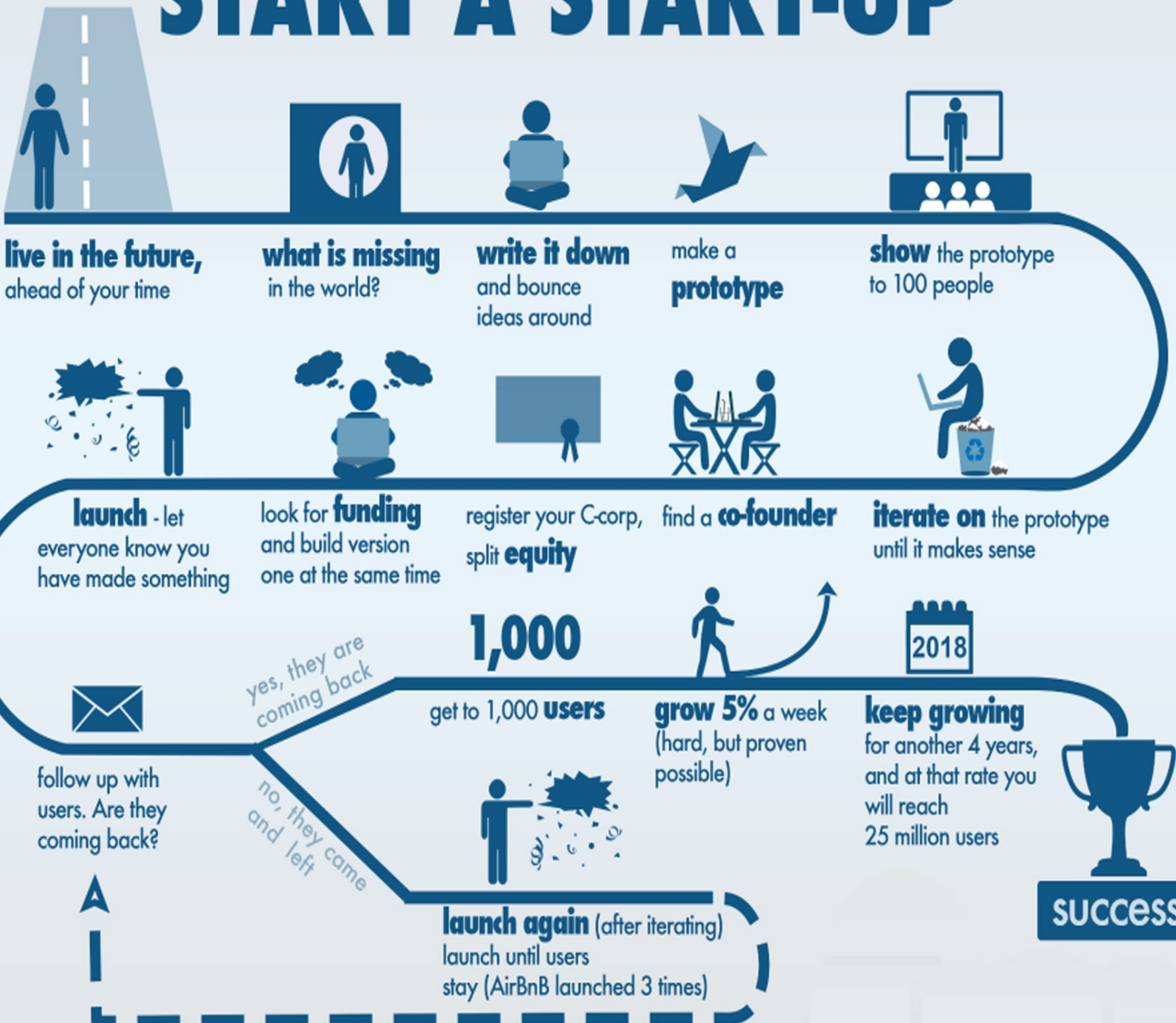


FINly

START A START-UP



Contents

Editorial Page	4
Educational Page	7
News Buzz	12
Trivia	14

Contributors

Editor in Chief : Irina Goel

Editors: Tamoghna, Shreya,
Nirali

Design: Saurabh, Sujal

Editorial: Start-Up Financing Option

Startups in India: 'Analyse wisely, before you knock the Door
The most popular ways to finance your Startup

Venture Capitalists: The venture capital fund earns money by owning equity in the companies it invests in. The typical venture capital investment occurs after the seed funding round in the interest of generating a return through an eventual realization event, such as an IPO or trade sale of the company. Venture capital is a type of private equity. In addition to angel investing and other seed funding options, venture capital is attractive for new companies with limited operating history that are too small to raise capital in the public markets and have not reached the point where they are able to secure a bank loan or complete a debt offering. In exchange for the high risk that venture capitalists assume by investing in smaller and less mature companies, they usually get significant control over company decisions in addition to a significant portion of the company's ownership (and consequently value). A typical player is willing to put .around 10-40 crore in return for a 10-40 % stake in the start-up

Benefits:

This option gives entrepreneurs access to deeper pockets at a time when they are trying to build the company. You also get expert advice and .access to the firm's entire network

Drawbacks:

Venture capital funds in India require proof and decent revenue visibility before investing

Bootstrapping: An individual is said to be bootstrapping when he or she attempts to find and build a company from personal finances or from the operating revenues of the new company.

