

SOCIAL
alpha ↗

MASTERCLASS



**STRATEGIC FINANCE
FOR EARLY STAGE
ENTREPRENEURS**



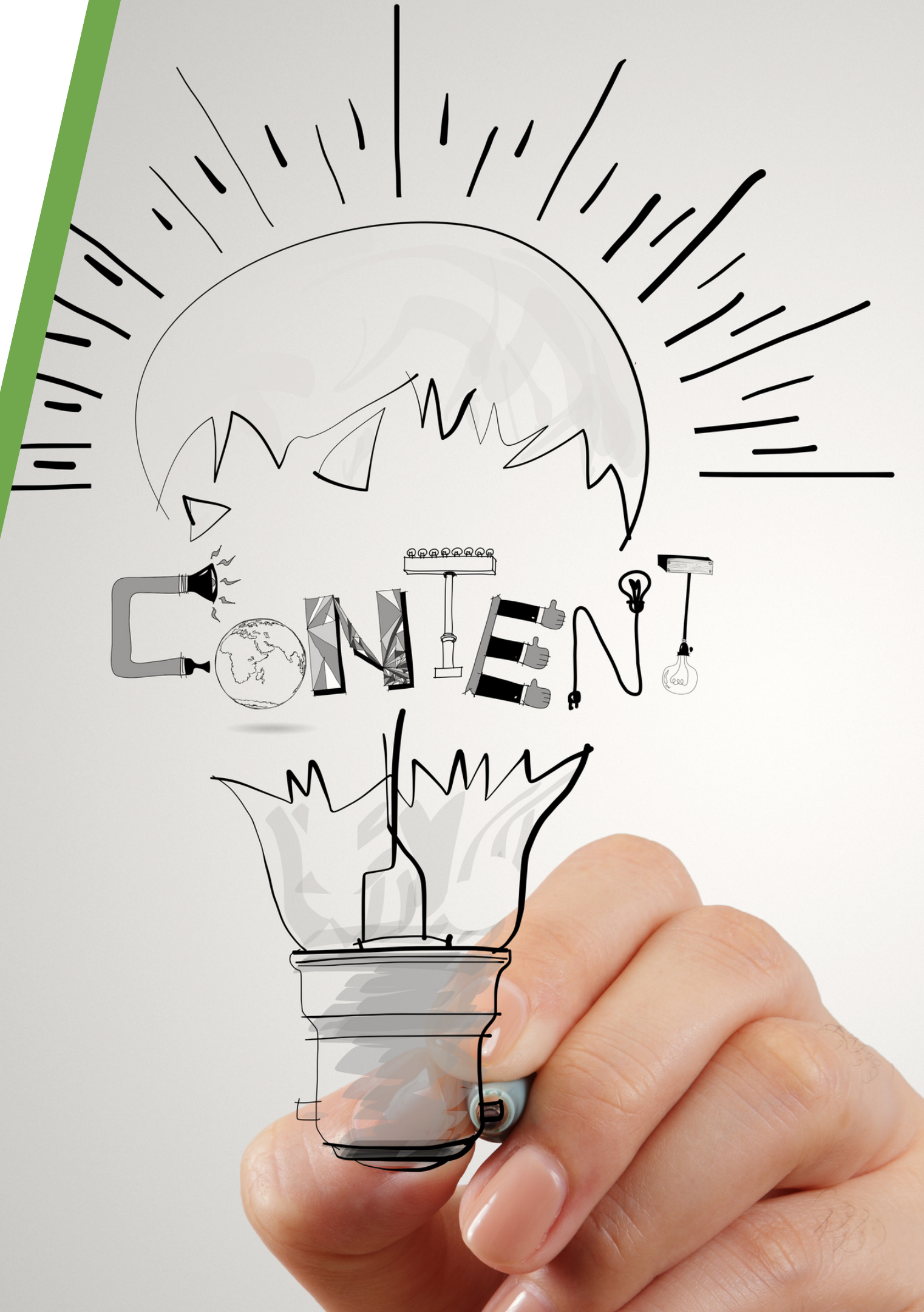
SPICE ROUTE
FINANCE





WHAT WE WILL COVER TODAY?

- Conceptualizing Business Strategy
- Getting The Cohort Ready For Investment
- Analyzing Financial Statements
- Basic Financial Management Concepts
- Concluding Remarks





