

Startup; Valuation and Significance



Content

1. Introduction
 - a. What is a Startup
 - b. Indian Startup Ecosystem
 - c. Startup Hubs in India
2. Stages of Startup
3. Best Funded Indian Startup
4. States' Startup Ranking 2019
 - a. Ranking Framework
 - b. Emerging Startups Ecosystem
 - c. Startups Growth in 2020
- d. Emerging Startups Ecosystem
- e. Startups Growth till Sep 2020
5. Types of Funding
6. Sources of Funding
7. Impact of COVID19
8. Valuation Methods
 - a. Berkus Method
 - b. First Chicago Method
 - c. Venture Capital (VC) Method
 - d. Score Card Method



START UP



Introduction
Introduction

What is a Startup?

A **Startup** is a young company which found by one or more entrepreneurs. It is found to develop unique product or service and bring it to market. A typical startup tends to get its initial funding from the founder(s) or their friends and families.

One of the startup's first tasks is raising a substantial amount of money to further develop the product. To do that, they have to make a strong argument, if not a prototype, that supports their claim that their idea is truly new or a great improvement to something on the market.

The startup ecosystem is hailed as an incubator for innovation and a key contributor to job and wealth creation. In reality most startups fail in their first years of operations.

- ▶ A startup is an entrepreneurial venture in search of enough financial backing to get off the ground.
- ▶ The first challenge for a startup is to prove the validity of the concept to potential lenders and investors.
- ▶ Startups are always risky propositions but potential investors have several approaches to determining their value.



Indian Startup Ecosystem

(In a Nutshell - as on March 2020)



55,000

Startups Launched in India

40,000

Active Startups in India

28,979

DPIIT Registered Startups

385

Funded Startups that have
Shutdown

\$63 Bn

Funding Raised by Indian
Startups

5,400

Funding Deals Witnessed

3,202

Number of Funded Startups

7 Years

Average time taken by
Indian Startups in Reaching
Unicorn Status.

34

Unicorns in Indian Startup
Ecosystem

Startup Hubs in India

A Startup hub is a place where a startup can learn, know, and grow. A startup failure rate is very high and there is a high chance that 90% of the startups going to fail. These numbers indicate that startup needs a friendly ecosystem where it can grow with all the easily available resources.



Bengaluru

36%

Home to some of the country's biggest technology companies (100 +MNCs), Bengaluru has a lot of technology talent.

Ranks among top 3 cities globally for launch of tech start-ups.

High density of entrepreneurs and investors attracts budding entrepreneurs.



Delhi – NCR

30%

Strong presence of startup incubators/accelerators run by Corporates, Govt., Educational Institutions and Venture Capitalists.

Growth of Noida and Gurgaon as startup hubs, has put Delhi NCR on the startup map of India



Mumbai

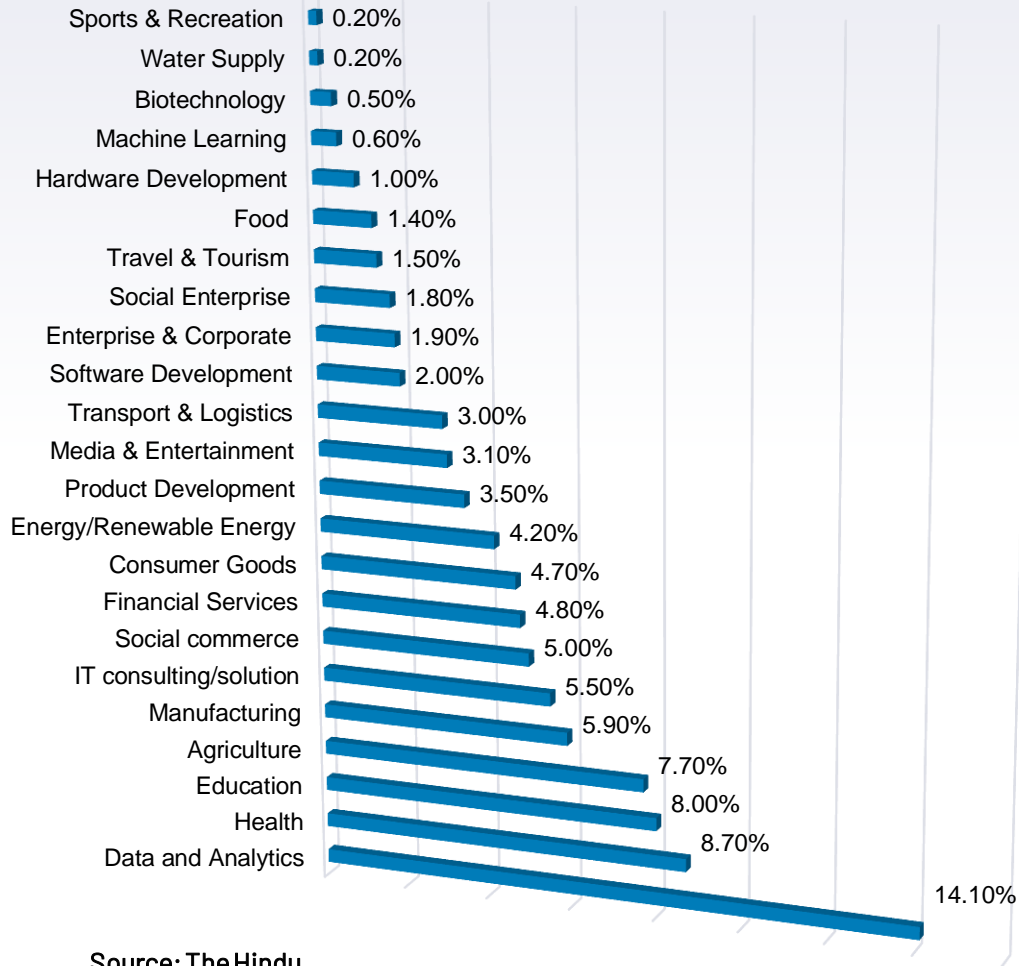
20%

Financial, commercial and entertainment capital of India.

