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THE PERCEPTION OF START-UP ENTREPRENEURS TOWARDS PRIVATE/PUBLIC SECTOR BANKS TO RAISE THE SEED CAPITAL

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ABSTRACT:

Make-in-India – government support to push start-ups. However, it has been observed that Startup entrepreneurs face major challenges in terms of raising seed capital, especially if the Startup entrepreneur has to borrow funds from the banks to initiate his business.

The research study focuses on the perception of different Startup entrepreneurs based in Navi Mumbai and it also tries to highlight different aspects to reduce the obstacles from the entrepreneur's point of view. It also gives a clear picture of the comparative study of public and private sector banks and their lending processes for different Startup entrepreneurs.

Key Words: Startup Entrepreneurs, Seed- Capital, Lending Process, Public and Private Sector Banks

INTRODUCTION:

The Five C's is the instrument used by the lenders to understand the factors of credit capacities of loan bearers. The world largely accepts 5 factors that the lenders are dependent upon for the loan bearing. These 5 factors try to understand the risks faced by the loan bearers. The 5C's are capacity, collateral, capital, conditions, and character.

Capacity:

This concept measures the ability of the Loan bearer by comparing the capacity of the individual to repay the debt. The money lenders determine this factor by adding together 2 factors which include the debtor's total monthly income with the total monthly debt of the individual. The higher the capacity of the individual to repay loans, the higher the chances for the individual to acquire loans.

Collateral:

Collateral is the prised possession owned by the borrower that includes property, gold, or any other value which can be used as a guarantee to the loan in case of the repayment, the lender has the right to use the collateral for covering the loss in the loan. This gives an assurance to the lender than if the loan bearer doesn't repay the loan completely on time then the lender can use the collateral for the amount as much promised to repay by the lender. The collateral-backed loans are mostly considered less risky for the lenders as they can be used for covering the costs of the loan. Hence the loans which are backed by collaterals are mostly given to people with low-interest rates and much lesser risk rates as compared to the no-collateral loans.

Capital:

A major contribution by the Loan applicant subsides the probability of NPA (Net Performing Assets). The applicants who contribute more to the down payment find it easier to receive a mortgage. This down payment has a significant impact on the rate of interest as well as the terms and conditions that can be negotiated with an applicant having a good track record.

Conditions:

Conditions play a critical role in the disbursement of a loan. It reflects how an entrepreneur has designed a plan for the utilization of the funds. Banks also approve those loans for the business or the working capital for an entrepreneur.*Character:*

It symbolizes the credit history of the entrepreneur or the borrower. The performance of the applicant with respect to his spending and utilization of capital in his business operations is reflected in the report generated by several credit bureaus. Many banks have the minimum credit score to make the credit policies easy, sustainable and so that it attracts small and medium entrepreneurs.

CHALLENGES FACED BY START-UP ENTREPRENEURS:

Lack of Personal Funds:

No matter what the business idea is, the business needs a basic component: Money. It might take years for a business to start building itself up and making profits. Every business owner or start-up owner needs to have a certain amount of funds as the seed capital before investments from larger giants to pay for basic needs of hiring staff, basic raw materials, renting premises etc.

Few Network Contacts:

Most youngsters lack networks before venturing into businesses. They lack networks in high positions or better employers or investors with successful profiles who would be ready to invest in businesses because of the trust and the belief that they have in you. The youngsters lack well-saturated connections for higher growth. With fewer business connections in the networking world, budding entrepreneurs lack the natural process to promote their businesses.

Poor Credit History:

The older the individual gets the better the credit history gets. The young entrepreneurs have less experience and hence are bound to make mistakes in the working style of the pace. All of their foolish financial decisions are clearly reflected in their credit histories, which makes the credit card companies and banks put down their feet in financing these budding new entrepreneurs.

OBJECTIVES OF THE STUDY:

1. To study the procedure of sanction and disbursement carried out by public and private sector banks.
2. To study the lending process for Start entrepreneurs by public and private sector banks
3. To study the challenges faced by the entrepreneurs to raise seed-capital
4. To study the perception of the Startup entrepreneurs before raising the Seed Capital

REVIEW OF LITERATURE:

According to the research article by Maurya (2012), the start-up entities of today's times undergo a three-stage cycle. The first stage is *the Problem-Stage or the Solution-Stage* wherein the company analyses the probability of a problem in the market. Here the entity tried to identify a problem and if the market demands a solution at this point, the company defines the problems, brainstorms, and brings about the most probable solution for the business. At this stage, the idea is not the most complex but the solution of the problem becomes a complex challenge for the business to implement. At this point, the start-up tried to identify any needs that the consumers need, also if the consumer will actually pay for something that they will use. The second stage is the *Product/market Test*. This stage is a self-check stage whether the idea that is formed or created is really of use to the consumers. This phase is simply a test phase wherein the solution is tested to estimate the extent to which it solves the problem. The third stage according to Maurya is the *Scale Stage*, which talks about the expansion in terms of its resources, employees, market share, and a major increase in the income ratios of the company. The entities mostly start fund-raising after the second stage, once the testing of the product andthe market is done to estimate the proximity of success, after which the business moves towards fund-raising. After the second phase, the start-up founders all move towards the same sole goal of business building and expansion.