CONCEPTUALIZING BUSINESS STRATEGY

KEY DIFFERENCES

Business Strategy

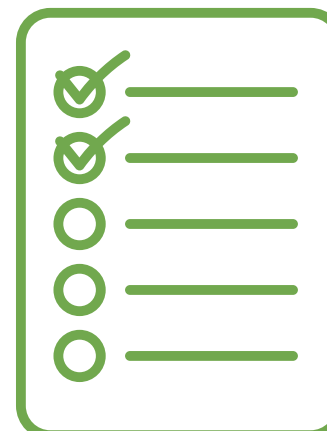
Business Plan

Business Model

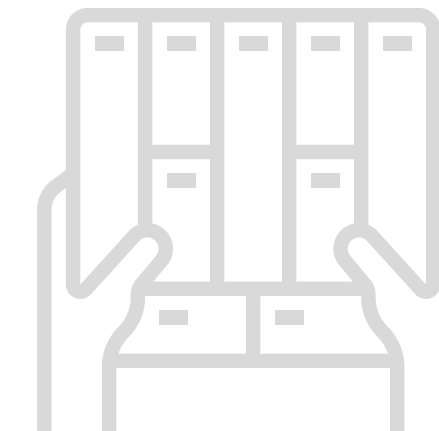
A business strategy sets out the purpose of your business, who it serves and what is the long term vision and mission. A strategy assesses and prioritizes options and then select the most advantageous. A business plan sets out how you will achieve your goals in detail, including the financial results. A business model explains how you are different to competitors and what gives you a strategic advantage.



What is your business?
 What is your purpose?
 Who is your customer?
 Analysis of business environment
 Competition and market gaps
 How can you compete?



What business are you in?
 What are your goals?
 How will you achieve them?
 What will be the financial benefit?
 What investment do you need?



Who is your customer segment(s)?
 What is your value offering?
 How will you reach your customers?
 What makes you hard to imitate?
 What resources do you need?
 How do you make money?

A 5 year Budget will have monthly plan for 1st year, Quarterly plan for 2nd and 3rd year, Yearly plan there after

STRUCTURE OF BUSINESS PLAN & STRATEGY DOCUMENT

Strategic

Business Strategy

Operating Strategy

Organisation Structure & Metrics

SWOT

Marketing Strategy

Operational

Assumptions

Balance Sheet

Revenue Build Up

Fund Flow

Unit Economics

Projected Financials

Manpower Buildup

Projected Overheads

Key Spans & Metrics

Projected CAPEX

USING PRICING TO WIN



Price to the value what customer perceive and not the cost

Your pricing determines acquisition strategy and sales cycle

Innovation pricing is always hard and ensure you focus on early adopters. Growth pricing is a different ball game

Understand the relation between cost, price and value

Your pricing will define your target customer

Dont press the volume button until you understand the optimal price

Keep increasing the price by 5% until you see a pushback in volume

Understand the pricing vs complexity of your product / Service



GETTING THE COHORT READY FOR INVESTMENT

EV/Share
EV/EBITDA
PER
PBV
Divident yield (%)
YE No. of shares
Par

Year	2018	2019	2020	2021	2022
Revenue	100	110	120	130	140
EBITDA	40	45	50	55	60
EBIT	30	35	40	45	50
Net Income	20	25	30	35	40
EPS	2.0	2.5	3.0	3.5	4.0

MODES OF FUNDING



Use Case	Ideation, Testing, Market Study, Initial traction, MVP	For strategic scaling, early working capital and team buildup, PMF	For new product development, Pilot, Proof of concept, Prototype	For working capital, Bridge funding	Increase your runway during the scale up phase.
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UNDERSTANDING THE STAGES OF FUNDING



Startup Stages of Evolution	Source of Capital	Typical Funding Size	Typical Valuation Range	Funding Basis
Idea Only	Bootstrap, F&F, Angel/Seed Funds	\$50-100K	\$500k-1.5M	Idea attractiveness & market size
+ Strong team	Bootstrap, F&F, Angel/Seed Funds	\$100-250K	\$500k-1.5M	Execution capability of founders
+ Demo prototype	Angel/Seed Funds	\$250-500K	\$2-5M	A successful working model of product/service
+ Validated product MVP	Angel/Seed Funds, VC	\$1-5M	\$5-20M	Customer adoption and early visibility into cash flows
+ Rapid customer adoption	Typical series A Angels, Seed-funds exit, VCs increase	\$5-20M	>\$50M	Strongly based on growth, market share and revenue growth estimates
Growth Capital for viral growth over a long period	Multiple rounds (B, C, D, E...) VCs will start taking partial exits. PE enters in a big way	\$20-100M	>\$250M	Supported by ongoing rapid growth and expected market share leading to revenues/profitability
Stable growth	Stable growth	>\$100M	>\$500M	Profitability/Cash flows based

 Art
 

 Science
 

VALUATION TECHNIQUES USED BY INVESTORS



Discounted Cash Flow (DCF):

Value is obtained by discounting expected future cash flows at an appropriate cost of capital. Applicable to a broad spectrum of company stages. Results are the most relevant when there is notable operating history.

Transaction Multiples:

The multiple is frequently obtained from the average of a group of public companies operating in a similar business and of comparable size. include: Price/Earnings (P/E), Enterprise Value/EBITDA, Enterprise Value/Sales.

Given the lack of operating history, transaction multiples are the preferred method of startup valuations.