Advantage of a huge consumer base.

In a few verticals like FinTech, Media & Entertainment, FoodTech and Travel, Mumbai is competing with established hubs like Bangalore and Delhi NCR for the top set.

% Share of Startup's Sectors



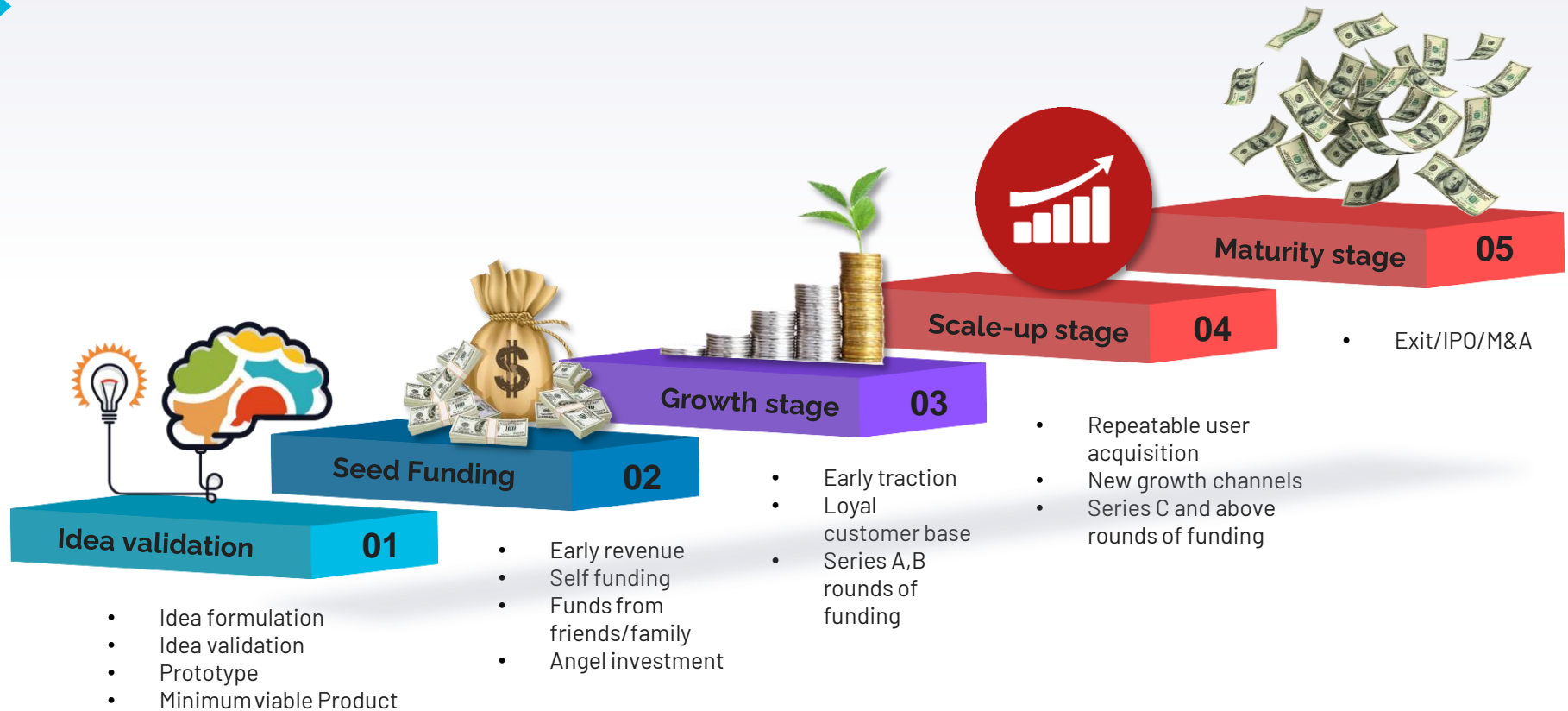
Source: TheHindu



The analytics and data sector was the most preferred choice for start-ups, that too with a wide margin, followed by health, education and agriculture.












Stages of Startups





Best funded Indian Startups

Start-up	Industry	Total funding (in \$ Bn)	Description
	E-Commerce, Shopping and Financial Services	4.40	It is the company which operates Paytm; a mobile commerce and digital goods platform.
	Transportation	3.80	It is a ride-hailing platform where anyone can book taxis online; through its app.
	Travel and Tourism	3.20	It is a hotel chain that offers a range of stay experiences across India and abroad.
	Energy	2.80	It develops, builds and operates renewable energy production facilities.
	Commerce and Shopping	1.80	It is an online shopping platform.
	Commerce and Shopping	1.80	It is a food ordering and delivery platform.
	Education	1.40	It is an online education services provider
	Commerce and Shopping	1.10	It is an online food and grocery store.
	Logistics	0.93	It is a logistics and supply chain services company.

Source: www.disfold.com

A series of vertical bars of varying heights and widths, mostly in shades of gray, with one prominent red bar, located on the left side of the slide.

States' Start-up Ranking 2019

Ranking Framework of India

- ▶ Ranking Framework was introduced in 2018.
- ▶ It was introduced to encourage states and UTs to promote good business practices for startups.
- ▶ In 2019 there were active participation of 22 states and 3 Union Territories.
- ▶ The results of the 2nd edition of States' Startup Ranking were announced on 11th September 2020.



Best Performer (State)



Gujarat

The Government of Gujarat has taken several initiatives in establishing:

- ▶ In identifying regulatory issues from disruptive sectors through proactive mechanism.
- ▶ One of the largest incubators in the country.
- ▶ The Student Startup and Innovation Policy. Its objective is to increase the capacity of premier educational institutes.

Best Performer (Union Territory)

Andaman and Nicobar

The Union Territory of Andaman and Nicobar Islands has taken several praiseworthy initiatives. Some of them include:

- ▶ Culture of Innovation
- ▶ Startup warehouse by Department of IT, in association with the Industries Department and Society for Promotion of Vocational & Technical Education

Top Performers



Karnataka

The Government of Karnataka has taken several initiatives in developing:

- ▶ Futuristic policies to support new disruptive technologies.
- ▶ Regulatory committee; for reviewing the challenges faced by startups working in emerging technologies.

