

Sources of finance

* Sources are to be judiciously / appropriately decided for procurement of finance / funds as it involves

- (a) Re payment risk.
- (b) Risk of paying interest
- (c) Risk of payment of dividends
- (d) cost of fund

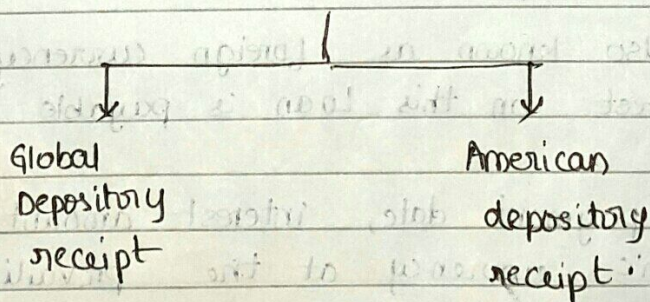
* Business firms need finance mainly for two purposes

- (a) To fund the long term decisions.
- (b) To Meet the working capital requirements

Depository receipts

1. A DR means any instrument in the form of a depository receipt or certificate created by the overseas depository bank outside India.
2. It is issued to non-resident investors against issue of ordinary shares.
3. A DR is a negotiable instrument evidencing a fixed no. of equity shares of the issuing company generally denominated in US dollars.
4. DR's are commonly used by those companies which sell their securities in international market and expand their share holding abroad.
5. These securities are listed and traded in International stock exchanges.

Types of Depository receipts



Global Depository Receipt:-

→ A GDR is a negotiable instrument basically a bearer instrument which is traded freely in the international market either through stock exchange or over the counter or among Qualified International Buyers (QIB)

→ It is denominated in US dollars and represents shares issued in ^{the local currency} American Depository Receipt.

1. The depository receipt in the US market is called ADR.
2. ADRs are those which are issued and listed in any of the stock exchanges of US.
3. It is an investment in the stock of non-US corporation trading in the US stock exchange.

Foreign currency convertible bonds (FCCB's)

1. The foreign currency convertible bonds means bonds issued in accordance with the relevant scheme and subscribed by a non-resident in foreign currency and convertible into ordinary shares of the issuing company either in whole or in part on the basis of any equity related warrants attached to debt instruments.
2. The FCCB's are unsecured, carry a fixed rate of interest and an option for conversion into a fixed number of equity shares of the issuer company.

External Commercial Borrowings

1. Indian promoters can also borrow directly from foreign institutions, foreign development bank, world bank etc.
2. It is also known as foreign currency term loans.
3. The interest on this loan is payable in foreign currency.
4. On the payment date, interest amount is converted into domestic currency at the prevailing foreign exchange rate.

Venture capital

1. Venture capital is a form of equity financing designed for funding high risk and high rewards projects.
2. Common perception that venture capital is a means of financing high technology projects.
3. Venture capital is investment of long term financial made in
 - (i) Ventures promoted by technically or professionally qualified but unproven entrepreneurs or
 - (ii) Ventures seeking to harness commercially proven technology or
 - (iii) High risk ventures.

Modes of Finance by Venture capitalists:-

1. Equity
2. Ensure that the ownership and overall control remains with the entrepreneur.
3. There is a great uncertainty about the generation of cash inflows in the initial years.
4. Equity financing is the safest mode of financing.
5. conditional loan :-
 - * Equity is an unsecured instrument hence a less preferable option than a secured debt instrument.
 - * A conditional loan usually involves either no interest at all or a coupon payment at nominal rate.
6. convertible loan :-
 - The convertible loan is sub-ordinate to all other loans which may be converted into equity if interest payment are not made within agreed time limit.



Inter corporate deposits:

- Some times commercial organisations borrow funds for a short term period from other companies which have surplus liquidity for the time being.
- ICD's are generally unsecured and are arranged by a financier.
- These are very common & popular in practice as they are not marred by legal hassels.
- There is no regulation at present in India to regulate ICD's.
- The transactions in ICD's are not treated as borrowings as ICD's implies liquidity shortage of Borrower.