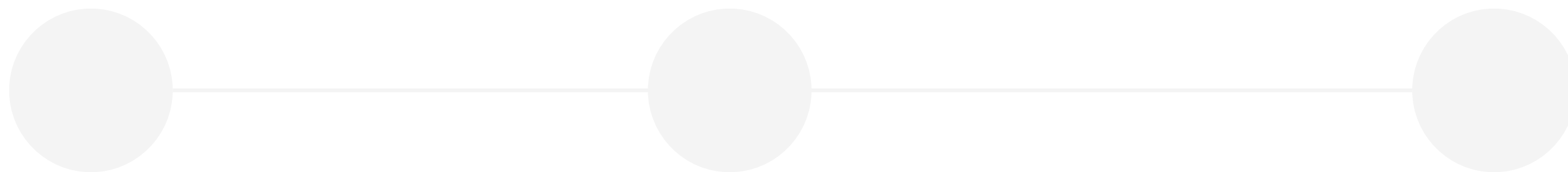
However it is advised to use multiple methods in conjunction to make up for the lack of liquidity in venture markets.

INVESTMENT INSTRUMENTS



Terms	Equity Shares (ES)	CCPS	CCDs	Convertible Notes (CNs)
Meaning	<ul style="list-style-type: none"> - company ownership - common stock of company 	<ul style="list-style-type: none"> - shares issued with specific rights to the investors under SHA - preference in liquidation over ES 	<ul style="list-style-type: none"> - convertible into equity based on predetermined conditions - preference in liquidation over shareholders 	<ul style="list-style-type: none"> - debt instrument - typically convertible to equity
When used?	<ul style="list-style-type: none"> - initial investment by promoters/founders - friends and family investment 	<ul style="list-style-type: none"> - investors and angel network - priced round 	<ul style="list-style-type: none"> - generally used for angel rounds - no determined valuation, convertible to future round of funding - bridge rounds 	<ul style="list-style-type: none"> - Angel investors / VC round
Terms	Has rights as given under the Companies Act, 2013 or defined in SHA	<ul style="list-style-type: none"> - generally convertible at 1:1 - rights as per the SHA 	<ul style="list-style-type: none"> - coupon rates - terms of conversion to ES - floor/cap valuation for conversion 	minimum investment amount of INR 25,00,000 for each investor. Notes have a coupon rate and milestone for conversion is within 5 years.
Taxability	<ul style="list-style-type: none"> - capital gains tax on sale of ES in hands of founders - unlisted ES - sold after holding for 24 months or more - taxable at ~23% 	<ul style="list-style-type: none"> - capital gains on sale of CCPS / converted ES - period of holding for converted ES from date of CCPS investment - unlisted ES / preference shares - sold after holding for 24 months or more - taxable at ~23% 	<ul style="list-style-type: none"> - for investors - interest on CCDs should be taxed as other income - capital gains on sale of CCDs / ES (after conversion) - period of holding for converted ES - from date of CCD investment 	<ul style="list-style-type: none"> - for investors - interest on CNs should be taxed as other income - capital gains on sale of CNs / ES (after conversion) - period of holding for converted ES - from date of CNs investment

THE ROLE OF FINANCE IN THE INVESTOR'S DECISION



We live in a world where ideas are worth their weight in the financial returns they bring.

Investors too, follow the same axiom and are more concerned with higher risk adjusted returns.

Entrepreneurs and supporting participants in the startup ecosystem are best suited for success if they create companies with strong financial systems and controls which will deliver high ROIs to investors.



ANALYZING FINANCIAL STATEMENTS

KEY AREAS OF A BALANCE SHEET



ASSETS

Any resource owned or controlled by the entity. Two kinds of assets exist:

Non-current Assets

Assets with a life longer than 12 months

Current Assets

Assets with a life shorter than 12 months



LIABILITIES

Any kind of financial obligation that a business has to pay at the end of an accounting period to a person or a business. Two kinds of liabilities exist:

Non-current Liabilities

Liabilities due after 12 months

Current Liabilities

Liabilities due in less than 12 months



SHAREHOLDERS EQUITY

Amount directly invested in the company by the owner and the reserves that have grown by the virtue of accumulating income.

KEY AREAS IN AN INCOME STATEMENT



REVENUE:

Captures the monetary value of the sales made in a period.



COST OF GOODS SOLD

(COGS):

COGS is the cost of acquiring or manufacturing the products that a company sells during a period.

