



SOURCES OF LONG TERM FINANCE



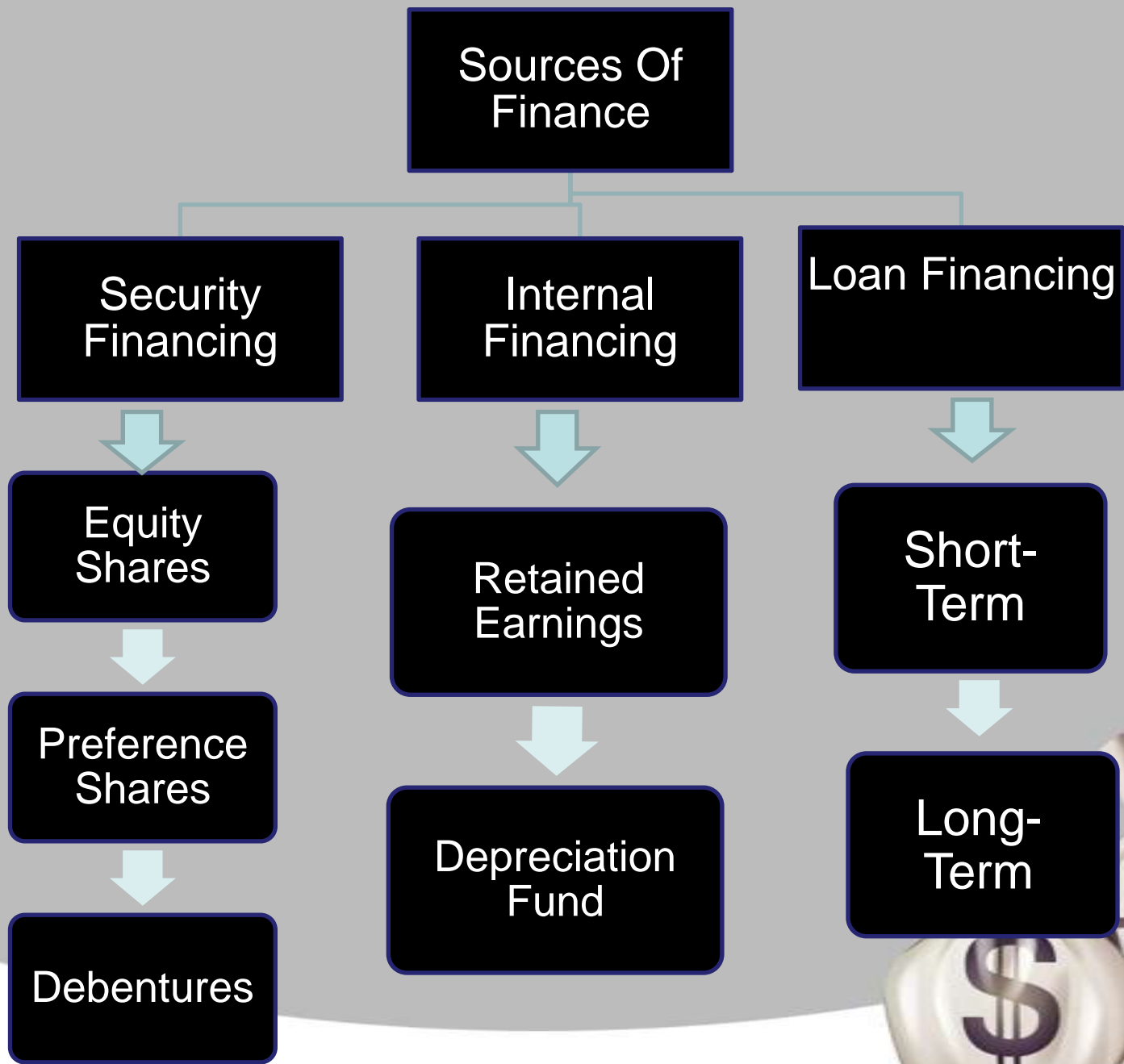
Introduction

It is rightly said that finance is the life-blood of business.

No Business can be carried on without source of finance.

There are several sources of Finance and as such the finance has to be raised from the right kind of source.





Long Term Source of Finance

- *Long term sources of finance are those that are needed over a longer period of time - generally over a year.*
- *Long term finance may be needed to fund expansion projects*
- *It's Types Are:-*

Share, Debenture, Venture Capital, Government Grant, Bank Loan

Mortgage, Owner Capital, Internal Accrual.



Need for long term Finance

- *Long term vs. short term(working capital) funds requirements*
- *For modernization, expansion, diversification; huge quantities reqd., irreversible decision*
- *Asset-liability mismatch, interest rate risk, liquidity risk.*



Equity Share Capital

- *Authorized, Issued, Subscribed and Paid up capital*
- *Par/face value, Issue Price, Book value and Market Value*
- *Rights of equity shareholders*
- *Right to Income :PAT less preferred dividends*
- *Right to Control: voting rights*

Preference Share Capital

- *Is a hybrid form of financing, payment after debt but before equity*
- *Equity features:*
out of distributable profits
not an obligatory payment
dividends not tax deductible
- *Debt features:*
dividend rate is fixed
capital is redeemable
no right to vote



DEBENTURES

- *Just like shares, DEBENTURES are also instruments for raising long term finance*
- *“Debenture is a document that either creates a debt or acknowledges it, & is a debt without collateral”*
- *Attributes:-*
 - ❖ *Interest rates*
 - ❖ *Convertibility*
 - ❖ *Security*
 - ❖ *Redemption*
 - ❖ *Credit rating & Trustee*
 - ❖ *Debenture redemption reserve*



