



## ROLE OF SIDBI FOR STARTUP FINANCING

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**Abstract:** The Government is laying emphasis on the promotion and development of startups in our country. It has introduced various schemes and measures for the same. The Small Industries Development Bank of India (SIDBI), has been actively involved in assisting the entrepreneurs in both financial and non-financial ways. Entrepreneurs can avail finance for their various requirements such as purchase and development of assets, expansion, technology advancement, growth, marketing, brand building etc. SIDBI guides entrepreneurs through the entire process of obtaining loan, which ensures hassle free finance.

**Key words:** startup, MSME, SIDBI

**Introduction:** According to Department of Industrial Policy and Promotion(DIPP), a Startup is defined as an Entity incorporated or registered in India:

- 1) Up to 7 years and for biotechnology startups up to 10 years from its date of incorporation / registration
- 2) Incorporated as either a Private Limited Company or a Registered Partnership Firm or a Limited Liability Partnership

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- 3) Turnover for any fiscal year has not exceeded INR 25 crore
- 4) Entity should not have been formed by splitting up or reconstruction a business already in existence
- 5) Working towards innovation, development or improvement of products or processes or services, or if it is a scalable business model with a high potential of employment generation or wealth creation

The Government of India announced an Action Plan on 16<sup>th</sup> January, 2016 to meet the objectives and address all the aspects of the Startup ecosystem. With this Action Plan the Government hopes to speed up the Startup movement. The Action Plan is based on the following three pillars:

- Simplification and Handholding
- Funding Support and Incentives
- Industry-Academia Partnership and Incubation

Finance is one important aspect for startups. The Government has undertaken various efforts to provide finance to startups for their various requirements at different stages.

The Small Industries Development Bank of India (SIDBI), was established with the motive to provide finance and non-finance assistance to the SME and startup sector.

**Objective of the Study:**

- 1) To understand the finance options available through SIDBI
- 2) To study the role of SIDBI in helping startups

**Research Methodology:** The study is based on secondary data collected through various Government websites and other sources.

**Limitations of the Study:** Due to shortage of time, primary data could not be collected.

**Finance for Startups:** Startups can avail loans for different purposes and different stages of the business lifecycle.

**1) Initial Phase:** Finance can be provided by banks in the initial phases. The amount of loan will be based on the business model, projected returns, experience of the management and ability to repay loans. Banks may require a higher collateral security charge if the business concept is novel in nature.

**2) For providing Working capital:** Startups require working capital for procuring and stacking inventory, giving credit to customers and other day to day expenses. Banks will provide credit based on the future projections of the business.

**3) Research and Development:** Research and Development is integral for startups who are constantly innovating themselves. Banks provide term loans for developing new technology, marketing activities, expansion and purchasing capital assets. Generally banks would provide asset backed loans for this purpose.

**Types of loans:**

**1) Term Loans:** These are provided for acquiring or building capital assets for use in the business such as machinery, equipment, plant etc. Term loans may be provided for Rs.25 lacs to 5 crores.

**2) Asset backed loans:** Asset backed loans are typically provided based on the market value market of a residential, commercial or industrial property that is to be pledged. Banks lend upto 70% of the assessed market value of the property with a loan tenure of 7-15 years. In addition to the collateral security offered, the promoters will have to display to the Banker the financial returns expected from the business and source of funds for meeting the loan's interest and principle commitment on time.

**3) Working Capital Loans:** They are required for day to day activities. Banks have a conservative approach while providing loans for working capital requirements of the company. They take into consideration the business model while providing the loan.

**Financing through SIDBI:** Small Industries Development Bank of India (SIDBI), was set up on 2<sup>nd</sup> April, 1990 under the Indian Parliament Act with the objective of promoting, financing and developing the Micro, Small and Medium Enterprise (MSME) sector and also to co-ordinate the activities of institutions involved in the same. The MSME sector contributes around 45% to manufacturing output and around 40% to exports and overall around 37% to the total GDP. Hence the role and strategy of SIDBI is vital in the startup and MSME ecosystem.

**Financial support by SIDBI is provided in the following two ways:**

- 1) Indirect or refinance to banks and financial institutions for onward lending to MSMEs
- 2) Direct finance in niche areas like risk capital, sustainable finance, receivable financing, service sector financing etc.

As on 31<sup>st</sup> March, 2017, around 350 lakh persons have benefitted through cumulative disbursements of around Rs.4.80 lakh crores by SIDBI.

**Other Support:** Besides credit facilities, SIDBI also helps and guides business in business development, marketing support, technology up gradation, expansion and modernization activities through its “Credit Plus” approach. This has resulted in creating more than 1.5 lakh employment opportunities benefitting more than 2.3 lakh people.

