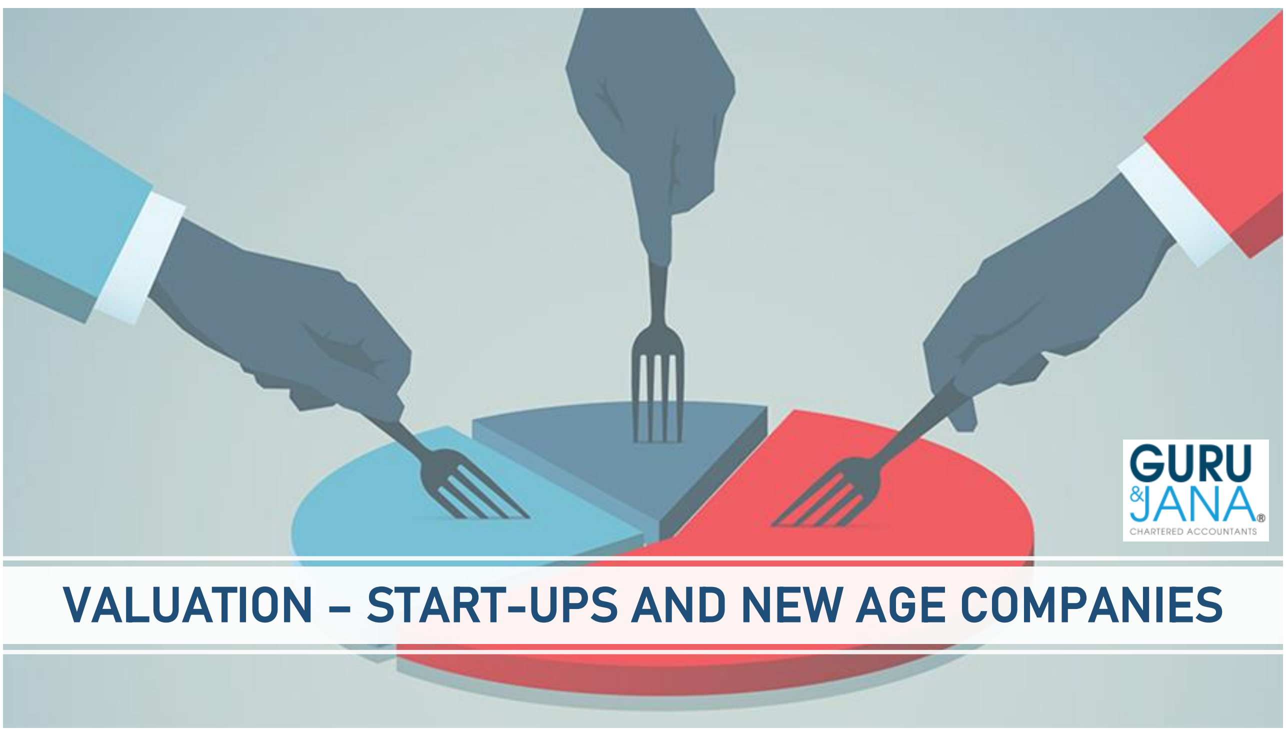


VALUATION – START-UPS AND NEW AGE COMPANIES

What are we talking about in the next two hours?

In simple words– what you cannot find in Google..

-- what is there in some slides is there in Google, but, Google does not say what we need to understand from them

