S.A JAIPURIA COLLEGE (MORNING)

SEM IV- ENTREPRENEURSHIP DEVELOPMENT

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UNIT-2 –STIMULATION, SUPPORT AND SUSTAINABILITY IN ENTREPRENEURSHIP

ANGEL INVESTOR

CONCEPT

Angel Investors are usually high net worth individuals who happen to invest their personal wealth in small or medium scale business start-ups, often in exchange for an ownership stake in the organisation. Such individuals who provide capital for a business start-up and early stage organisations having a high risk, high return matrix usually in exchange for convertible debt or ownership equity. They are also referred to as business angels or angel funders or informal investors or seed investors.

Features: -

1. **High net worth persons**: - Angel investors are usually high net worth persons who happen to invest their personal wealth in start-ups. They may include professionals such as doctors, lawyers, sports persons etc., business associates such as executives, suppliers, customers and even other entrepreneurs.
2. **Investment in small star-up firms**: - An angel investor is typically interested in investing his or her money in small start-up business that has high growth prospects.
3. **Investment in Equity**- Angel investors in return for their funding take equity shares in the start-ups business. Sometimes they accept convertible debentures in exchange of their investments.
4. **Own Decision Making**: - They make their own decision about the investment in start-ups.
5. **Local or Regional Investing**: - Most angels tend to invest in local or regional start-up firms.
6. **Advisory Role**: - In many cases, the angel investors provide insight and advice to the start-ups, and thus happen to play an active role in its management.

Functions: -

Angel Investors performs the following functions: -

a) Angel investors provide funds to small start-ups in exchange of ownership equity finance in high risk untried projects.
b) They provide seed capital to finance innovations even in the pre-start up stage and in early stage of the start-ups.
c) They play an active role in the management of the start-ups, even though their primary job is not to build up the firm.
d) An angel helps a start-up by bringing an extensive external contact netweork, including potential customers, vendors and financing institutions.

VENTURE CAPITALISTS

CONCEPT

Venture capital is a type of equity financing, which is typically provided to start-up firms and small businesses that are believed to have long-term growth potential. Simply put, it refers to the money provided to new, young and /or small businesses that usually have little or no access to conventional sources of finance. The person providing the venture capital is referred to as the Venture Capitalist, who provides capital to start-ups or supports small companies that wish to expand but do not have access to equity markets.

There are three types of venture capital -

a) **Seed Capital**: - for financing of the pre-start stage of firms (i.e. financing of ideas that have not yet come to market);
b) **Early-stage Capital**: – for financing firms that are in their first or second stages of existence;
c) **Expansion-stage Capital:** - for financing firms that need to grow beyond a certain point to become truly successful.

Features: -

1. **Form of equity investment** :-It is type of equity participation, which takes the form of share capital in growing firms.
2. **Risky Capital**: -Venture capital investments are made in new, innovative and untried projects. Hence this capital is also referred to as Risk Capital.
3. **Early stage finance** :-It is a mode of financing start-up ventures for which it difficult to raise funds the formal sources at their early stage of existence.
4. **Long term investment**: -Long term investments, which are made in businesses, happen to have high growth potential.

5. **High rate of return**: -Venture capitalists typically earn a very high rate of return on their investments. The key is to compensate the huge risks that they take by investing in new and untried ventures.
6. **Coupled with managerial assistance**: -The venture capital investment is combined with managerial assistance that is provided by the venture capitalists to the entrepreneur. They provide marketing, technology, planning and management expertise to the firm.

Functions: -

1. Venture capitalists provide investments of long term equity finance in high risk projects with high reward possibilities.
2. They provide seed capital to finance innovations even in the pre-start up stage.
3. They ensure that a firm has proper and adequate commercial banking and receivable financing.
4. In the development stage of a new venture, sometimes the venture capitalists help the entrepreneur develop the business plan.
5. Venture capitalists assist entrepreneurs in locating, interviewing and employing required human resources with the aim of professionalising the firm.
6. The venture capitalist does proper assessment of the intrinsic merit of the idea or innovation and ensures that these are aimed at a well-defined market opportunity.
7. They use their predetermined milestones to establish a strategic plan for each stage in the growth of the company, with the outcome being the formation of an initial public offering or a major upcoming acquisition.

PRIVATE EQUITY FUND

CONCEPT

Private equity is a broad term used to describe various kinds of funds that accumulate money from an assembly of investors in order to generate a huge pool of money, which are then used to acquire stakes in various portfolio companies. A private equity fund is a general partnership formed by private equity firms. These firms pool money, which is utilized to invest in matured private companies.

Features: -

1. **Limited Liability Firms**: - Private equity funds are typically formed by limited liability partnership firms.

2. **Professionally managed**: - A private equity fund is raised and managed by investment professionals.
3. **Fund Providers**: the major sources of funds are institutional funds and accredited investors.
4. **Investment in matured firms**: - This funds pool money to invest in matured private companies, which typically happen to be unlisted companies.
5. **Long investment horizon**: - typically, private equity funds have a fixed investment horizon, which is typically 10 years plus few years of extension.
6. **Nature of investment securities**: - Private equity funds may invest directly in equity securities of the target investment, in the form of mezzanine debt or in both equity and debt.

Functions: -

1. These funds typically make capital investments in relatively mature companies that seek such growth capital to expand, restructure operations or enter new markets.
2. These funds sometimes provide venture capital support to small, early stage emerging businesses that are deemed to have high growth potential.
3. Private equity typically provides working capital to the target businesses to stimulate expansion, invest in new product development etc.
4. Private equity provides the capital infusion required to replace and upgrade obsolete equipment.
5. With the expertise that private equity funds provide, businesses can gain access to markets that may have been closed to them when they operated on a smaller scale.
6. Private equity funds help mitigate risks of individual managers by diversifying its assets across a pool of managers.