CONTRIBUTION MARGIN:

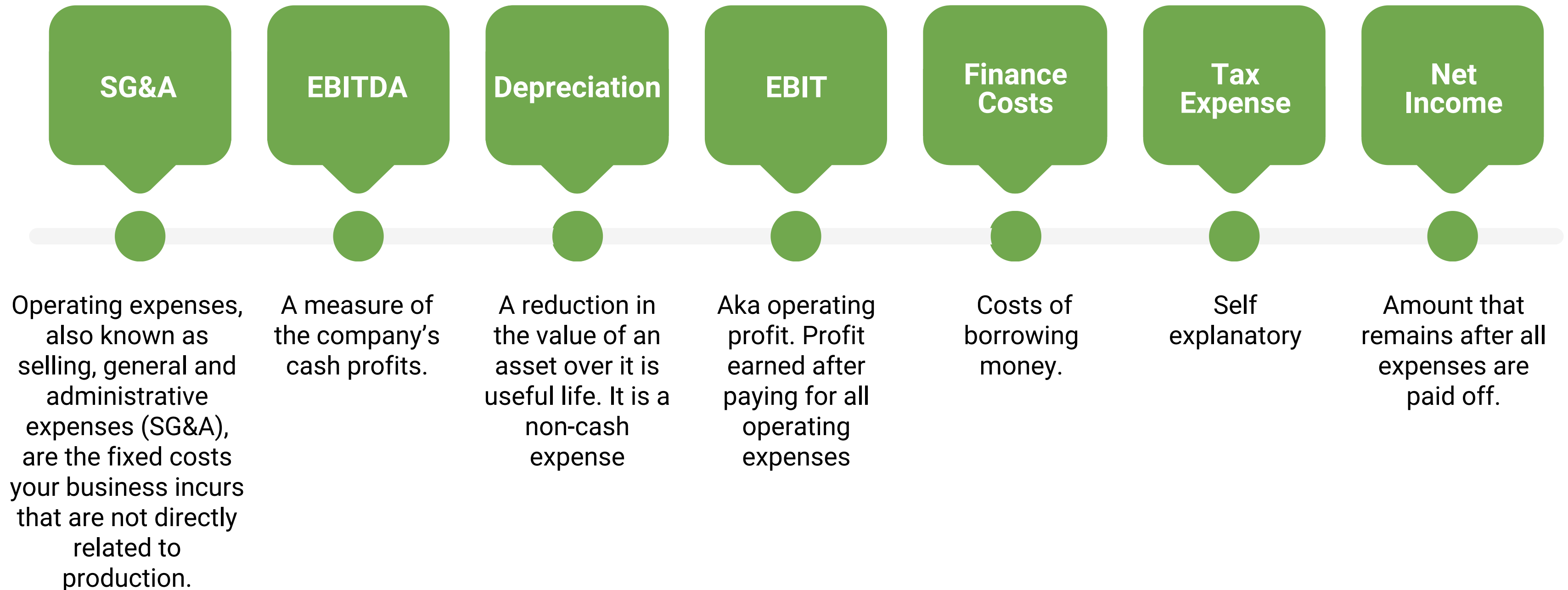
The difference between the revenue and direct costs on your P&L. It tells you two important things: how much of your revenue is being funneled into direct costs (less is better), and how much you have left over for all of the company's overhead expenses.



GROSS MARGIN:

Difference between revenue and COGS.

KEY AREAS IN AN INCOME STATEMENT

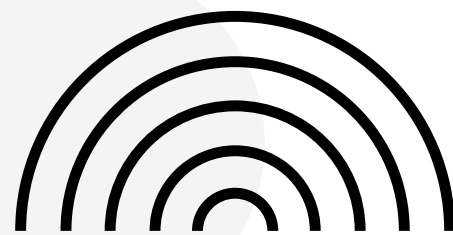


THE CASH FLOW STATEMENT AND HOW IT DIFFERS FROM A FUND FLOW STATEMENT



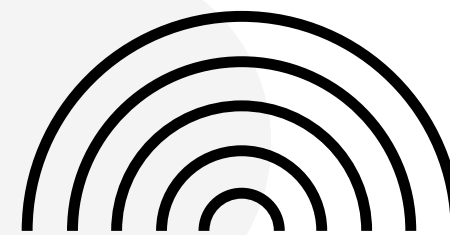
A cash flow statement is a financial statement that aggregates data regarding all cash flows of a company. It is divided into 3 sections:

Cash Flow from Operations



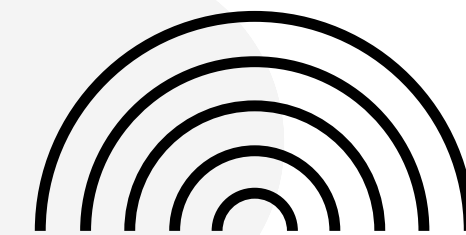
which includes cash flows from all operational business activities

Cash Flow from Investments



Includes cash flows resulting from capital expenditures and sale or purchase of tangible assets, intangible assets and investment securities

Cash Flow from Financing



Shows net cash flows from activities used to fund the company

THE FUND FLOW STATEMENT



The fund flow statement identifies all the cash inflows and outflows associated with your startup and helps you **calculate your the excess/shortfall of cash** that you have.