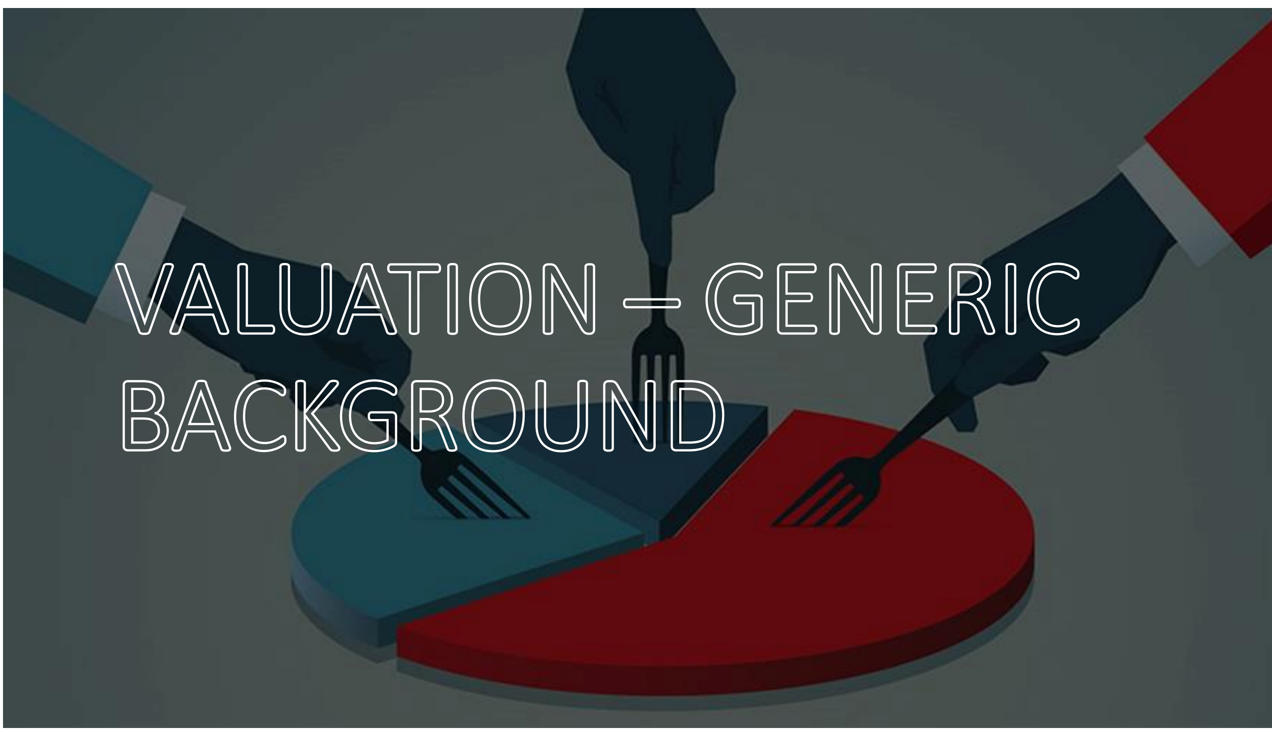
What is valuation?? – Different approaches to Valuation

Different Types of Start-up valuations

Deep Dive into a few approaches

Q & A

Overview


VALUATION – GENERIC
BACKGROUND

What is Valuation?

Not an exact science

Subjective

Based on assumptions

Purpose Driven

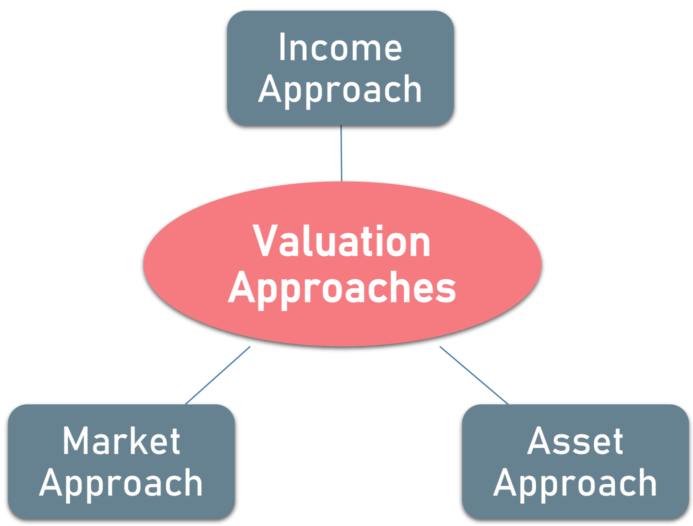
Not conclusive - Indicative

As a valuer, you also need –

- Imagination
- Creativity
- Market Knowledge
- Valuation Terminologies

Factors

The Big Three



Classification

Income Approach

- ✓ Based on **expected future cashflows;**
- ✓ Determines **investor's actual return;**
- ✓ **Discounted Cashflow Methodology – Most reliable;**

