

Lesson-16

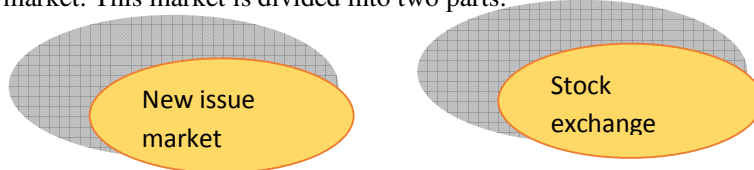
FINANCING OF BUSINESS

Introduction

Now you are aware of various methods of raising long-term finance. But, as a matter of fact the methods refer only to the forms in which the funds are raised, and hence may or may not include the sources from, or through which the funds are raised. Hence, we must also have an idea about the sources of finance.

Important points from the text:

1. Capital market, special financial institution, banks, non-banking financial companies, retained earnings and foreign investment and external borrowings are the main sources of long-term finances for companies. The institutions or agencies from or through which finance for a Long period is obtained are termed as sources of long-term finance.
2. The companies raise long-term funds by issuing shares and debentures through securities market. This market is divided into two parts:



3. Commercial banks and Co-operative banks also provide long and medium finance to enterprises.
4. To provide long-term finance and other support services to industrial enterprise, special financial institution (SFI) have been set up by central and state governments.
5. Important SFIs are: IFCI, ICICI, IIBI, IDBI, SIDBI, SFCs, SIDC also there are few other financial institutions such as LIC, GIC, UTI, etc EXIM Bank.
6. Mutual Funds act as an investment intermediary that collects the savings of a large number of investors and invest them in big companies. This minimizes the risk of the investors and ensures them good return. To attract the investors. Mutual fund companies offer different schemes which are categorized under open ended schemes and close ended schemes.
7. The leasing companies also extend long term support in the form of providing plants and machineries, building, land etc. on rent basis.
8. Foreign sources take the form of



9. The undistributed profits of the company which is kept for future use constitute a major source of long-term finance. It does not involve any cost of floatation and it strengthens the firm's equity base.

Learn new points:

New Issue Market – New issue market is in which new securities are issued

Stock exchange - A market in which securities are bought and sold.

Venture Capital - It is a form of private equity and a type of financing that investors provide to startup companies and small businesses

Net Asset Value - Net asset value," or "NAV," of an investment company is the company's total assets minus its total liabilities

Retained Earnings- Retained earnings are the portion of a company's cumulative profit that is held or retained and saved for future use.

Leasing – Leasing is the process by which a firm can obtain the use of certain fixed assets for which it must make a series of contractual, periodic, tax-deductible payments.

NRI - An **Non Resident Indian** (NRI) is an Indian Citizen who resides in India for less than one hundred & eighty two days during the course of the preceding financial year, or, who has gone out of India or who stays outside India for the purpose of employment.

Evaluate yourself

1. List out what are the various sources through which funds can be raised?
2. Suppose your friend Raman, who runs a big readymade garments shop, needs long term finance. So explain him from where he can get help?
3. Name any five financial institutions you have seen and come across?

Maximize your marks

- Read the chapter carefully and go through the learning points
- Get into the little details of the above mentioned important points.