What is Alternate Source of Finance?

When a business is unable to get loans from the traditional sources like banks, NBFCs etc. It can for other sources of finances. These sources are called Alternate sources of Finance. These Alternates sources are divided in two categories: Traditional and Modern form.

1. **Leasing:** Leasing is a method in which the user (lessee) rents the asset from the owner (lessor) through an agreement. In this process the ownership is always with the lessor. The lessor grants the lessee right to use the property of the lessor for a defined period.
   The agreement between the two parties that specifies the terms and conditions for the rental use of a tangible resource such as a building / equipment is called the **lease**.
   Benefits of leasing The lessee saves its money from investing in the resources. It gives him more working capital
2. **Franchising**: You must have seen there are many outlets of McDonalds/ Burger king. For these companies it will be very difficult to manage store directly across the world. They use the mechanism of Franchising. In Franchising, the parent company makes an agreement with individual or enterprise to use the former's successful business model, in stipulated areas.It is a business relationship. It can be used to give authorization to use their brand, product, management format, business format.
3. **Factoring**: A company might use factoring, a form of finance, to cover its short-term cash needs by selling its accounts receivable (invoices) to a third party. In accordance with the agreement, the factor would pay the invoices' outstanding balance less any commission or fees. It is similar to bill discounting
4. **Crowd Funding:** Instead of searching for a single investor, crowd funding platforms enable businesses to pool small investments from multiple investors.in words of RBI: ''Crowd Funding' generally refers to a method of funding a project or venture through small amounts of money raised from a large number of people, typically through a portal acting as an intermediary. There are numerous forms of crowd funding: some are charitable donations that provide intangible benefits but no financial returns; others, such as equity crowd funding would fall within the domain of financial markets."
5. **P2P lending:** P2P lending is a form of crowd-funding used to raise loans which are paid back with interest. It can be defined as the use of an online platform that matches lenders with borrowers in order to provide unsecured loans. The borrower can either be an individual or a legal person requiring a loan. The interest rate may be set by the platform or by mutual agreement between the borrower and the lender. Fees are paid to the platform by both the lender as well as the borrower. The borrowers pay an origination fee (either a flat rate fee or as a percentage of the loan amount raised) according to their risk category. The lenders, depending on the terms of the platform, have to pay an administration fee and an additional fee if they choose to use any additional service (e.g. legal advice etc.), which the platform may provide. The platform provides the service of collecting loan repayments and doing preliminary assessment on the borrower's creditworthiness
6. **Angel Investor:** A group of people or an individual who invest their own money in the company's early (concept) stages in exchange for a stake in the company. They do not interfere in the functioning of the company. So, their objective may be more than just focusing on economic returns.
7. **Venture Capital:** The term "venture capital" refers to financing provided by individuals or businesses that invest in start-up, privately held businesses. It a type of private Equity. It actively participates in the functioning of the company.
8. **Equity Financing:** Equity financing means in return of a portion of the ownership of the business for a financial investment in the business. The ownership stake resulting from an equity investment allows the investor to share in the company's profits. It normally done in later stages of startups.
   Equity involves a permanent investment in a company and not repaid by the company at a later date

9. **Hedge Funds:** Before diving into the definition of Hedge funds , first understand the meaning of Hedge. It is a strategy to limit financial risks. Hedge fund may look like private equity but Hedge funds differ from private equity firms in the following ways: time-to-hold, liquidity, leverage and strategic direction of investments which in turn dictates differences in their exit strategy, risk tolerance and desired rate of return of the two types of funds.
   Hedge funds seek a quick flip of their investments with the average length of their investments being 6-18 months, whereas private equity firms stay invested for around 3-5 years.
10. **Warrants:** A warrant is a security that gives the owner the right to buy stock in the company that issued it at a pre-determined (exercise) price in the future (before a specified expiration date).