This **can be refined over time** as the startup interacts with the business environment

It is very important to understand the **timing of revenue collections, expense payments, CAPEX payments** as logically as possible to know the timing of cash shortfall

The fund flow statement is critical in understanding **how much cash is required** by a startup.

- If founders walk in blindly with an ask, they run the risk of diluting their stake too much

A critical input of the fund flow statement is how you manage the working capital cycle.

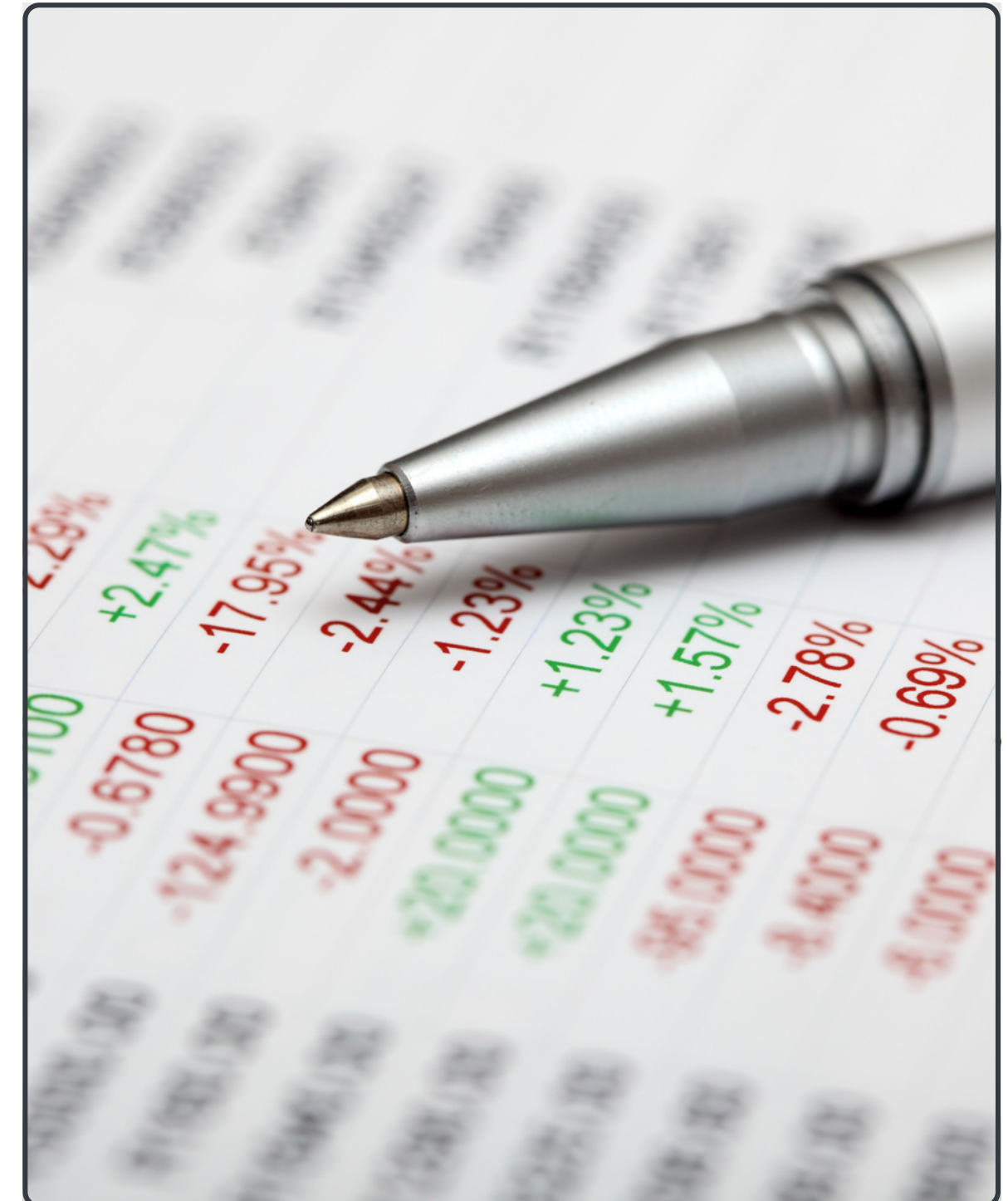
EXAMPLE OF FUND FLOW STATEMENT

ABC Co.

Fund Flow

All amounts in INR Lakhs

	FY22-23	FY23-24	FY24-25	FY25-26	FY26-27
Opening Cash	(12,211)	(118,895)	(212,429)	49,708	2,137,723
Inflows	2,176	21,077	85,327	237,460	533,606
AR	2,176	21,077	85,327	237,460	533,606
Outflows	5,981	25,434	70,357	152,233	289,870
AP-Vendor	3,922	16,842	53,762	121,175	232,704
Capex	439	1026	1228	1,098	1,131
AP-Others	1,620	7,566	15,367	29,960	
Closing	-16,016	-123,252	-197,459	134,935	2,381,458



A person's hands are shown holding pens over financial documents and a laptop displaying a line chart. The scene is overlaid with a teal tint. The text 'BASIC FINANCIAL MANAGEMENT CONCEPTS' is centered in white, bold, uppercase letters.