Kerala

Institutional support for women-led startups, including seed funding, pre-incubation support and special subsidies.

- ▶ Robust venture funding mechanism for startups.
- ▶ Support from various government departments.

Leaders

Maharashtra

Maharashtra State Innovation Society to encourage innovative approaches and create favorable environment for innovative businesses.

Odisha

A State Startup Policy and a Biotechnology Policy

Rajasthan

iStart Rajasthan – a single window resource for investors, incubators, startups, accelerators and mentors

Bihar

Bihar is known as “department of Industries”

Chandigarh

Forming a single window online system to obtain industry approvals and clearances

Aspiring Leaders

Telangana

Telangana is known as “WE Hub – a women focused incubation center”

Uttarakhand

Strong online mechanism to deal with regulatory issues faced by startup

Haryana

Angel Investment workshops in alliance with Startup Hub Gurugram and Hartron Innovation

Jharkhand

Department of Information Technology & e-Governance

Nagaland

Nagaland Innovation Fund in alliance with leading international and national investors; wherein the state actively invests with matching capital.

Emerging Startups Ecosystem

Chhattisgarh

Collaboration with local core industries for developing technology smart solutions for traditional industries.

Himachal Pradesh

Special Incentives to boost women entrepreneurship

Andhra Pradesh

Building cohesive partnerships to foster growth of the startup ecosystem

Tamil Naidu

Department of Medium, Small and Micro Enterprises

Madhya Pradesh

Futuristic policies to support disruptive and new technologies in startup ecosystem

A comprehensive and time-bound grievance redressal mechanism for public procurement

Uttar Pradesh

Information Technology & Electronics Department

Assam

A large network of mentors comprising senior officials from government and industry

Delhi

A strong network of incubators through academic institutions across the NCT

An effective mechanism for awareness and outreach through boot-camps and hackathons

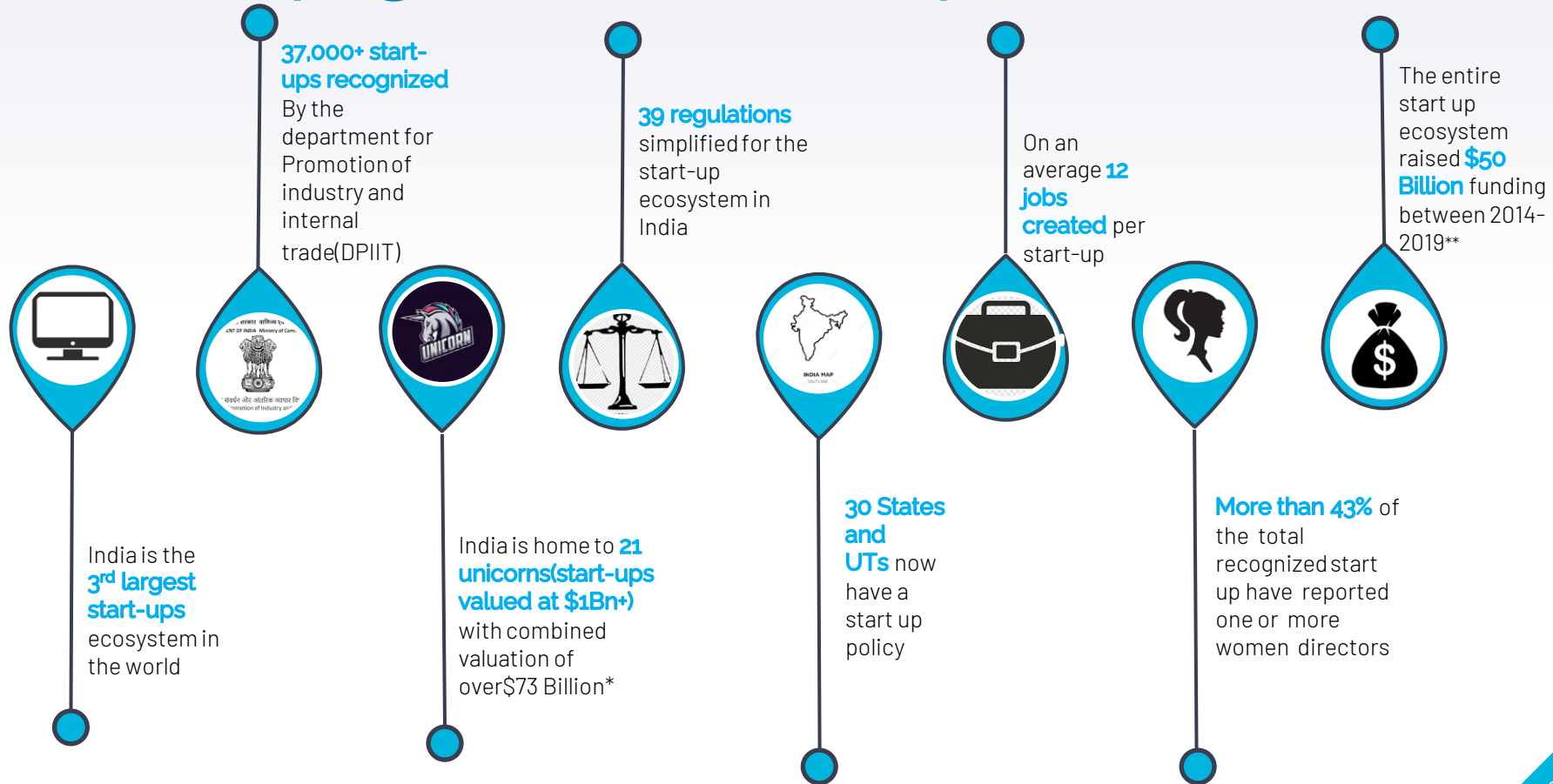
Mizoram

Conducting events for startups, including bootcamps, hackathons and Grand Challenges

Sikkim

Commerce & Industries Department

Start-up growth till Sep 2020





Types of Funding

Self Funding

An entrepreneur should ascertain how much amount he/she can contribute from his/her own pockets.

