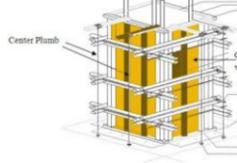




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STATE FAILS TO UTILIZE CENTRAL FUNDS FOR SKILL DEVELOPMENT COMPANIES HAVE VC INDEPENDENT BUSINESS MODELS



By: M.S.Yatnatti Editor and Video Journalist Bengaluru : While the nation is struggling to hone the skills of young Indian to generate employment opportunities, Karnataka seems to have run out of ideas to develop the skills of citizens and is sitting on central government funds. Under the renamed scheme of Deendayal Antyodaya Yojana National Urban Livelihood Mission (DAY-NULM), the ministry of housing and urban poverty alleviation noted that Karnataka has Rs 38.71 crore of unspent balance in it accounts as of April 1, 2016. Further, the state has also not provided its utilization certificates (UC) for the expenditure under the scheme. Result: A sizeable amount of Rs 67.35 crore has been frozen by the Centre. The Centre, while responding to a question raised by Rajya Sabha MP K C Ramamurthy on the NULM project on April 6 in Parliament had said: "As per the monthly progress report provisional utilization certificate submitted by Karnataka, an amount of Rs.3,871.73 lakh (Rs 38.71 crore) was available with the state as unspent balance on April 1, 2016. The state couldn't fully utilize the balance and, as per instructions from the ministry of finance, no funds could be released to the state to avoid parking of funds."

Passion and focus on the products is the central to business success for most of entrepreneurs. "Startups must figure out unit economics and prove the model at a small scale before considering VC funding should have a simple formula when in doubt, bootstrap and your customers are best investors." Some time as venture capitalists becomes vulture capitalists early stage entrepreneurs and those looking to do something on their own are likely to turn wary. But anybody who studies entrepreneurship will likely find that passion and patience have inevitably trumped money in determining the success of a venture. Money is often a catalyst. But there are also some who think venture funding is a bane and not boon, that ultimately, success is more about you and the problem you are trying to solve through your venture by bootstrapping. Few entrepreneurs knew only two ways to fund a business put their own money or borrow from the bank as you build a product and make it became profitable. Trump can be trumped after all he is a businessman and his decision can be taken as blessing in disguise. Indian IT companies have visa independent global delivery model where it reduced the total effort onsite (at the client location) in a project from about 30% on an average to just 10%. "And this 10% will be delivered by local hires. Indian IT is also likely to find significant support among its US customers. The Indian software industry, has largely been responsible for building as well as maintaining the information infrastructure of most large US corporations. It plays a very critical role in the success of US corporations, that tampering with it wouldn't be easy. IT companies conducted several pilots and all of them were very successful, "The global downturn and "Buy American and hire American" theory has brought along with it new opportunities. It is for the industry to identify the opportunities and move ahead," Indian IT companies can hire American and sell American and make killing profits in America as American IT companies hire Indian and sell Indian and make killing profits in India. "Make in India American products" "The Indian industry will continue to do well if they learn that there are no easy pickings any longer." And that's true of all companies, irrespective of their size..The US was teaching all countries Globalization and now suddenly talking localization "Buy American and hire American". Investors from around the world, including in the City of London, will be listening carefully for how America's Donald Trump is set to sign an executive order to overhaul the H-1B & L-1 visa programmes, which let tens of thousands of Indians work in the US, drove tech stocks down and sparked speculation in the IT sector about an uncertain future. Indian business experts predict that Indian IT companies can outsmart any trade barriers created by Donald Trump as they are listening this since the days of his election campaign. India need to remember late Dewang Mehta, the chief lobbyist for India's fledgling software services industry, carried off both with aplomb, convincing businesses that at the stroke of midnight of the new millennium, their computer systems would crash because old programs measured years in two digits instead of four. The solution, he persuaded them, was to let a horde of techies from Bangalore and Hyderabad go through each line of code and fix the Y2K bug.

