



*cutting through complexity*

Family matters

**Financing Family  
Business growth  
through individual  
investors**

COUNTRY COMMENTARY:  
**INDIA**

[kpmgfamilybusiness.com](http://kpmgfamilybusiness.com)

# India

While banks across the world are retrenching, it would appear that in India, at least, family businesses still see them as their chief source of funding. Indeed, nine out of 10 respondents were upbeat about bank financing.

“Obtaining capital from the banks has been positive,” said the COO of one Mumbai-based engineering firm. The CFO of a multinational conglomerate agreed: “Bank debts are the main sources of finance; we have maintained a strong financial status and our credibility is high, so we get faster turnarounds on applications.”

As substantial lenders, banks in India still maintain an approach of largely mortgage and personal guarantees and have not moved sufficiently towards business model and cash flow-based funding. Further interest rates continue to be high, ranging from 12% to 18% and making it difficult for family businesses to service interest comfortably. Accordingly, there is greater participation and investments by way of crowd funding, angel and venture funding and high-net-worth individual funding for family businesses.

With its rise to the world's third largest economy, India is poised for growth and reform and with more than 5 million family businesses the country offers a significant opportunity for investors. HNWI's seem keen to partner with businesses to help shape their future. If these two parties can find a way to join, the next decade will be very exciting.

SANJAY AGGARWAL  
PARTNER, HEAD OF FAMILY BUSINESS, KPMG IN INDIA

This reliance on bank financing probably accounts for the fact that only a fifth of respondents have obtained financing from HNWI's – however, those that have done so rated their experiences as generally positive. For many family firms, the main benefit of HNWI investment comes through shared experience. As the CFO of a New Delhi motorcycle manufacturer said: “HNWI's have a similar understanding of risks. The fluctuations in the financial performance do not really affect their decisions or investments. This makes them a reliable source of capital.”

The main obstacle appears to be the perceived level of executive involvement from HNWI investors – eight out of 10 said HNWI's would interfere with management. “There is a possibility of interference in the decisions and this often leads to disputes,” said one CFO. “This is the main factor as to why we would avoid extensive use of capital from HNWI's.”

However, from the HNWI point of view, this ‘interference’ may not always come to pass. When asked if they would regularly express their views to management, a little under half said they would not.

While only two respondents stated that they had previously invested in family businesses, both were encouraged by their experiences. “Investments are made in the established businesses, so the results are highly positive,” said one investor. A second echoed this opinion, saying: “Yields from the investments were high and met our expectations.”

In India, the future for families and HNWI's working together looks bright – eight out of 10 HNWI's said they were interested in investing directly in family businesses.

## KPMG in India

### Sanjay Aggarwal

Partner  
KPMG

Lodha Excellus  
1st Floor Apollo Mills Compound  
NM Joshi Marg  
Mahalaxmi  
Mumbai 400 001  
India

**T:** +91 22 3090 2487

**E:** saggarwal@kpmg.com

[www.kpmg.com/socialmedia](http://www.kpmg.com/socialmedia)



[www.kpmg.com/app](http://www.kpmg.com/app)



[www.kpmg.com](http://www.kpmg.com)

The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavour to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

© 2014 KPMG International Cooperative ("KPMG International"), a Swiss entity. Member firms of the network of independent firms are affiliated with KPMG International. KPMG International provides no client services. No member firm has any authority to obligate or bind KPMG International or any other member firm vis-à-vis third parties, nor does KPMG International have any such authority to obligate or bind any member firm. All rights reserved.

The KPMG name, logo and "cutting through complexity" are registered trademarks or trademarks of KPMG International.

Produced by Create Graphics | CRT013710