Venture

When the services or the final product reach the market, this funding comes into picture.

Series B

When a business relies on Series B investment, it portrays that the product is marketed right, and the customers are actually buying the product or service, as decided earlier. Such funding helps a business in paying salaries.

Self funding

Seed Funding

Venture

Series A

Series B

Series C

IPO

Types

Of

Funding

Seed funding

It is an investment made at the introductory stage of the startup. It helps the business to identify and create the best direction for the startup.

Series A

Series A investment, being the very first round of funding, doesn't ask for external funding. At this stage, startups have formulated a specific plan for their service or product. It is majorly used for improving the brand credibility and marketing.

Series C

A startup can receive as many rounds of investment as possible, there is no certain restriction on it. However, during Series C investment, the owners, as well as the investors, are pretty cautious about funding this round.

IPO

When a startup decides to raise funds from the public including institutional investors as well as individuals, by selling its shares, it is known as an IPO (Initial Public Offering).



Sources of Funding

Business Incubators & Acc

Business incubators (or "accelerators") generally focus on the high-tech sector by providing support for new businesses in various stages of development.

PERSONAL INVESTMENT

When starting a business, **the first investor should be oneself**—either with their own cash or with collateral on their assets

GOVT. PROGRAM

There are various Government agencies providing financing like subsidies and grants.

BANK LOAN AND NBFC

It is the most commonly used source of funding for small and medium-sized businesses. Consider the fact that all banks offer different advantages such as customized repayment or personalized service.

LOVE MONEY

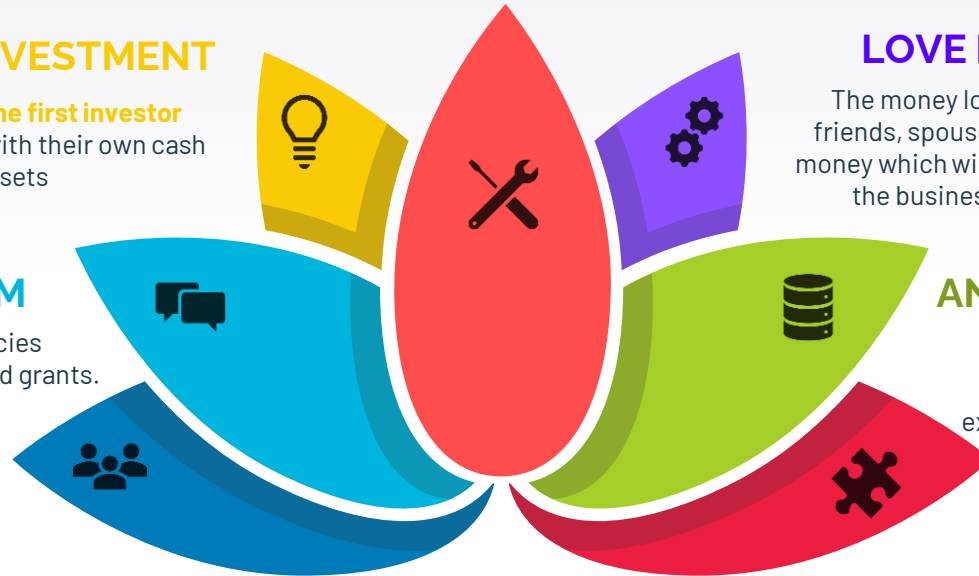
The money loaned by a parents, friends, spouse or family. It is the money which will be repaid later as the business profits increase.

ANGEL INVESTMENT

Angels are generally wealthy individuals or retired company executives who invest directly in small firms owned by others

VENTURE CAPITAL

An equity position is taken by **Venture capitalists** in the company. It is taken to help it carry out a higher risk but promising project. This involves giving up some ownership to an external party.



40,000

35,000

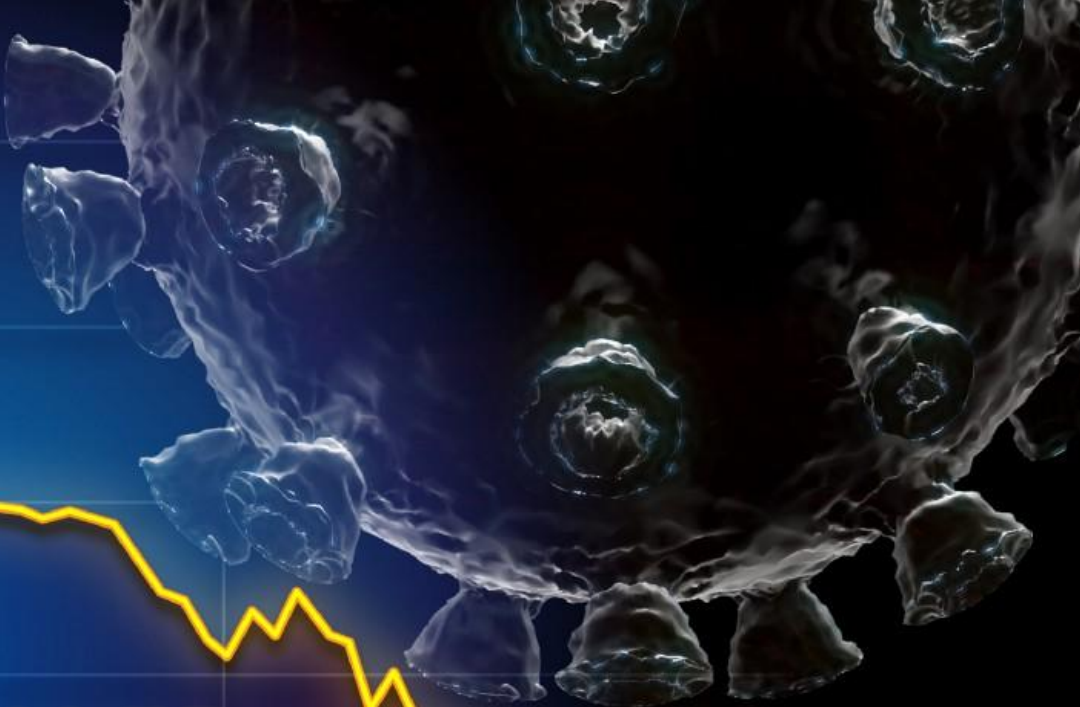
30,000

25,000

20,000

15,000

Impact of COVID19



The Indian startup ecosystem has seen a lot of success in the past years. However, this flourishing growth saga was suddenly hit by the COVID roadblock.