In line with Maurya (2012), according to Cvijanović, Marović, and Sruk (2008) the development of a company in regards to its financing can be done in five stages, namely: *1. Experimental or seed; 2. Start-up 3. Expansion 4. Recapitalisation 5. Buyout*. In the first Experimental phase, entrepreneurs mostly use the funds borrowed from friends and family or use their own saved funds to start off or kick-start the business. At this stage, other sources of funds like Bank Loans, Angel Business Investors, venture capitalists, and loan funds are some of the ways that funds can be sourced. In the expansion phase, the most common sources of funds are venture capital funds and loan funds. At the final stage of Buy-out, the equity funds play a very important role.

Kotha and George (2012) in their research article have shown that entrepreneurs with previous experience in start-ups have been able to successfully gain further funding as compared to entrepreneurs without prior funding. The investors are moreover interested in those start-ups and entrepreneurs who can accelerate their businesses and work towards the growth of their businesses along with maintaining and developing strong business relationships with the investors, which is one of the most important factors in the growth of any business.

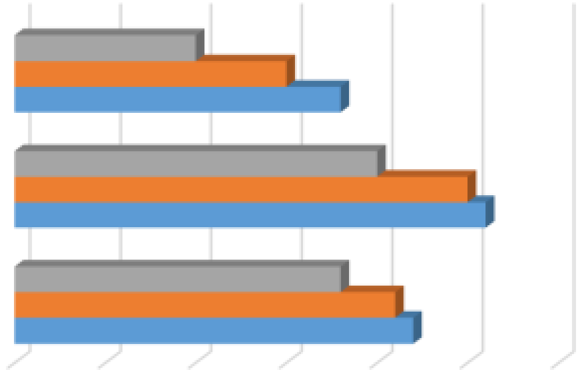
According to Kovacic (2011) proves that when the entrepreneurs do not have their own financial resources and cannot independently work towards raising funds for their businesses, they usually turn towards internal bank financing sources like Bank Loans, Seed-investments, business angels, and also the 2F (Friends and family). Astebroa and Bernhardt (2003) show a very strong connection between bank loans and sustainability.

RESEARCH METHODOLOGY.

The data is of small and medium entrepreneurs based in Navi Mumbai. The population of the Credit is 1000 out of which 100 have been administered, which was corroborated by using the sample size formula. The analysis has been conducted on the basis of 100 questionnaires which is duly filled by the respondents. The Secondary data has been collected from various websites and researches conducted by various individuals, yet it has been found that this topic is untouched.

DATA ANALYSIS:

Based on the responses received from the respondents, the below-given analysis has been summarized.



From the above Data analysis it is been interpreted that majority of the start up entrepreneurs face difficulties or hurdles to get the capital loan from public sector, private sectors and other lending institutions. Moreover the start-up entrepreneurs highlights that the documentation procedure which is at the initial stage the obtain the seed capital is the most tedious activity. In addition to this it is also interpreted that the start up entrepreneurs finds easy to get the loans disbursed from a private sector bank as compared to other sector banks. The disbursement protocol is inclined with the legal authentication and Frank Finn of their credentials. The valuation of goods and the properties is also carried out which is time consuming.

The Start-up entrepreneurs have suggested different remedies to subside the time consuming process, however as an institution has to abide by the rules and regulations laid by the apex bank of India, no such amendments are implemented therein after the suggestions and recommendations submitted by the Start-up entrepreneurs.

CONCLUSION:

The overall study of the Start-up entrepreneurs perception towards the disbursement of working capital loans and challenges faced by the entrepreneurs towards the same suggests that the protocol should be subsided to some extent, some online facilities should be made by different banks as entrepreneurs have a busy schedule managing other processes and it becomes very hectic for them to visit the respective branch and submit their desired credentials. The research also chooses to recommend that it is moral duty of the banks and financial institutions to educate and inform the entrepreneurs about the various RBI Guidelines and lending conditions for the disbursement of the seed capital.

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