Benefits

Venture Capitalists and Angel investors will always try to get you to turn over their profit at the earliest, so that they can make a fast exit. This means that you lose control over what you want to do with your company and have to dance to their tune. Your original vision can get compromised, sometimes severely. Bootstrapping will enable you to grow your company at your own pace by keeping greater control over its trajectory. Hence you can focus on your product, rather than just the profits.

Fewer investors means less people to share the profits with. This means that you can cut corners where you find it necessary and have higher margins once your product starts selling.

Drawbacks

Bootstrapping means that your resources are limited and you have to do whatever you can within that budget. You can reinvest only once the cash starts flowing in. As a result, your growth is slow and you will have to adjust accordingly, thinking of the long term picture. This, however, is not possible for startups in the web and software industry, which are typically very fast moving.

When you are bootstrapping, everything rests on you and only you. So if you make a profit, you gain a lot more; but if you fail, you stand to lose everything. Many entrepreneurs can't afford to take a salary when they are bootstrapping. In case their startup fails, it means that they would not only lose all their money but also spend a year without any income.

Investors give you not just money but valuable advice and support as well. Some of them will take great pains to help you if they believe in you and your vision. Moreover, they have already accomplished what you want to, so they indeed know how the industry works. By bootstrapping, you miss out on a large network of well connected people who could help you with valuable industry-centric advice.

Angel Investors:

Angel investing is a type of equity financing network. An individual invests in your company in return for a percentage of ownership in your company. Angel investors are interested in giving input in how the company should be operated. You, as a small business owner of a start-up, can very often benefit from the expertise angel investors have to offer. They usually come into the picture when the business idea is just a concept. Angels typically don't put in a huge sum since all start-ups are usually risky propositions. Their investment ranges from 50 lakh to 5 crore depending on the business idea and the angel approached. Only in special circumstances will the deal size stretch to 10 crore.

Benefits

Usually, angels are patient enough to maintain the deal for 7-8 years. They review the progress regularly and may go back to the drawing board, if required. Angel-backed companies tend to do better than the ones that directly approach venture capital investors. You can also expect quick access to funds. It can take anywhere between a day and three months to close a deal.

Drawbacks

As the concept of angel funding is still at a nascent stage in India, they are difficult to find.

Crowdfunding:

Crowdfunding is a process to raise funds for your start-up via the internet. All you need to do is convince the people about your business idea. If they believe in it, they will give you the funds. Many industries in the country can benefit from the advent of Crowdfunding. India's Mahindra Group recently launched a platform called 'Spark the rise'. It lets people talk about their ideas and requests a funding for the start-up.

Types Of Crowdfunding

Donation and Reward based: It enables the entrepreneur to raise funds as a means of donation. However, it takes a very powerful idea to convince people for donations. Many Websites like *Ketto* are indulged in this type of crowdfunding.

Lending Based- It involves taking a loan from people (repayable once the business gets established). Micro-finance website *Milaap* is one such platform.

Equity Based- This type of crowdfunding where donors are provided a share in the company is not yet legal in India.

Venture Debt: This is a medium-term loan that is exclusively provided to companies backed by venture capital firms. An added advantage of this type is that no collateral is required to be eligible. Instead, venture debt providers evaluate applicants on the basis of a startup's fundamental enterprise value. They assess how it will grow and thereby peg its future cash flow and its ability to repay the loan. Approximately 2.5-20 crore fund is expected which depends on the growth stage of the company and the nature of requirement. A credible business plan, a solid venture capital investor base and an experienced founding team are some factors that are considered while selecting the startup.

Benefits

Venture debt financing is structured specifically to support seed-stage startups. It understands that a venture is prone to volatility early in life and hence it provides more flexibility to entrepreneurs.

These funds come with minimalistic number of restrictions and can be utilised for any business initiative; from basic operations to supporting capital expenditures and making acquisitions.

Drawbacks

Apart from the interest on the loan, venture debt providers typically require shares of your company or an equity kicker to compensate for the higher risk taken.