The global pandemic has taken a lot of lives along with crashing the economy of most of the countries. There is no way that the startups could retain such a hit. Startups were hit direfully as compared to Big Businesses.

9,300

Number of Startups; 2019

4,00,000

Total Direct Employment

15%

Growth in 2019

Impact

60% of B2C Startups are facing closure.

40% of Startups are temporarily shut or winding up operations.

Falling Revenues

92% of Startups facing a decline in revenues.

62% have seen revenue dip more than 40%

34% have seen revenues plummet by over 80%

Cash Reserves

0-3 months **70%**

3-6 months **22%**

9+ months **9%**

70% of the startups have runway less than 3 months

COVID19



Source: Nasscom

Stress during COVID19

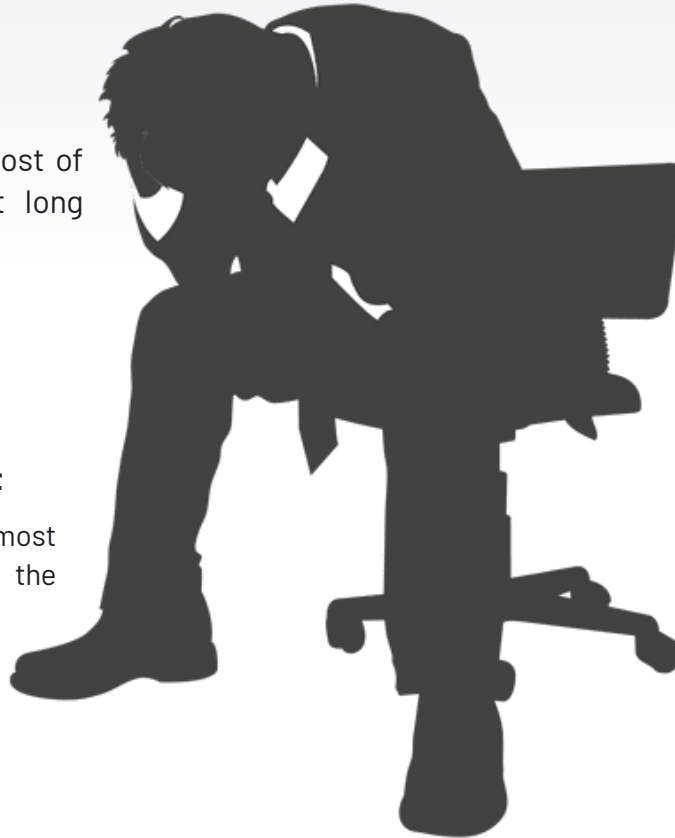
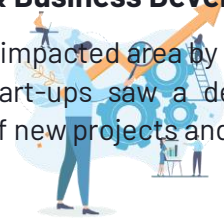
Funding Roadmap

Funding Shortage is felt by most of the startups and can affect long term sustainability



Growth & Business Development

The most impacted area by COVID; most of the start-ups saw a decline in the pipeline of new projects and scaling.



Technology Development

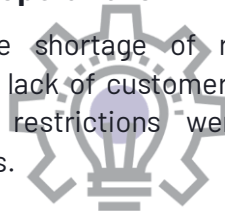
Startups have been challenged by the need to quickly upgrade their existing tech infrastructure and issues specific to product development & enhancement.



Upgradation/Product Development

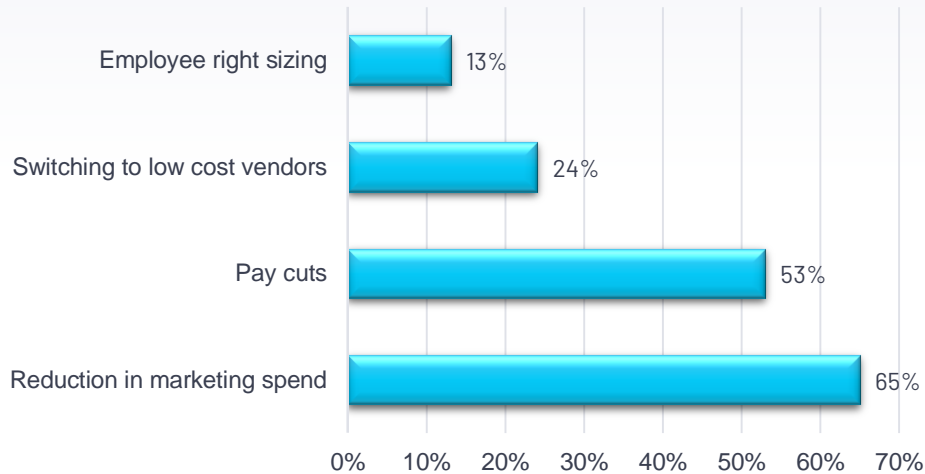
Business Operations

Issues like shortage of raw material, payments, lack of customer connect due to travel restrictions were faced by businesses.