**BASIC FINANCIAL MANAGEMENT
CONCEPTS**

ANALYSING REVENUE



REVENUE QUALITY

Revenue quality is a key determinant of earnings quality and the company's potential.

If a large chunk of revenues is trapped in receivables, that is an indicator of poor revenue quality.

Higher cash revenues mean greater quality of earnings as well much better cash flows.



REVENUE GROWTH

Revenue growth can be measured by calculating the CAGR of revenue over certain periods.

If revenue growth is combined with revenue quality- a business is set to succeed.

CASH BURN & RUNWAY

CASH BURN RATE

Burn rate is the rate at which a company uses up its available cash.

Two types of cash burn rates:

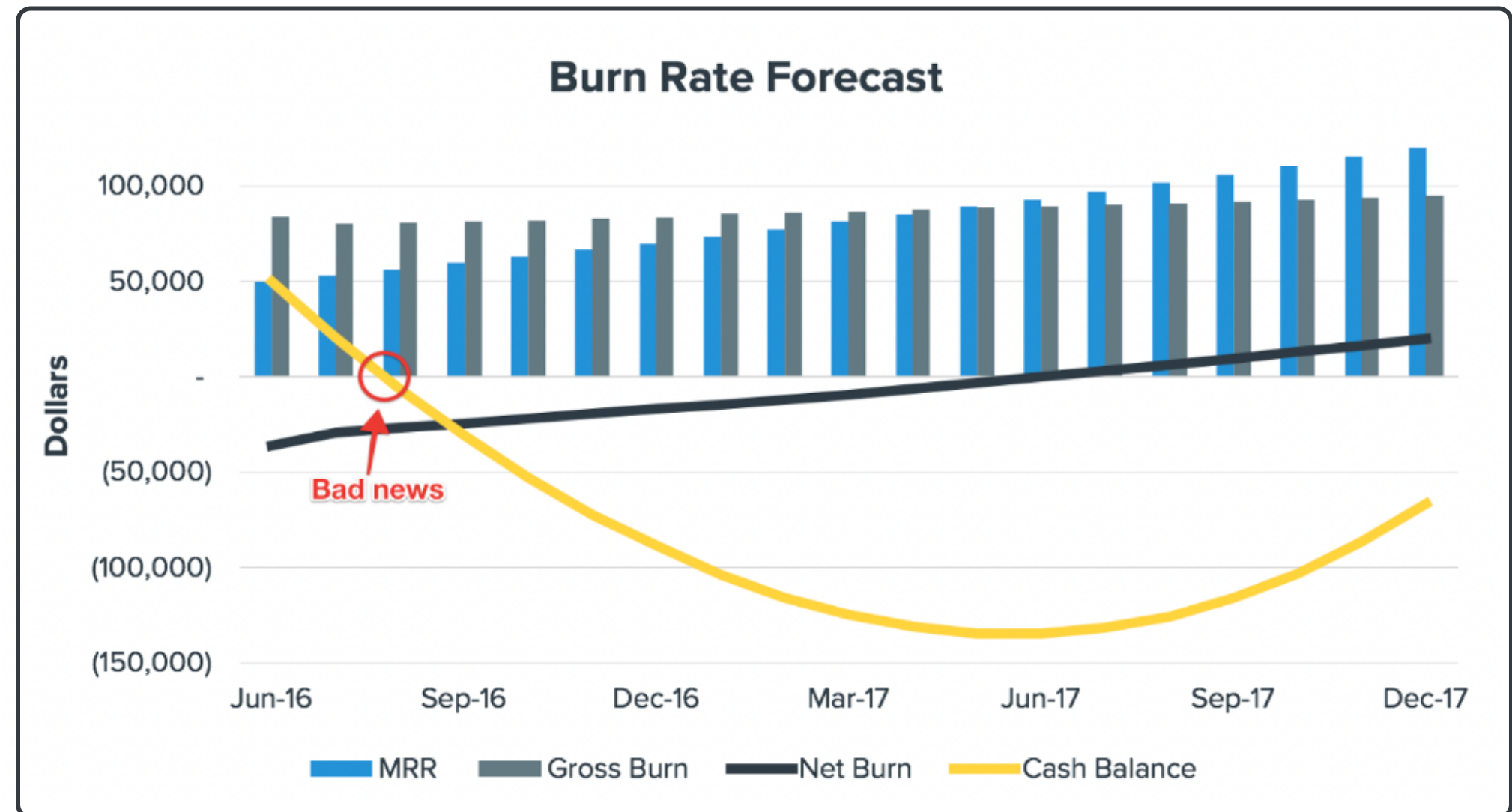
Gross burn rate

Total of all monthly expenses.