Average Future Maintainable Cashflows → **Discount Rate and Present Value of Cashflows** → **Surplus Assets & Debt & Discounts**

Value under DCF =

Present value of future cashflows (Including terminal value)

(+) Surplus Assets

(-) Discount for lack of control and marketability

Overview

Market Approach

- ✓ Comparative Analyses;
- ✓ May be based on transactions involving same / similar asset;
- ✓ **Conceptually preferable – based on actual market condition;**

Identification of comparable → Identifying and analyzing comparable data → Assigning and adjusting multiples

Drawbacks:

- Difficult to identify comparable;
- Not feasible for private company valuation;
- Highly Assumptive;

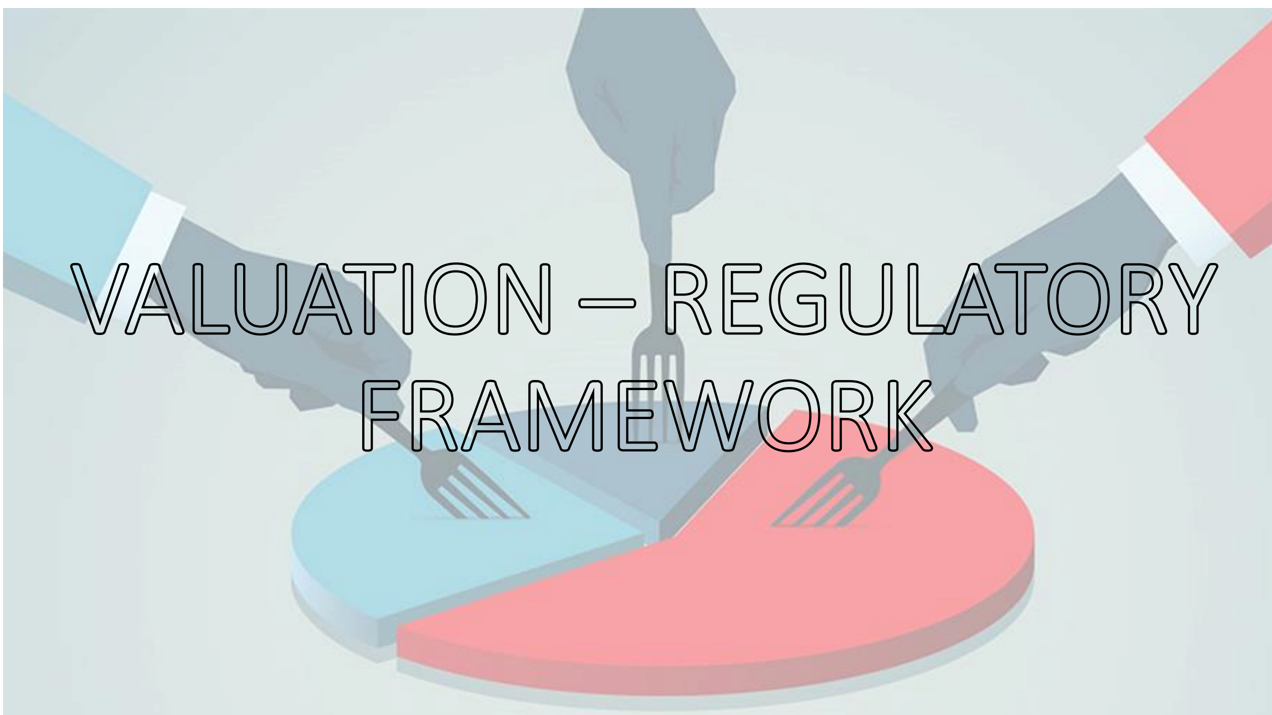
Overview

Asset Approach

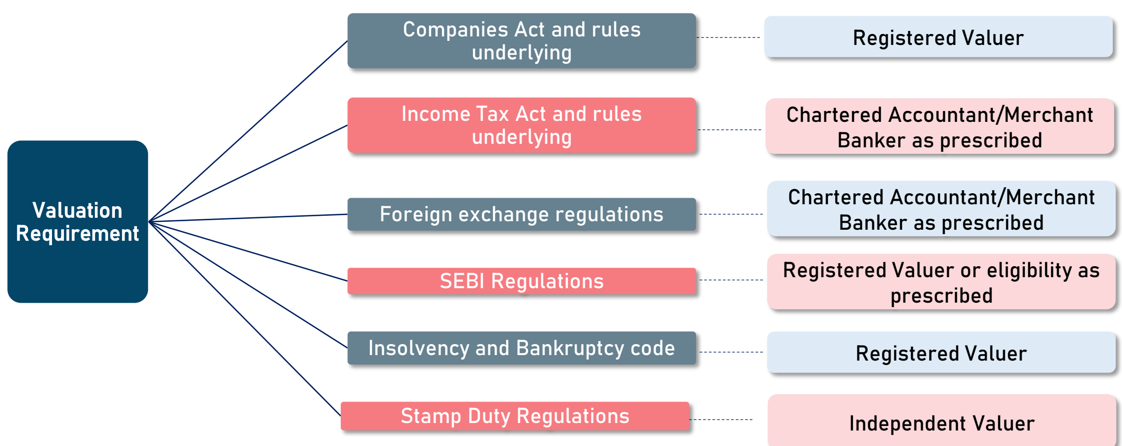
- ✓ Value of Company = Sum of Value of Net Assets;
- ✓ Value can be

  Book value / Realisable value / Replacement cost;
- ✓ **Suitability – Very Limited:**
  - a) For Capital intensive companies ;
  - b) For Companies in incubation stage;
  - c) When earning capacity & growth rate cannot be estimated;
  - d) Regulatory requirements

Overview


VALUATION – REGULATORY
FRAMEWORK

Valuation – Regulatory Framework



Overview

Valuation – Regulatory Framework

Companies' Act, 2013

- Preferential allotment – Sec 42 & 62
- ESOP Valuations – Sec 67
- Sweat Equity – Sec 54
- Share Buyback – Sec 69
- M&A – Sec 230
- Purchase of Minority shareholding – Sec 236
- Valuation of Assets involved in arrangement of Non-cash transactions involving Directors – Sec 192(2) of CA 2013
- Accounting standards – Sec 133 & 247

Income tax Act, 1961 and IBC

- Fresh Issue of shares - Sec 56(2)
- Transfer of shares at less than FMV – Sec 50CA
- Preferential Allotment – Sec 56(2) (Rule 11UA)
- Right Issue – Sec 56(2) (Rule 11 UA)

- **IBC**
- Valuation can be undertaken only by a Registered valuer –IBBC (circular dated oct 17, 2018)