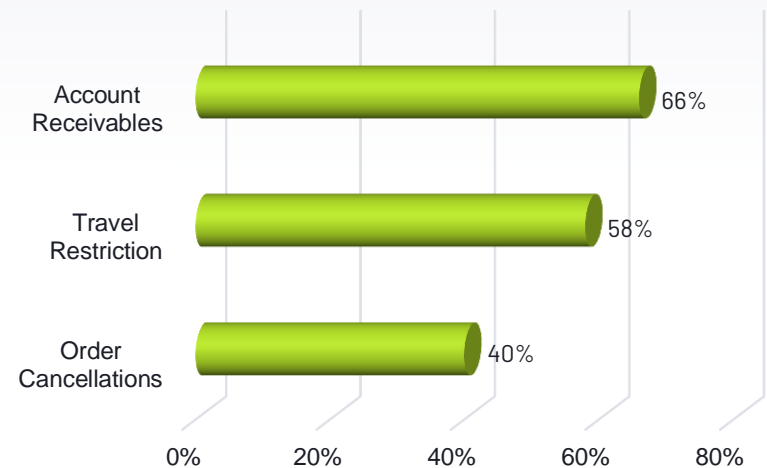


Some more Affected Area

Step taken to address impact



High impact areas in Business Operations



Manpower Crunch



Low Revenue



**Reduction in
Marketing Expense**



Delays in Payment

Emerging Opportunities

EdTech

It is expected to grow at a CAGR of 52% to become a nearly Rs. 150 Cr. industry by 2021. All of it because of school closure and lack of online classes.

Healthcare

As the global pandemic had spread in the world, the sector boosted and came into action for remedial actions to the deceased. 40% of the Tech startups consider Healthcare as a big opportunity.

E-Commerce

The Rs. 62,800 billion Indian retail market is the fourth largest in the world and is largely unorganized. About 13% respondents bought online for the first time, while about 40% bought more online during the lockdown.

Social Media

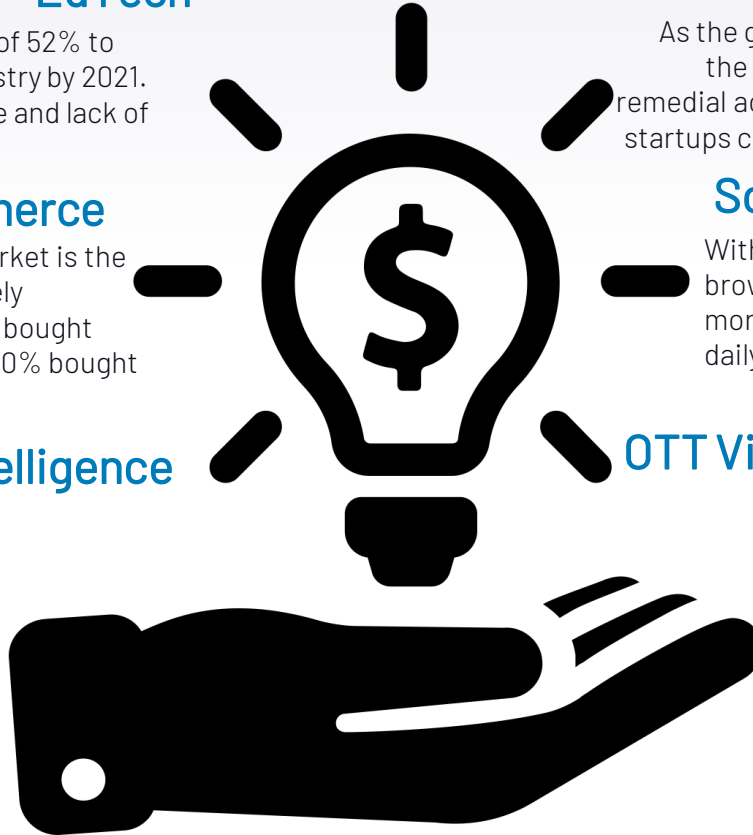
With people locked in their homes, users were browsing 53% more on Facebook and 32% more on Instagram. Twitter has reported that daily usage is up 23%

Artificial Intelligence

India's AI spending will grow from \$300 million in 2019 to \$880 million in 2023 at a CAGR of 30%, said an International Data Corporation (IDC) report. As per IDC's 2020 Covid-19 Impact survey, half of India enterprises plan to increase their AI spending this year

OTT Video Streaming Market

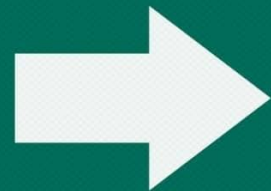
The OTT sector in India witnessed a 30% rise in the number of paid subscribers, from 22.2 million to 29.0 million between March and July 2020. According to a report, the OTT market in India is set to reach from Rs. 42.50 billion in FY19 to Rs. 237.86 billion by FY25,.



