Govt/RBI Approval.	- RBI / Govt approval is required.
- eligible companies: Company's registered under Companies Act & NGO's engaged in Micro finance Activities	- eligible companies Financial institutions & Banks dealing exclusively in infrastructure or export finance & the ones which had participated in the textile & steel sector restructuring package.

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b) Euro Bonds:
→ Debt instrument, not denominated in the currency of the country in which they are issued.
→ Issued in bearer form & do not contain the investor's names or the country of the origin.

c) Foreign Bonds:
→ Debt instrument, issued by foreign corporations & government & denominated in the currency of the country where they are issued.
→ They are exposed to exchange rate risk.

d) Fully Hedged Bonds:
→ Fully hedged bonds eliminate the risk by selling in forward markets the entire stream of principal & interest payments.

e) Medium term Notes:
→ Several lots of bonds can be issued having features
- Different coupon rat
- Different currencies

→ The entire documentation & various regulatory approvals can be taken at one point of time.

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f) Floating Rate Notes:
- provide cheaper money than foreign loans.
- issued up to seven years maturity.
- Interest rates are adjusted to reflect the prevailing exchange rates.

g) Euro Commercial Papers:
- short term money market instrument
- Maturity ≤ 1 year.
- usually designated in US dollars.

h) Foreign currency option:
- It is the right to buy or sell foreign currency at a certain specified price on or before a specified date.
- provides hedged against financial & economic risks.

i) Foreign currency Features:
- It is the obligation to buy or sell a specified foreign currency in the present for settlement at a future date.

j) Foreign Euro Bonds:
- Yankee bonds in US.
- Swiss frances in Switzerland
- Samurai bonds in tokyo
- Bulldogs in UK

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k) Euro Convertible Bonds:

→ Debt instrument which gives the holders of the bond an option to convert the bonds into a pre-determined number of equity shares of the company.

→ carry fixed rate of interest.

→ issuer company so desires may also include a call option or put option.

l) Euro Convertible zero Bonds:

→ convertible bonds

→ No int. is payable.

→ conversion take place on maturity at pre-determined price

→ usually five years of maturity period & they are treated as deferred equity issues.

m) Euro Bonds with Equity warranty:

→ carry coupon rate

→ warrants are detachable.

→ Pure bonds are traded at discount.

n) Environmental, Social & Governance linked bonds:

→ carry a responsibility of the issuer company to prioritize optimal environment, social & governance (ESG) factors.

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→ Investing in ESG bond is considered as socially responsible investing.

ESG Bonds.

- Project Based.
  - Green Bond.
    - → issue to finance 'Green project'
    - → issued by financial, non-financial & public institution.
    - → India is 2nd largest Green Bond Market.
  - Social Bonds.
    - → issue to finance socially impactful projects.
    - → Human rights, equality & animal welfare, etc.
- Target Based.
  - substantially linked bonds
    - → combination of green bond & social bonds
    - → issue for general corporate purpose to achieve key performance Indicator.

4) Euro Issues by Indian Companies:

→ Indian companies are permitted to raise foreign currency resources through issue of ordinary equity shares through GDR / ADR / issue of foreign currency convertible bonds to foreign investors. Such investments are treated as Foreign Direct Investments (FDI's)

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	ADR	GDR	IDR
Meaning	• Negotiable instrument • issued by us bank. • Repeesents the nozon-us company stock • teaded in us stock exchange.	• Negotiable instrumend. • issued by internation depository bank. • Represents foeeign ~~cureent~~ company's stock. • teaded woeldwide	• Negotiable instrument. • issued by foeeign company. • Represent Indian compa stock. • Teade on Indian stock exchanges.
Issued wheee	US Domestic Capital Market.	European Capital Market	Indian Capital Marke
listed where	American Stock exchange.	Non-US Stock exchange	Indian Stock exchange.

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[H] Contemporary Sources of Funding:

(i) Crowd Funding

- → Raising money for an individual or organisation from a group of people to fund a project.
- → helps start-up to substantiate demand for their product before entering into production
- → Parties involved.
  - → Fund Raiser.
  - → Mediator (Platforms) may charge fees
  - → Fund investor
- → collecting funds in exchange of
  - ↓ Equity.
  - ↓ loans.
  - ↓ nothing at all.

(ii) Equity Funding

investors gets securities in return.

(iii) Peer-to-Peer (P2P) lending.

lenders provide unsecured loans. with interest.

(iv) Donation.

people donate money as charity.

(v) Start-up funding:

through crowdfunding, a start up company can raise money from large group of people either in form of equity funding, P2P lending or both

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