The Trump administration is expanding the scope of its immigration squeeze by targeting the foreign guest worker visa programme amid a furore in multinational corporations and a mutinous ferment in US government circles and this was expected. Point to be noted is Indian IT companies have matured such situations in the past many times and have bravely faced the slowdown of economies in the US. Globally engaged America is reportedly still expected to grips with the Trump decree staunching refugees and travel from seven Muslim nations when it was revealed that a new presidential order, aimed at overhauling the guest worker programme that includes the H-1B visas, is in the works. Reportedly Technology companies, primarily in the US and India, have long used the visas to bring skilled foreign talent to America, in effect providing a route for Indian students and professionals to emigrate to the US. "It's part of a larger immigration reform effort that the president Trump will continue to talk about through executive order and through working with Congress." Reportedly the White House spokesman Sean Spicer said recently, virtually confirming that the nearly-two-decade visa regime over three administrations, which has effectively facilitated the immigration of more than 500,000 Indians to the US since 1990, will now change. Over 60% of Indian IT revenues comes from the US. Five top Indian IT companies lost Rs 33,000 crore in market cap in a single day on Tuesday following uncertainty about the new environment in the US. Ahead of the expected executive order, lawmakers have introduced legislation mandating an increase in the minimum salary for H-1B visa guest workers to \$130,000 (from the current \$60,000) in an effort to shut down low-cost arbitrage that both US and Indian companies have used to improve their bottom line, but which critics say has depressed wages and come at the expense of American workers. The flurry of presidential decrees on travel and immigration has unnerved corporate leaders, including Silicon Valley honchos. The heads of corporations as diverse as Goldman Sachs, Ford Motor Company and Google dissented from Trump on the issue. Reportedly India had conveyed its concerns to US. India has conveyed its reservations over the move to overhaul H-1B visas. "India's interests and concerns have been conveyed both to the US administration and US Congress at senior levels according to MEA spokesperson. Let more American companies set up their shop in India and make in India label it as American product and sell in America. An investor (Including a foreign entity) can start operations in India by incorporating a company under the provisions of Companies Act, 2013 including related Rules, Circulars, Notifications, Orders and subsequent Amendments (<http://www.mca.gov.in/MinistryV2/companiesact.html>). This Act regulates incorporation of a company, manner of conducting the affairs of a company, responsibilities of its directors and dissolution of a company. Ministry of Corporate Affairs (MCA) is responsible for ensuring compliance with provisions of the Companies Act, 2013 through the offices of Registrar of Companies (ROC) and the Regional Directors (RD). As company set-up in India can either be private limited or public limited: Private limited company: The key features of a private limited company in India are as follows: It requires a minimum of two shareholders and two directors (both of them can be foreigners). One of the directors has to be resident in India. The number of shareholders cannot exceed 200. It cannot invite the public to subscribe for any securities of the company and which by articles restricts the right to transfer its shares. It can raise debt in foreign currency in the form of external commercial borrowings. Public limited company: A public company is defined as one that is not a private company. A subsidiary of Indian public company is also treated as a public company. A public company is required to have a minimum of 7 shareholders and 3 directors. One of the directors has to be resident in India. There are limits placed on remuneration paid to the directors. In order to facilitate the investors for setting up companies in India, Government of India has developed an e-Filing portal called MCA21 (<http://www.mca21.gov.in/>). Applicant is required to do e-Filing for Companies/ Limited Liability Partnerships (LLPs) registration on MCA21 portal, where he/ she has the facility to download the e-Form and fill it in an offline mode (<http://www.mca.gov.in/MinistryV2/AboutFiling.html>). Applicant would need to be connected to the internet to carry out the pre-fill and pre-scrutiny functions for e-filing. The filled up e-Form as per relevant instruction kit needs to be uploaded on the MCA21 portal. On successful upload, the Service Request Number (SRN) would be generated and Applicant would be directed to make payment of the statutory fees. Once the payment has been made the status of payment and filing status can be tracked on the MCA portal by using the 'Track Your Payment Status' and 'Track Your Transaction Status' link respectively. Investors who are eligible to make investment in India are as follows: A non-resident entity can invest in India, subject to the FDI policy except in those sectors/activities which are prohibited as per the policy. A citizen of Bangladesh or an entity incorporated in Bangladesh can invest only under the Government route. Further, a citizen of Pakistan or an entity incorporated in Pakistan can invest, only under the Government route, in sectors/activities other than defense, space and atomic energy and sectors/activities prohibited for foreign investment. NRIs residing in Nepal and Bhutan as well as citizens of Nepal and Bhutan are permitted to invest in the capital of Indian companies on repatriation basis, which is subject to conditions as outlined in section 3.1.2 of consolidated FDI policy, 2016¹. Overseas corporate bodies (OCBs) have been derecognized as a class of investors in India with effect from September 16, 2003. Erstwhile OCBs which are incorporated outside India and are not under the adverse notice of RBI can make fresh investments under the FDI Policy as non-resident entities, with the prior approval of Government of India. A company, trust and partnership firm incorporated outside India, which is owned and controlled by NRIs can invest in India with the special dispensation as available to NRIs under the FDI Policy. Foreign Institutional Investors (FIIs) and Foreign Portfolio Investors (FPIs) can invest in the capital of an Indian company under the Portfolio Investment Scheme, which is subject to conditions as outlined in section 3.1.2 of the consolidated FDI policy, 2016². Only registered FIIs/FPIs and NRIs as per Schedules 2, 2A and 3 respectively of Foreign Exchange Management (Transfer or Issue of Security by a Person Resident Outside India) Regulations, 2000, can invest/trade through a registered broker in the capital of Indian Companies in recognized Indian Stock Exchanges. A SEBI registered Foreign Venture Capital Investor (FVCI) may contribute up to 100% of the capital of an Indian company engaged in any activity mentioned in Schedule 6 of Notification No. FEMA 20/2000, including start-ups irrespective of the sector in which it is engaged, under the automatic route. A Non-Resident Indian may subscribe to National Pension System governed and administered by Pension Fund Regulatory and Development Authority (PFRDA), which is subject to conditions as outlined in section 3.1.2 of the consolidated FDI policy, 2016³.