Choose wisely...Hopefully this was a useful insight for our young budding entrepreneurs!

Educational Section

Types of stocks

Growth Stocks



Growth Stocks are those that have substantial potential for growth in the foreseeable future. Growth companies may currently be growing at a faster rate than the overall markets, and they often devote most of their current revenue toward further expansion by reinvesting the profits in their own business. Sectors like technology, e-commerce have companies which have growth stocks.

Most growth stocks tend to be newer companies with innovative products that are expected to be successful in the future and grab the investors attention. Growth stocks can provide substantial returns on capital, but many of them are smaller, less-stable companies that may also experience severe price declines.

Characteristics of growth stocks:

- Huge markets- These stocks are well known to many investors. The more potential customers there are for a product or service, the greater the possibility that the business will be a success and the greater the possibility the investment will be a success.
- These companies have market dominance/barriers to entry - Patents often provide a great barrier to entry and these stocks face lesser competition.
- High earnings growth rate
- Triple-digit revenue growth, companies growing revenues at triple-digit rates (100% or better) tend to be small and less well known. For example, Crocs (CROX) growing at 162%.
- High profit margins
- Low dividends- profits are reinvested in the business to fund the growth so very less dividend payout and dividend yield.
- Beta of these stocks is high. They outshine the market.

Value Stocks



A value stock trades at a price below its intrinsic value (Value based on fundamentals). It may have high dividend payout ratios or low financial ratios such as price-to-book or price-to-earnings ratios. Value stocks are typically considered to carry less risk than growth stocks because they are usually found with larger, more-established companies.

Here are some characteristics of a value stock

The price earnings ratio (P/E) should be in the bottom 10% of all companies or between 2 to 8 times.

A price to earning growth ration (PEG) should be less than 1, which indicates the company is undervalued.

- Price to Book value ratio should be less than 3
- There should be at least as much equity as debt.
- Current assets at twice current liabilities.

Share price at tangible book value or less.

Filters as per Warren Buffet

$2 > P/E < 8$

$P/BV < 3$

High Volumes

High Sales Turnover

Dividends, rights, bonus

Calculation of Intrinsic Value

Perform Fundamental Analysis

Income Stocks



There are two main types of income stocks. Utility stocks are common stocks that have historically remained fairly stable in price but usually pay competitive dividends. Preferred stocks are hybrid securities that behave more like bonds than stocks. They often have call or put features or other characteristics, but also pay competitive yields. The main characteristic of these type of stocks is high dividend yield.

Momentum Stocks

Momentum stocks are turns over the past three to momentum investors seek out potential to double or triple months. They hold a stock and monitor their holdings sell their stocks with a few quiring it.



stocks with high re-12 months. Momenstocks with the po-within just a few for a few months daily and tend to months after ac-

Most momentum investors seek at a stock which has outperformed at least 90% of all stocks over the past 12 months.

Characteristics:

- Earnings per Share growth. At least a 15% year-over-year earnings per share growth is needed to qualify a momentum stock or stocks with accelerating rates of EPS growth over previous quarters.
- ROE of 17% or better.
- High trading volumes, the number of shares traded daily on the average. (Shows popularity of the stock among investors)
- High P/E ratio
- High Beta

Penny Stocks



- Unstable or volatile- a common term for penny stock scam is 'pump and dump'. In a 'pump' operation, the stock becomes the subject of discussions across chat rooms, forums and the media, and the price takes off to achieve great heights. From thereon, the insiders sell into the frenzy, the 'dump' taking the stock back to low levels. A select few make a pile of money, and lots of investors lost theirs.

- Traded OTC(Over the Counter)

- These are usually small companies with poor liquidity in trading.

- Highly speculative.

- Poor disclosures and availability of financial information.

- They may be rank new born companies or could be in bankruptcy proceedings.

- Lack of compliance requirements and hence poor standards of supervision.

Though penny stocks are very risky, they also have great growth potential and can turn out to be tremendous profit opportunities. A wise penny stock investment can provide multi-bagger returns over a short period of time.

Penny stocks are a great way to learn investing with a small capital amount.

Penny stocks also allow the opportunity for a very small investor to hold shares in a promising company.

Contrarian Stocks



This is an investment style that goes against prevailing market trends by buying assets that are performing poorly and then selling when they perform well. It is opposite of momentum stocks.

Characteristics:

Out-of-favor securities
Low P/E ratios
Cheap
Capital efficient.