Detailed Understanding

Valuation – Regulatory Framework

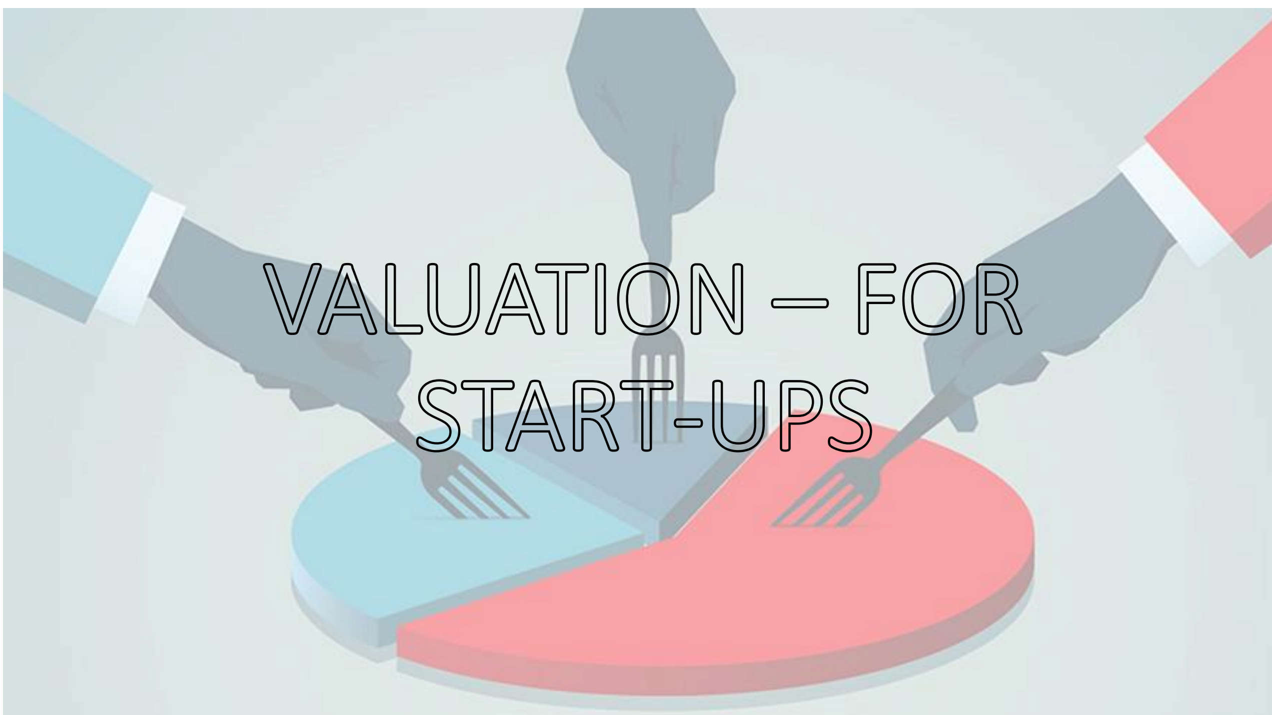
FEMA, 1999

- FDI Regulations of Issue of Shares/ Securities to NR – Regulation 11 of FEMA 20(R)
- FDI – Transfer of capital instruments of Indian Company by Indian resident to foreign resident
- ODI – Investment by Indian resident in foreign entity
- Swap of Indian and Foreign Capital Instruments
- **Note : Valuation for the purpose of ODI (exceeding USD 5 Million investment) and Swap of capital instruments should be undertaken by Merchant Banker.**