Eligible Investee Entities: As per the consolidated FDI Policy, 2016 eligible investors can make investment into the following entities: Investment in an Indian Company - A company registered in India can issue capital against FDI. Investment in Partnership Firm/ Proprietary Concern - Investment into such firm can be undertaken by following two categories of investors: Non-Resident Indian (NRI) or a Person of Indian Origin (PIO) can invest in the capital of a firm or a proprietary concern in India on non-repatriation basis on a condition that the amount is invested by inward remittance or out of NRE/FCNR(B)/NRO account maintained with Authorized Dealers/Authorized banks. The firm or proprietary concern cannot be engaged in any agricultural/plantation or real estate business or print media sector and the amount invested is not eligible for repatriation outside India. Investment by non-residents other than NRIs/PIO: These investors can invest with prior approval of Reserve Bank for making investment in the capital of a firm or a proprietary concern or any association of persons in India. The application will be decided in consultation with the Government of India. Investment in Trust - FDI is not permitted in Trusts other than in Venture Capital Funds (VCFs) registered and regulated by SEBI and in Investment Vehicles. Investment in Limited Liability Partnerships (LLPs) - Such investments are permitted, which is subject to a condition that FDI is permitted through automatic route (in sectors wherein 100% FDI is available). Investment in Investment Vehicle - An entity being 'investment vehicle' registered and regulated under relevant regulations framed by SEBI or any other authority designated for the purpose including Real Estate Investment Trusts (REITs) governed by the SEBI (REITs) Regulations, 2014, Infrastructure Investment Trusts (INVLTS) governed by the SEBI (INVLTS) Regulations, 2014, Alternative Investment Funds (AIFs) governed by the SEBI (AIFs) Regulations, 2012 and notified under Schedule 11 of Foreign Exchange Management (Transfer or Issue of Security by a Person Resident Outside India) Regulations, 2000 is permitted to receive foreign investment from a person resident outside India (other than an individual who is a citizen of or any other entity which is registered / incorporated in Pakistan or Bangladesh), including a Registered Foreign Portfolio Investor (RFPI) or a Non-Resident Indian (NRI). FDI in other Entities - FDI in resident entities other than those mentioned above is not permitted.