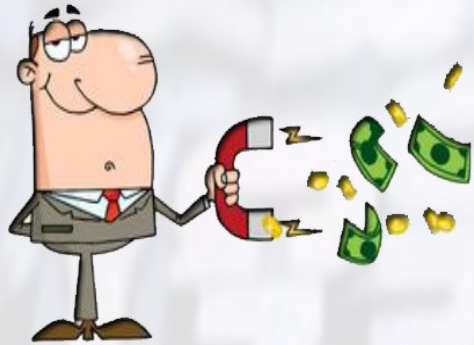
Some famous contrarian investors:

- Warren Buffett is a famous contrarian, who believes the best time to invest in a stock is when shortsightedness of the market has beaten down the price.
- Jim Rogers is an investor and author who is bullish on contrarian investing in Asian markets.
- Marc Faber is a contrarian investor who publishes the *Gloom Boom & Doom Report*.



400bn added to global market cap by Dalal Street

India contributed 10% of global market cap rise of 6.06% till August this year. Sensex emerged as the world's best performing index. The global equity market cap now stands at \$66 trillion as of August. Among emerging nations, India attracted the highest FII inflow of over \$13 billion so far this year



Norms tweaked for Basel III bonds

The Reserve Bank of India halved the maturity of bonds issued under Basel III norms from ten to five years. Banks have also been allowed to tap retail investors. These measures, along with few other changes, have been adopted to broaden investor base and make it easier for banks to raise capital

'India drops foreign chopper plan in favor of 'Made in India

In a boost to the Indian defense manufacturing industry, the Modi government dropped the Rs. 6000 crore plan for procuring light utility helicopters from foreign firms. The move might result in Rs. 40000 crore worth of business for the Indian industry



Japan to invest \$35.5 billion in India over 5 years

Japan has pledged to invest Rs. 2.1 lakh crore over a span of 5 years in a wide array of projects in India. The two nations have decided to double the number of Japanese companies operating in India in five years. Five other agreements were inked during the PM's visit to Japan

No to FDI in multi-brand retail

Commerce and Industry minister Nirmala Sitharaman has clarified that the NDA government will not allow fDI in multi-brand retail. The government however seems to be no hurry to withdraw the policy of 51% FDI in this sector notified by the previous UPA regime. The same ban applied to e-commerce companies too



Brent crude below \$100

Brent crude price fell below \$100 a barrel for the first time since June 2013. As Chinese imports fell by 2.4% in August, there were concerns that slower growth will worsen global oil surplus. The European benchmark declined as much as 1.5% while West Texas Intermediate (WTI) dropped to its lowest in almost 8 months by 1.6%



ICICI Bank approves 1:5 stock split

ICICI Bank Ltd board had approved a five-for-one stock split. This is the first by India's largest private sector bank by assets. The move is aimed at making the stock more affordable to small investors. The record date for the split will be announced at later

Alstom accused of bribery for Delhi Metro contract

Britain's leading fraud prosecutor has alleged that the British subsidiary of French train and turbine maker Alstom paid around \$8.5 million in bribes over a six-year period to win transport contracts in India, Poland and Tunisia. It allegedly paid bribes to win train infrastructure orders for the Delhi Metro



EPFO wage ceiling revised

The government has notified enhancement of wage ceiling for becoming a subscriber of Employees' Provident Fund Organization to Rs 15,000 per month. Fixed minimum monthly pension has been set at Rs 1,000 and the maximum sum assured under the Employees' Deposit Linked Insurance (EDLI) Scheme has been revised to Rs 3.6 lakh. Interest rate has been retained at 8.75% for current fiscal. Also, EPFO members will soon get portable account number

Factory output falls to 4-month low, CPI eases marginally

The Index for Industrial Production (IIP) rose 0.5% in July from a year ago, the slowest in four months. The Consumer Price Index (CPI) slowed to 7.8% in August from 8% the previous month





Triv?d



Despite the New York Stock Exchange's notoriety, it was not the first stock exchange in the United States.

That distinction belongs to the Philadelphia Stock Exchange, which was founded in 1790



The United States generates more than 20% of the world's GDP with about 4% of the world's population

Legendary investor Warren Buffett age 14 with \$1,200 in savings from delivering newspaper



bought a 40-acre farm at



The world's first bank was Monte Dei Paschi di Siena founded in 1472 and headquartered in Tuscany, Italy It still operates today

Oakley, Inc. chose the ticker symbol OO because it looks like a pair of sunglasses



By the end of the Civil War, between one-third and one-half of all U.S. paper currency in circulation was counterfeit

The most expensive coin in the world - the 1794 Flowing Hair Dollar, sold for \$7.85 million in 2006. It was the first dollar coin minted by the United States government



FINly

Finance Monthly Magazine

We Welcome Your Valuable Feedback
www.finstreet.weebly.com

Finstreet, Finance Committee of SIMSR
finstreet.simsr@gmail.com