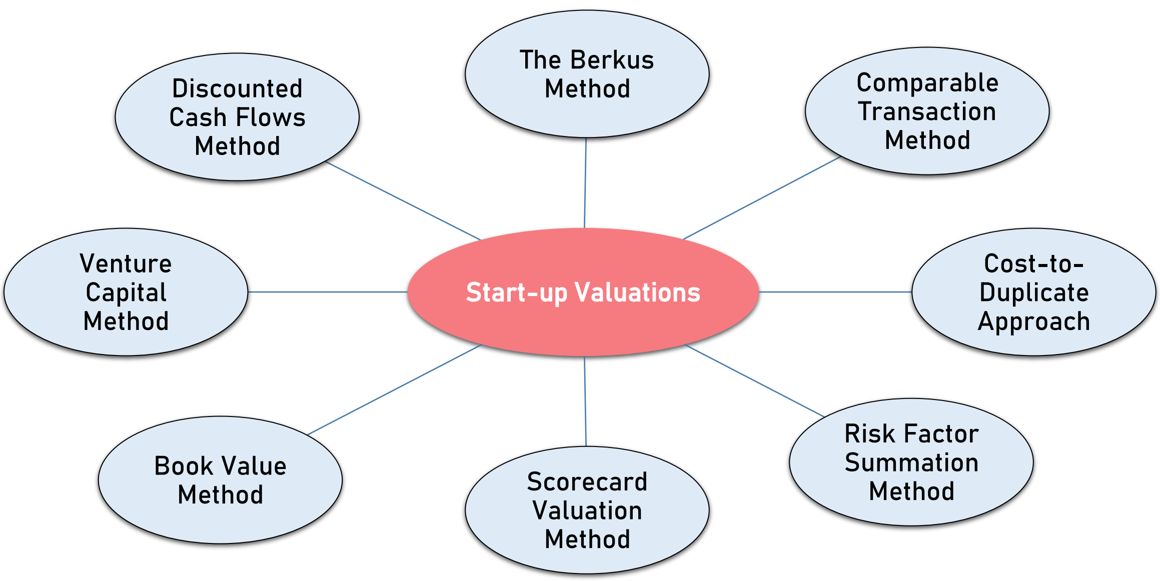
SEBI

- Valuation of Assets – Reg 2(zz) of SEBI (REIT) Reg
- Valuation of Assets – Reg 2(zzf) of SEBI (INVIT) Reg
- Valuation under SEBI Regulations would be required under various instances including issue of pricing of infrequently traded shares, issue of shares under private placement mode or consideration other than cash, debt structuring arrangements, issue of ESOPs, Merger and demerger schemes etc.

Detailed Understanding


VALUATION – FOR
START-UPS

Valuation Approaches for Start-ups



Overview

Valuation Approaches for Start-ups

The Berkus Method
- Suitable for pre-revenue start-ups
- Valuation capped at $2mn - $2.5mn (post-revenue)

Comparable Method
- Comparable information requisite
- Basis -Acquisitions/ Secondary transactions

Cost-to-Duplicate
- Recreation costs
- Intangibles/ Revenue generating capacity ignored

Risk Factor Summation
- Initial valuation required – based on other methods
- Low risk (++ grade), High risk (-- grade)

Scorecard Method
- Suitable for Very young start-ups
- Comparison % to quality matched with comparable

DCF Method
- Expected ROI – investment risk analysis
- Chicago Method – more reliable

VC Method
- Suitable for pre-revenue start-ups
- Exit requirement
- Terminal value used as basis

Book Value Method
- Simplest
- Total assets less external liabilities
- Revenue generating capacity ignored

Detailed Understanding

Valuation Approaches for Start-ups - Comparable Transaction Method

Let's take a fictional company – DonateKaro – that was incorporated one year ago and is into operations similar as those of ImpactGuru.

Particulars	ImpactGuru	DonateKaro
Number of Fundraisers	10,00,000	5,000
Pre-Money Valuation	INR 297 cr.	x

Pre-Money Valuation of DonateKaro = $\frac{\text{INR 297 cr}}{10,00,000}$ x 5,000 = **INR 14.85 cr.**

Examples

Valuation Approaches for Start-ups - Berkus Method

Dave Berkus - “Pre revenue, I do not trust projections even discounted projections”
Assign range of values for qualitative factors

Particulars	Benchmark	Target Co
Valuable business model	0-500K	250K
Available prototype	0-500K	500k
Abilities of the founding or management team	0-500K	500k
Strategic Relationships	0-500K	250k
Existing costumers or first sales	0-500K	125k

Benchmark for pre-money valuation – $1,625K

Valuation Approaches for Start-ups - Scorecard Method

This method compares the target company to typical angel-funded startup ventures and adjusts the median valuation of recently funded companies in the region to establish a pre-money valuation of the target.

Particulars	Benchmark
Strength of the Management Team	30%
Size of the Opportunity	25%
Product/Technology	15%
Competitive Environment	10%
Marketing/Sales Channels/Partnerships	10%
Need for Additional Investment	5%
Other factors	5%

Valuation Approaches for Start-ups - Scorecard Method

Let's take a fictional company – Shipster – that was incorporated two years ago and is into operations similar as those of Shiprocket.