The key instruments allowed for receiving FDI in India, as per FDI policy Circular 2016, are as follows: The instruments for receiving Foreign Direct Investment (FDI) include equity shares, fully and mandatorily convertible debentures, fully and mandatorily convertible preference shares and warrants subject to the pricing guidelines / valuation norms and reporting requirements amongst other requirements as prescribed under FEMA Regulations. The optionality clauses are allowed in equity shares and compulsorily and mandatorily convertible debentures and fully, compulsorily and mandatorily convertible preference shares under FDI Scheme, subject to the following conditions: A minimum lock-in period of one year which is effective from the date of allotment of such capital instruments. After the lock-in period and subject to FDI Policy provisions, if any, the non-resident investor exercising option/right shall be eligible to exit without any assured return, as per pricing/valuation guidelines issued by RBI from time to time. Other types of preference shares/debentures i.e., non-convertible, optionally convertible or partially convertible for issue of which funds have been received on or after May 1, 2007 are considered as debt. Accordingly all norms applicable for ECBs relating to eligible borrowers, recognized lenders, amount and maturity, end-use stipulations, etc. shall apply. Since these instruments would be denominated in rupee, interest rate will be based



on swap equivalent of London Interbank Offered Rate (LIBOR) plus the spread as permissible for ECBs of corresponding maturity. The inward remittances received by the Indian company vide issuance of DRs and FCCBs are treated as FDI and counted towards FDI.