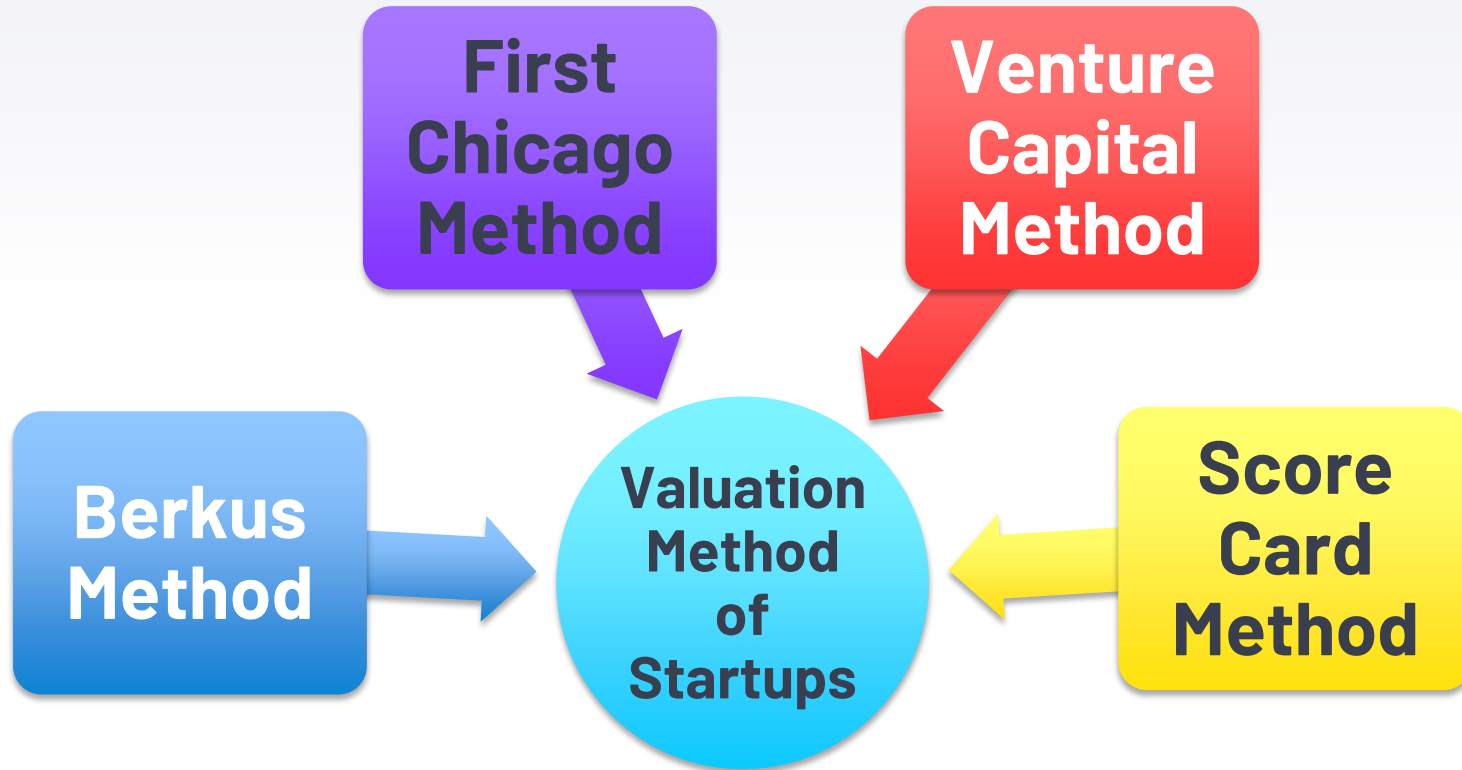


STARTUP

VALUATION



Valuation Methods



Berkus Method

- ▶ It was created by **Dave Berkus**, an American angel investor .
- ▶ It uses qualitative and quantitative factors to estimate the valuation based on five elements – sound idea, prototype, quality management team, strategic relationships, product rollout or sales.
- ▶ A monetary value, which is set up to \$500K, is assigned to each quality driver and the values shall be adjusted depending upon the priority of a new business.

Value Driver	Add to Pre-Money Valuation	Assigned Value
Sound Idea (basic value, product risk)	\$0-\$500,000	\$ 250,000
Prototype (reduces technology risk)	\$0-\$500,000	\$ 310,000
Quality Management Team (reduces execution risk)	\$0-\$500,000	\$ 370,000
Strategic Relationships (reduces market risk and competitive risk)	\$0-\$500,000	\$ 190,000
Product Rollout or Sales (reduces financial or production risk)	\$0-\$500,000	\$ 50,000
PRE-MONEY VALUATION		\$ 1,170,000

The Berkus Method will not be relevant once the startup starts generating revenue, but it can provide a simple approach to determining your value while in negotiations with investors.

First Chicago Method

- ▶ It is a business valuation approach used by private equity investors and venture capital for early-stage companies.
- ▶ This model combines discounted cash flow and multiple-based approach.
- ▶ It evaluated the risk involved in forecast cash flows using 3 different scenarios:
 - a) **Base case** is based on less delays and growth to complete the projects, requiring higher costs.
 - b) **Best case** is normally compliance with the Business Plan.
 - c) **Worse case** relates to a perpetuation of the status quo. Sometimes the planned operations may involve initial losses and result in a value below the additional capital needed.

Using a rate of return required by venture capitalists, the three values are weighted by the probability of each Scenario occurring and then added together. An estimate of the additional equity required is then deducted to calculate the **Net Income Value**.

Venture Capital (VC) Method

- ▶ It is most commonly used in the venture capital industry and for valuing startups. The idea is that Venture Capitalists and other investors shall realize their returns after an exit (also called 'liquidity event') and they expect a rate of return on their investment. The same can be expressed as:

Expected Return on Investment (ROI) = Exit Value / Post-Money Valuation

Where,

Exit Value – expected value of a company to be sold

Return on Investment – expected rate of return

- ▶ First, an expected exit price for the investment is estimated.
- ▶ After that, post-money valuation is calculated by accounting the time and the risk the investors takes.
- ▶ The return on investment can be estimated by determining what return an investor could expect from that investment with the specific level of risk attached.
- ▶ This method is often used in valuing pre-revenue companies where it is simpler to calculate an exit value, once, certain milestones are reached.

Venture Capital (VC) Method

- ▶ Let's understand by taking an example of a company which is expected to generate a revenue of USD 10 Million after one year and sale multiple of 2x for a similar listed company. This implies the exit value shall be USD 20 Million.
- ▶ This exit value should be discounted by using an expected rate of return, say 20%. This means,
 - ▶ $20 \times (1 + 20\%)^1 = 24$ (post-money valuation)
- ▶ Let us assume, if the investor would invest an amount of USD 4 Millions, then the pre-money valuation will be USD 20 Millions.
- ▶ The investor's stake would be – USD 4 Million / USD 24 Million = 16.67 %

This is to be noted that estimation of exit value and Return on Investment (ROI) is a subjective assumption. The VC method is not a complete model to value early-stage companies. However, it is broadly used as a thumb rule and a starting point for more thorough studies as this method is simple and straightforward.

Score Card Method

- Score Card method is also known as Bill Payne Method and one of the most preferred methods used by angel investors. This method compares the startups to other funded startups in similar stage of region, stage and market.
- An average pre-money valuation is determined for pre-revenue startups by adjusting the average valuation of selected startups.
- Assuming, average pre-money valuation of other funded startups to be USD 1.5 Million.