Particulars	Shiprocket	Shipster
Pre-Money Valuation	**INR 297 cr.**	**x**
Service	45%	30%
Marketing Channels	30%	10%
Lower Investment Requirement	15%	10%
Partnerships	10%	5%
TOTAL	**100%**	**55%**

Pre-Money Valuation of Shipster = $\frac{\text{INR 297 cr}}{100\%} \times 55\%$ = **INR 163.35 cr.**

Examples

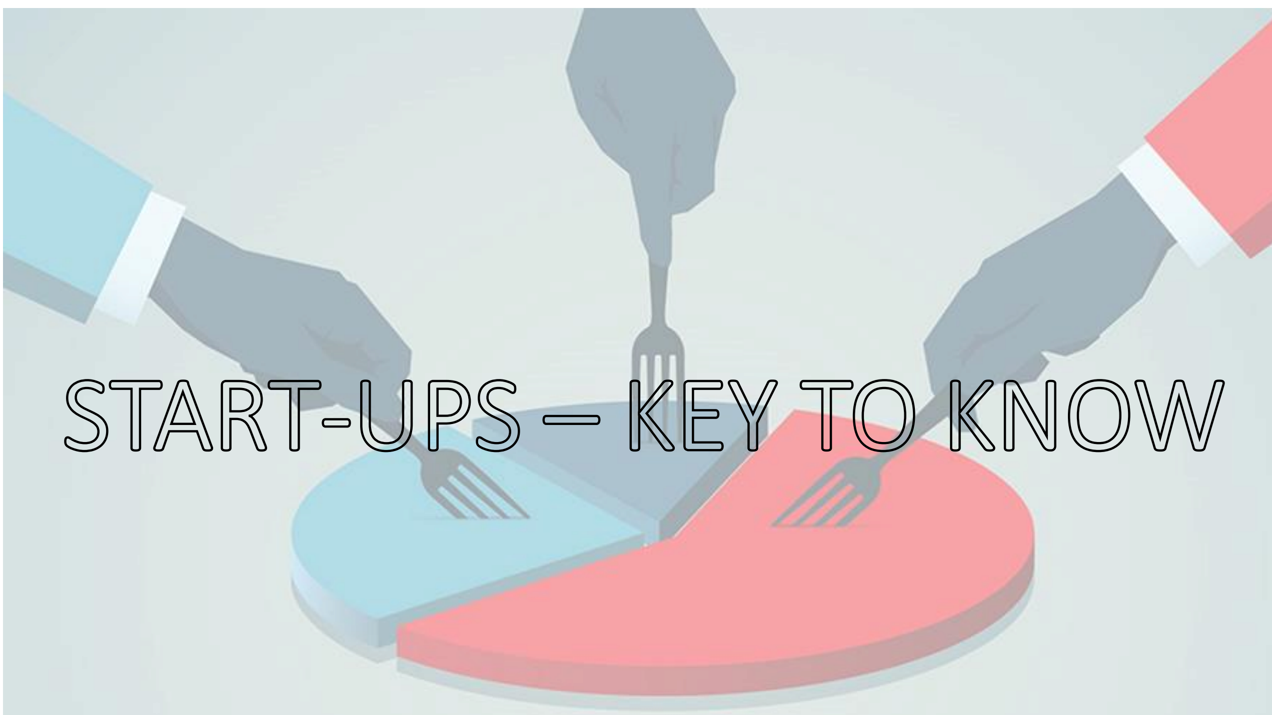
Valuation Approaches for Start-ups – Risk Summation Method

Let's take a fictional company – DonateKaro – that was incorporated one year ago and is into operations similar as those of ImpactGuru, existing company.

DonateKaro

Particulars	DonateKaro
Pre-Money Valuation as per previous slide	INR 14.85 cr.
Low Competition Risk	Less: 2.5 cr.
Very High Litigation Risk	Less: 5 cr.
High Growth Potential	Add: 1.5 cr.
Valuation as per Risk Summation Method	**INR 8.85 cr.**

Risk Summation Method Examples



START-UPS – KEY TO KNOW

Types of Capital Instruments

1. **Pure Equity Instruments**
   - Plain Equity Shares
   - Shares with Differential Rights

2. **Pure Debt Instruments**
   - Redeemable Preference Shares
   - Debentures
   - Bonds/Notes

3. **Dilutive Equity Instruments**
   - Convertible Preference Shares
   - Convertible Debentures
   - Convertible Bonds/Notes