Acquisition of warrants and partly paid shares – An Indian company may issue warrants and partly paid shares to a person residing outside India subject to terms and conditions as stipulated by the Reserve Bank of India in this behalf, from time to time. Foreign Currency Convertible Bonds (FCCBs) and Depository Receipts (DRs) may be issued in accordance with the scheme for issue of Foreign Currency Convertible Bonds and Ordinary Shares (Through Depository Receipt Mechanism) Scheme, 1993 and DR Scheme 2014 respectively, as per the guidelines issued by the Government of India there under from time to time. Further details on FCCBs and DRs can be referred from Annexure 2 of the FDI Circular 2016 (link: http://www.dipp.nic.in/English/Policies/FDI_Circular_2016.pdf). Issue of American Depository Receipts (ADRs) and Global Depository Receipts (GDRs): Two-way Fungibility Scheme: A limited two-way Fungibility scheme has been put in place by the Government of India for ADRs/GDRs. Under this Scheme, a stock broker in India, registered with SEBI, can purchase shares of an Indian company from the market for conversion into ADRs/GDRs based on instructions received from overseas investors. Re-issuance of ADRs/GDRs would be permitted to the extent of ADRs/GDRs which have been redeemed into underlying shares and sold in the Indian market. Sponsored ADR/GDR issue: An Indian Company can also sponsor an issue of ADR/GDR. Under this mechanism, the company offers its resident shareholders a choice to submit their shares back to the company so that on the basis of such shares, ADRs/GDRs can be issued abroad. The proceeds of the ADR/GDR issue are remitted back to India and distributed among the resident investors who had offered their Rupee denominated shares for conversion. These proceeds can be kept in Resident Foreign Currency (Domestic) accounts in India by the resident shareholders who have tendered such shares for conversion into ADRs/GDRs. Various forms of financing or funding options are available to carry out a business in India: Equity Capital: Additional capital can be raised by any of the following modes subject to regulatory conditions: Right Issue. Partly Paid equity shares/warrants. Against import of capital goods and pre-incorporation expense. Against legitimate dues of the investee company. Issue price and transfer price of equity shares are subject to pricing guidelines based on internationally accepted methodologies. Preference Share Capital: The rate of dividend paid to non-residents should not exceed 300 basis points over the Prime Lending Rate of State Bank of India on the prescribed date. Debentures and borrowings: Companies can raise funds by issuing debentures, bonds and other debt securities or by accepting deposits from the public. Debentures can be redeemable, perpetual, bearer or registered, and convertible or non-convertible. Compulsorily Fully Convertible Debentures are treated as equity under the FDI policy. Non-convertible/optionally convertible debentures are construed as ECB and should conform to ECB guidelines. Conversion ratio on Compulsorily Convertible Debentures should be determined upfront. Rate of interest is subject to transfer price under tax and company law. External Commercial Borrowing: Commercial loans availed in foreign currency are termed as ECBs. The RBI has announced a new policy regime for ECBs under which funds can be raised under three tracks: The ECBs under the three tracks have differing conditions with respect to eligible borrowers, eligible lenders, all-in-cost ceiling, end-use restrictions, etc. ECBs can be availed under two routes — automatic route and approval route. An empowered committee set up by the RBI decides all the cases outside the purview of the automatic route. Overseas lenders, who have provided ECBs to Indian entities, are allowed concessional tax rates on the interest income earned subject to satisfaction of certain conditions. The rules relating to ECB's and Trade credit can be seen from the following link- (<http://rbidocs.rbi.org.in/rdocs/notification/PDFs/12MCECB290613.pdf>). Listed debentures/bonds: SEBI-registered FIIs/QFIs/FPIs are allowed to invest in listed debt securities, subject to regulatory conditions. ADRs, GDRs and FCCBs: Qualifying Indian companies can raise equity capital overseas by issuing American Depository Receipts (ADRs), Global Depository Receipts (GDRs) or Foreign Currency Convertible Bonds (FCCBs) (INR denominated equity shares/bonds). The company must seek approval of the FIPB in specific cases. There is no monetary limit on the amount for which ADRs and GDRs can be issued. There are end-use restrictions only for utilization of funds in real estate/Stock market. FCCBs have to conform to ECB guidelines. Long-term Loans from special financial institutions: This includes financial institutions at national as well as state level. For example: All India associations like: IDBI (<http://www.idbi.com/index.asp>) Industrial Finance Corporation of India (IFCI) (<https://www.ifcilt.com>) EXIM (<http://www.eximin.net/>) & SIDBI (<http://www.sidbi.in/>) State level institutions like: State Financial Corporations (SFCs): The list of SFCs can be seen from the following link - <http://sidbi.in/?q=state-financial-corporations> State Industrial Development Corporations (SIDCs): The list of SIDCs can be seen from the following link - <http://sidbi.in/?q=sids-siics> . Non-banking finance companies (NBFC). The list of NBFC can be seen from the following link- (https://www.rbi.org.in/scripts/BS_NBFCList.aspx). Short term finance from financial institutions: Bank credit in the form of loans, cash credit, overdraft and discounting of bills. The list of banks can be seen in the financial intermediaries section of the following link (<http://www.rbi.org.in/scripts/siteMap.aspx>). Customer advance, accounts receivable financing, Installment credit & trade credit. Funding of LLP Investment in LLP is through capital contribution and is subject to conditions under the FDI policy. LLPs are not permitted to avail ECB. Trade Credit Companies can buy raw materials, components, stores and spare parts on credit from different suppliers. Generally suppliers grant credit for a period of 3 to 6 months, and thus provide short-term finance to the company. Through capital market, companies can raise funds but the company has to list its shares by going public i.e. Private limited company will have to convert into public company. The conditions relating to this listing can be seen from the following link- (https://www.nseindia.com/getting_listed/content/eligibility_criteria.htm)

Citations: 1 <http://smallb.sidbi.in/%20fund-your-startup-business%20/modes-financing-startups> 2 - Source: http://www.dipp.nic.in/English/Policies/FDI_Circular_2016.pdf (Accessed: 15 June 2016) 3- Source: http://www.dipp.nic.in/English/Policies/FDI_Circular_2016.pdf (Accessed: 15 June 2016) 4 - Source: http://www.dipp.nic.in/English/Policies/FDI_Circular_2016.pdf (Accessed: 15 June 2016)

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