Comparison Factor	Maximum Range	Target Company's Score	Factor
Strength of the team and management	30%	125%	0.3750
Size of the opportunity	25%	150%	0.3750
Product/Technology	15%	100%	0.1500
Competitive Environment	10%	75%	0.0750
Market/Sales/Partnerships	10%	80%	0.0800
Need for Additional Investment	5%	100%	0.0500
Other Factors	5%	100%	0.0500
Total			1.1550
Average Pre-Money Valuation of Other Startups			USD 2 Million
Pre-Money Valuation of Target Startup			USD 2.31 Million

This method is indeed subjective as the determination of target company's score and range of comparison factor is a subjective matter.

Valuation

Business & Business Interests

- ▶ Business & Equity Valuation
- ▶ Valuation of Start-up / IPO / REIT / M&A, Leverage Buyout Valuation
- ▶ Valuation of ESOPs and Sweat Equity
- ▶ Valuation for Tax, Capital Gain, Transfer Pricing
- ▶ Valuation for Financial Reporting, Fairness Opinion, Purchase Price Allocation (PPA) for M&A
- ▶ Determination of Swap Ratio under Merger and Demerger
- ▶ Valuation of Inventory / Stocks and Debentures / Receivables
- ▶ Litigation and Dispute Support

Intangible Assets

- ▶ Valuation of Brands, Goodwill, Trademark, Copyright, Patents, Other Intangible Assets & Intellectual Property
- ▶ Valuation for Financial Reporting, Fairness Opinion, Purchase Price Allocation (PPA) for (M&A)
- ▶ Impairment Studies of Intangible Assets

Financial Instruments

- ▶ Valuation of Financial Securities, Instruments & Derivatives
- ▶ Valuation for M&A Transaction, under Insolvency & Bankruptcy Code

Immovable Assets (Real Estate)

- ▶ Valuation of Land, Building Residential / Commercial / Industrial Estates
- ▶ Valuation of Infrastructure Assets, Expressways / Toll Ways & Specialized Assets
- ▶ Valuation for Capital Gain Tax, Stamp Duty, Litigation & Dispute
- ▶ Impairment Studies for Financial Reporting, PPA, Cash Generating Units
- ▶ Mines, Mineral Advisory and Valuation
- ▶ Valuation under Insolvency & Bankruptcy Code (IBC)
- ▶ Movable Assets (Plant & Machinery)
- ▶ Valuation of Industrial Assets and Plant & Machinery
- ▶ Valuation of Infrastructure Assets & Specialized Assets, Power Plants
- ▶ Fairness Opinion, Purchase Price Allocation for M&A
- ▶ Impairment Studies for Financial Reporting, Cash Generating Units
- ▶ Valuation under Insolvency & Bankruptcy Code (IBC)

Transaction Advisory

- ▶ Buy side due diligence and closing due diligence
- ▶ Vendor due diligence and vendor assistance
- ▶ Sale Purchase agreement (SPA) and Business Transfer Agreement (BTA)
- ▶ Assistance in deal negotiation

Risk Consulting

Strategic & Risk Advisory Services

- ▶ Techno Economic Feasibility Studies
- ▶ Economic Viability & Financial Appraisal
- ▶ Business Plan Review

Technical Support Services

- ▶ Lender's & Investor's / Independent Engineer Services
- ▶ Technical Due Diligence, Technical Opinions
- ▶ Chartered Engineers Opinion & Certification
- ▶ Project Cost Investigations
- ▶ Project Appraisal & Monitoring

Agency for Specialized Monitoring (ASM)

- ▶ Term Loan Monitoring
- ▶ Working Capital Monitoring
- ▶ Cash Flow Monitoring

Financial & Treasury Risk Advisory

- ▶ Assessment Of Credit Risk, Market Risk & Interest Rate Risk
- ▶ Assets Quality Review & Stress Testing
- ▶ Assessment of Expected Credit Loss
- ▶ Assessment of Asset Liability Management & Liquidity Risk

Risk Consulting

- ▶ M&A Advisory:
 - Sell Side, Buy Side
 - Domestic & Cross Border
- ▶ Partner, Joint Venture & Strategic Alliances
- ▶ Government Disinvestment & Privatization
- ▶ Fund Raising – Equity, Mezzanine, Structure Finance & Debt
- ▶ Distress Investment Banking – One – Time Settlement, Priority and Interim Funding, Rescue Financing and Buyouts

DISPUTE & LITIGATION SUPPORT

- ▶ Valuation Services
- ▶ Damages & Loss of Profit Assessment
- ▶ Independent Expert Testimony
- ▶ Anti – Trust & Competition Advisory
- ▶ Post – Acquisition Disputes, Joint Venture & Shareholder Disputes
- ▶ Civil & Construction Disputes, Real Estate Disputes
- ▶ Intellectual Property Rights Dispute

Office Locations

Mumbai Office

NITIN A. GARG

Mob: +91-9871174480

Email:

Cabin No. 18, 3rd floor,
Wing-B, Workamp Estate,
Shah Industrial Estate,
Saki Vihar Road
Andheri East Mumbai-400072
Tel: 022-40509215

Gurgaon Office

SUNIL KUMAR

Mob: +91-9711628387

Email:

M-12/16, DLF Phase-2,
Gurgaon-122002
Tel: 0124-2562017
Fax: 0124-2562016

Head Office, Delhi

SACHIN GARG

Mob: +91-9811722446

Email: sachin.garg@iGAA.in

B-5, Oriental House,
Commercial Complex,
Gulmohar Enclave,
New Delhi-110049
Tel: 011-26960167,
011-26853881
Fax: 011-26853873

Bengaluru Office

KRISHNA PRAKASHA

Mob: +91-9632830651

Email:

Suite No. B 6, Instasquares,
151, 27th cross,
Opposite Ayyappa Temple,
6th block Jayanagar,
Bangalore-560082
Tel: 080-65700725

Toronto Office

SUSHIL MALHOTRA

+1.36599.82051

Email:

1 Hollowgrove Blvd Brampton,
Ontario L6P1B2, Canada

Research Team



Manager Valuation

Mohit Behal



Asst. Manager Valuation

Adil Afaque



Associate Valuation

Amit Balhra