Net burn rate

Gross burn rate -
Income

As a measure of negative cash flow, burn rate is a crucial metric for understanding your startup's overall financial health.



CASH BURN & RUNWAY

RUNWAY

- Runway refers to how long a company can operate before they run out of cash,
- Typically measured in months.
- Runway = Total Available Cash/Net Burn Rate
- Runway is affected most by:

Receivables

Fundraising

- Burn Rates can be reduced with:

Layoffs and
Downsizing

Increasing Client
Churn

RUNWAY CALCULATIONS



Operating Runway

=

Cash on hand

 Operating Cash Flow (OCF)

[avg. past 6 months]

Predicted Runway

=

Cash on hand

 Operating Cash Flow (OCF)

[avg. future 12 months]

Standard Runway

=

Cash on hand

 Change in cash

VARIANCE ANALYSIS



- Variance analysis is a method of assessing the difference between estimated budgets and actual numbers. It's a quantitative method that helps to maintain better control over a business
- During a reporting period, you can sum all variances to see if your business is over or under-performing.
- When you notice a significant shift in the variance trend line, then you can become aware of dysfunction and work to resolve it.



VARIANCE ANALYSIS



Example of Variance Analysis for a Professional Services Company (Monthly Data)

Particulars	Jun-22		Budget		Actual vs Budget		May-22		MOM	
	INR	%	INR	%	INR	%	INR	%	INR	%
Revenue										
Revenue from operations	163.48	100%	132.00	100%	31.48	24%	71.96	98%	91.52	127%
Other income	-	0%	-	0%	-	0%	1.15	2%	-1.15	-100%
Total Income	163.48	100%	132.00	100%	31.48	24%	73.11	100%	90.37	124%
Cost of Services										
Salaries	66.23	41%	81.00	61%	-14.77	-18%	55.36	76%	10.87	20%
Rent & Facilities	3.62	2%	4.76	4%	-1.14	-24%	7.09	10%	-3.47	-49%
Others	10.45	6%	7.69	6%	2.75	36%	19.86	27%	-9.42	-47%
Total Cost of Services	80.29	49%	93.45	71%	-13.16	-14%	82.31	113%	-2.02	-2%
Gross Profit :	83.19	51%	38.55	29%	44.64	116%	-9.20	-13%	92.38	-1005%
Indirect expenses										
Salaries - Admin Staff	7.42	5%	11.53	9%	-4.10	-36%	10.61	15%	-3.18	-30%
Marketing Expenses	2.65	2%	5.84	4%	-3.19	-55%	5.19	7%	-2.54	-49%
Others	3.76	2%	10.31	8%	-6.55	-64%	5.32	7%	-1.56	-29%
Total Indirect expenses	13.83	8%	27.67	21%	-13.83	-50%	21.12	29%	-7.28	-34%
Net Profit	69.35	42%	10.88	8%	58.47	537%	-30.31	-41%	99.67	-329%
Total Overheads	94.12	58%	121.12	92%	-26.99	-22%	103.42	141%	-9.30	-9%
Revenue per HC	3.08		1.94		1.14		1.87		1.21	

Figures in INR lakhs

VARIANCE ANALYSIS



Example of YTD Data Variance Analysis for a Professional Services Company

Particulars	YTD June-22		Budget		Actual vs Budget		Jun-21		YoY	
	INR	%	INR	%	INR	%	INR	%	INR	%
Revenue										
Revenue from operations	816.08	100%	882.90	100%	-66.82	-8%	486.97	100%	329.12	68%
Other income	1.15	0%	-	0%	1.15	0%	1.99	0%	-0.83	-42%
Total Income	817.24	100%	882.90	100%	-65.66	-7%	488.96	100%	328.28	67%
Cost of Services										
Salaries	381.56	47%	501.88	57%	-120.32	-24%	215.07	44%	166.50	77%
Rent & Facilities	31.12	4%	26.96	3%	4.16	15%	21.11	4%	10.01	47%
Others	66.60	8%	42.48	5%	24.12	57%	35.05	7%	31.55	90%
Total Cost of Services	479.29	59%	571.32	65%	-92.03	-16%	271.24	55%	208.06	77%
Gross Profit :	337.95	41%	311.58	35%	26.37	8%	217.72	45%	120.23	55%
Indirect expenses										
Salaries - Admin Staff	64.89	8%	72.05	8%	-7.16	-10%	14.75	3%	50.14	340%
Marketing Expenses	25.99	3%	10.02	1%	15.97	159%	15.53	3%	10.46	67%
Others	32.82	4%	48.80	6%	-15.97	-33%	19.30	4%	13.53	70%
Total Indirect expenses	123.70	15%	130.86	15%	-7.16	-5%	49.57	10%	74.13	150%
Net Profit	214.25	26%	180.71	20%	33.53	19%	168.15	34%	46.10	27%
Total Overheads	602.99	74%	702.19	80%	-99.19	-14%	320.81	66%	282.18	88%
Revenue per HC	8.79		4.60		4.19		3.06		5.73	