**SIDBI Schemes:**

- 1) Growth Capital and Equity Assistance: It provides funding for SMEs that require funding for growth. The funds can be used for various activities such as marketing, brand building, creating distribution channels, and procuring technical know-how and research activities.
- 2) SIDBI Revolving Fund for Technology Innovation (SRIJAN) scheme – The scheme provides aid to MSMEs with regards to development, improvising and commercializing inventive and original technology based projects. Loans are provided at an early stage on lenient to businesses in emerging technological areas, new technology and products, processes etc. which have not been commercially successful. Rs.1 crore is the maximum assistance that is provided per project.
- 3) Standup India- It provides loan to at least one entrepreneur belonging to Scheduled Caste or Scheduled Tribe and at least one woman entrepreneur per bank branch. The business can be in manufacturing, trading or service sector. In case of non-individual business at least 51% of the equity and controlling stake should be held either by a woman or person belonging to above caste category. The loan can be availed for an amount of Rs.10 lakhs to 1 crore.
- 4) SIDBI Make in India Soft Loan Fund for Micro Small and Medium Enterprises (SMILE) - It is a term loan provided to SMEs for new projects, modernization, expansion, up gradation and modernization. The loan can be taken for an amount of Rs.25 lacs to Rs.5 crores at interest rate of 8.12%.
- 5) Startup Assistance Scheme- It provides structured finance to enterprises involved in technology, biotech, clean technologies, social

ventures etc. Maximum Rs.2 crores and equity kicker of 1% to 2% equity on paid up capital at par or suitably structured kicker. Loan may be provide through Optionally Converted Debentures (OCD), Bank Guarantee, Letter of Credit and Sub debt instruments. At present the coupon rate is 14% per annum.

**Loan Facilitation by SIDBI**

SIDBI facilitates startups get loans through a structured mechanism. The process being transparent in nature, helps in getting the loans processed quickly and in timely way to the business. Loan facilitation and syndication is carried out by:

- 1) Partnerships with Banks- SIDBI helps enterprises to secure loans with banks by helping them generate complete and accurate applications and documentation.
- 2) Accredited Consultants- They provide a second check of the information provided by the enterprise in their loan application, so that banks find the application reliable. They also provide guidance and consultation to the entrepreneurs.
- 3) Rating Agencies- Rating agencies provide an independent review of the loan proposal if required. This process is optional but helps speed up the loan process.

**Process of Loan Application through SIDBI**

The following process is required for loan processing through SIDBI:

**STEP 1:** The documents required for loan processing are prepared by accredited consultants empanelled by SIDBI. The accredited consultants will draft a Basic Information Memorandum (BIM) based on the information and requirements of the startup. The BIM will have all the information required.

**STEP 2:** The entrepreneur approves the BIM, which is then submitted by accredited consultants to SIDBI.

**STEP 3:** If required, the proposal is sent to RBI approved rating agencies.

**STEP 4:** SIDBI will directly handle the following cases:

Provision of equity or quasi-equity to existing units that are growth oriented.

Service sector based units.

Business set up for Energy Efficient and Cleaner Production Processes.

**STEP 5:** The loan application is submitted to Public Sector Banks that have a Memorandum of Understanding with SIDBI for providing loans.

SIDBI will provide assistance to entrepreneurs through every stage till the loan is processed. MSMEs have a much better chance of getting their loan sanctioned in time and can avoid unnecessary delays.

#### **Advantages of borrowing through SIDBI-**

- 1) Tailor-made – The loans are designed as per the requirements of the business and every type of need is accommodated.
- 2) As per Size- Loans are provided as per the size of the business i.e. micro, small, medium etc.
- 3) Rate of interest- The rate of interest is concessional.
- 4) Collateral free- Through the CGTMSE businesses can get up to 200 lacs of collateral free loans.
- 5) Opportunity for Venture capital- SIDBI Venture Capital is a fully owned subsidiary of SIDBI and can provide finance for SMEs through equity capital.
- 6) Transparent Process- The loan procedure is simple and transparent without any hidden terms and conditions.

7) Support and Assistance- Entrepreneurs get support and guidance from SIDBI officials with regards to their business.

8) No dilution of control- The entrepreneurs can get their funding without diluting the ownership of the company.

9) Government Subsidies- The Government is providing various subsidies which can be easily availed through SIDBI.

**Conclusion:** SIDBI has been playing a pivotal role in the growth and development of startups and the MSME sector. Through their various schemes entrepreneurs can easily obtain finance for their various activities. SIDBI is not just helping in obtaining finance but also providing advisory services with regards to the business. For many startups this could be helpful as they may not be able to afford advisory services. The startups can get both financial and non-financial help from SIDBI without dilution their equity or sharing their profits. So far SIDBI has impacted 11,392 startups and 118 incubators, helping almost 91 investors. Startups can take advantage of the various schemes for their benefit.

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