Term Loan

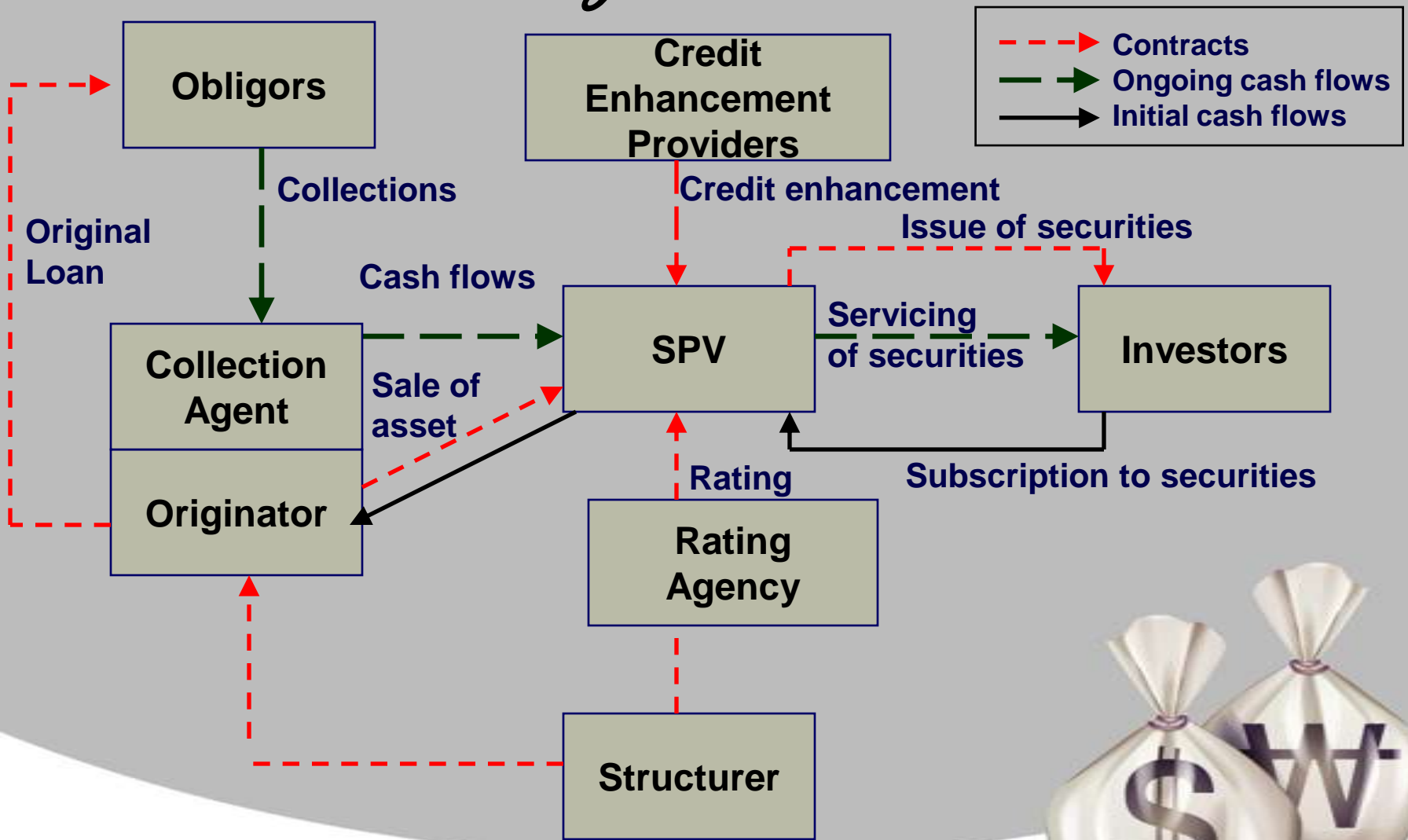
- *Term loan also known as term finance is loan made by a bank/financial institution to a business having an initial maturity of more than 1 yr and generally repayable in less than 10 yrs.*
- *Features of Term Loans*
- *Maturity*
- *Negotiated*
- *Security*
- *Covenants – Negative & Positive*
- *Repayment Schedule/Loan Amortization*



- *Evaluation – Low Cost & High Risk*
- *Term Loan Procedure*
- *Project Appraisal*
- *Market Appraisal*
- *Technical Appraisal*
- *Financial Appraisal*
- *Managerial Appraisal*



Securitization Process



Leasing vs. Hire Purchase

Leasing

- *Ownership not transferred to buyer*
- *Depreciation benefit to lessor*
- *Magnitude of funds high, for big ticket items*
- *No margin money/down payment required*
- *Maintenance of asset by lessor in operating lease*

Hire-Purchase

- *Ownership transferred to hirer on payment of all installments*
- *Depreciation shield available to hirer*
- *Maybe for smaller value capital goods*
- *Some down payment required*
- *Maintenance cost borne by hirer*



Other Sources Of Long Term Finance

- *Initial Public Offer (IPO)*
- *Securitization*
- *Government Subsidies/Grant*
- *Supplier's Credit*
- *Private Placement*
- *Venture Capital/ Private Equity*
- *Bank Loan*
- *Mortgage*



The image features a collage of various US dollar bills, including a \$100 bill with Benjamin Franklin's portrait, a \$20 bill with Andrew Jackson's portrait, and a \$5 bill with Abraham Lincoln's portrait. A white, torn paper overlay is placed across the center, containing the text "Thank you." in a black, serif font. The background bills are partially obscured by the paper and each other.

Thank you.

IB 63021052

Walter B. Perry
Secretary of the Treasury

FEDERAL RESERVE NOTE

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