Figures in INR lakhs

DERIVING UNIT ECONOMICS



- The “unit” in unit economics is a company’s core element measured to understand the source of its revenue.
- In order to derive unit economics- it is necessary to understand what the singular revenue earning unit is.
- Key metrics to understand unit economics include:

Contribution Margin

=

Price per unit - Total variable cost per unit

Gross Profit per Unit

=

Price per unit - Direct costs per unit

EBITDA per unit

=

Price per unit - Direct Costs per unit - Indirect Costs per unit (excluding non-cash costs)

Note: Direct costs also include overheads like rent, utilities, and other costs attributable to the production of good or service.

FORECASTING WORKING CAPITAL NEEDS



- Working capital is capital needed to sustain daily operations.
- It is the difference between your current assets (cash, inventory, and receivables) and current liabilities (trade payables, other payables)
- If current assets don't exceed current liabilities, the business runs the risk of bankruptcy
- Startups need to create financial models which recognize a working capital cycle that is sustainable
- Managing your working capital cycle allows you to steer your business according to cash flows, instead of revenues.



KEY WORKING CAPITAL CONSIDERATIONS



THE CREDIT TERMS:

To create a working capital forecast, you must start off by assuming a realistic credit terms. These will help you create a benchmark with your actual receivable and payable days



THE CASH CONVERSION CYCLE:

Calculated as
Inventory Days +
Receivable Days
- Payable Days

This helps you understand how fast you convert raw materials into cash inflows and helps with cash management.



LIQUIDITY RATIOS

These tell you how efficiently you have been using your working capital.

CONCLUDING REMARKS



To sum it up:

- We briefly looked into analyzing financial statements and the metrics to consider while analyzing financial statements.
- We briefly looked into some financial management techniques that enable us to track metrics and take corrective action.
- We briefly looked into valuation techniques and what investors expect from startup entrepreneurs and the pitfalls they need to look out for when raising funds.

KNOW YOUR MENTOR



Sriram Chidambaram

Education

CGMA from CIMA
Fellow Certified Management Accountant from the ICWAI
Qualified Company Secretary from the ICSI
EGMP from IIM-Bangalore

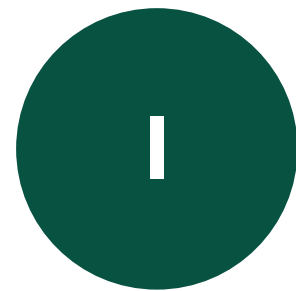
Experience

Founder and CEO at Spice Route Finance
VP of finance at E4E, a US based IT/ITeS multinational
Head of finance at MAS Holdings, one of the world's largest garment manufacturers.

Industries

Management Consulting
IT & ITeS
Manufacturing

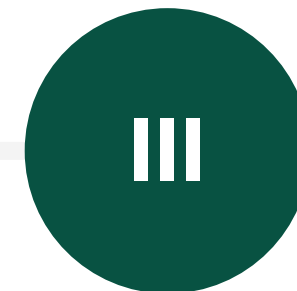
WHAT DOES SPICE ROUTE FINANCE OFFER?



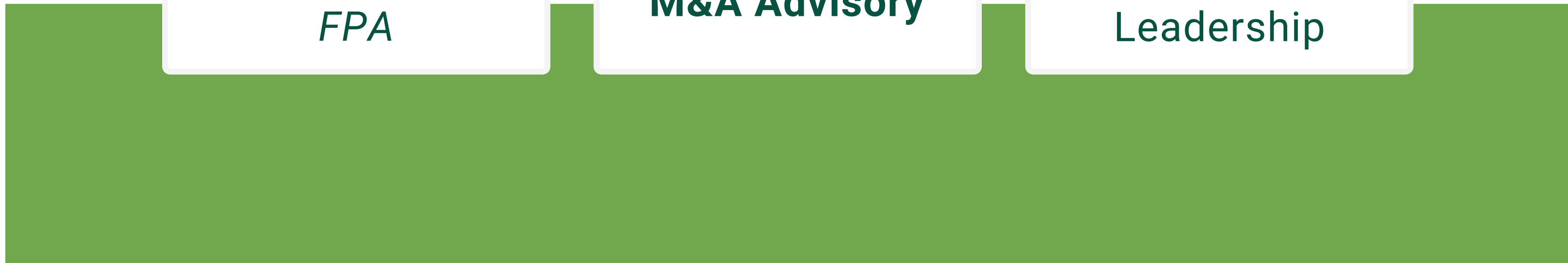
CFO Office
*Accounting,
Compliance &
FPA*



**Business
Consulting and
M&A Advisory**



Fractional CFO
Finance
Leadership



OUR PRACTICE AREAS