4. **Options**
   - Equity Settled:
     1.> ESOP
     2.> Share Warrant
   - Cash Settled:
     > PSOP
     > SAR

Control and Voting Rights

Right on Profits and Assets

Payback Horizon

Valuation Protection and Security

SAFE

iSAFE

Overview

Funding Rounds

Early Seed
- Promote/ F&F investments
- Idea of a product/ service
- Equity Capital

Advanced Seed
- Finance market research and product development
- Founding team set up with finance

Series A
- First VC round
- Minimum viable product (MVP) to be available
- Preference Capital

Series B
- Post development stage – strong achievements to be shown to potential investors

Series C
- First later stage
- Appeal for acquisition
- Significant market traction

Series D onwards
- Boost Valuation for IPO
- Provide exit to earlier investors

Detailed Understanding

Practical Valuations at Different Stages

Early Seed	USD 1-3 mn.
Advanced Seed	USD 8-10 mn.
Series A	USD 15-25 mn.
Series B	USD 30-45 mn.
Series C	USD 50-80 mn.
Series D	USD 100-200 mn.
Series E	USD 500-750 mn.
Series F-I	> USD 1 bn.

Overview

Practical Valuations at Different Stages

zomato

Date	Stage	Funding	Valuation
Aug 2010	Seed	$ 1 Million	$ 2.5 Million
Sep 2011	Series A	$ 3.5 Million	$ 20 Million
Sep 2012	Series B	$ 2.3 Million	$35 Million
Feb 2013	Series C	$ 10 Million	$ 55 Million
Nov 2013	Series D	$ 37 Million	$ 161 Million
Nov 2014	Series E	$ 60 Million	$ 660 Million
Apr 2015	Series F	$ 50 Million	NA
Sep 2015	Series G	$ 60 Million	$ 1.1 Billion
Apr 2017	Series H	$ 20 Million	NA
Sept 2017	Late VC	$ 40 Million	NA
Feb 2018	Series I	$ 150 Million	$ 1.0 Billion

Date	Stage	Funding	Valuation
Feb 2018	Series J	$ 50 Million	$ 1.0 Billion
Feb 2019	Series J	$ 40 Million	$ 1.0 Billion
Mar 2019	Late VC	$ 62.3 Million	$ 1.8 Billion
Jan 2020	Late VC	$ 150 Million	$ 3 Billion
Apr 2020	Series J	$ 5 Million	$ 3.3 Billion
Sep 2020	Series J	$ 62.4 Million	$ 3.4 Billion
Oct 2020	Series J	$ 52 Million	$ 3.4 Billion
Dec 2020	Series J	$ 660 Million	$ 3.9 Billion
Feb 2021	VC Round	$ 250 Million	$ 5.4 Billion
Jul 2021	Growth Equity	$ 562 Million	$ 8.6 Billion
Jul 2021	IPO	$ 1.3 Billion	$ 12 Billion

Examples

Off the normal scenarios

- ✓Valuation of a Holding Company
- ✓Valuation of a Company – with CCDs with minimum and maximum IRR
- ✓A continuing liability till explicit period – can it be treated as Loan instead of liability
- ✓A division was sold off Surplus office space with furniture was left out
- ✓Can we ignore Terminal Value – Real Estate SPVs
- ✓Captive entities – Comparable? Beta? Cost of Equity?
- ✓Value of CCDs with Liquidity Preference
- ✓Cost of Capital where Company had agreed minimum guarantee return to investors

Examples

Some useful thoughts:

What is there in books would not be the one what we should know to do Valuation

Equity Shares along is effective capital and preference holders get preference divided – leads to absurd valuation
-- to consider other convertible shares as equity
-- sometimes conversion would be dependant on future events

Consider the assets in balance sheet – for example Zomato/ Swiggy/ Dunzo – key assets → their IP, Runners and Vendors → which are not be there in Balance Sheet

Runners are the key assets – but they are not even employees of the company

Examples

How to Build the Practice

Essentials to start this practice:

✓What all we discussed till now

✓Course of valuation in ICAI or other places

✓Do experiment valuation of companies like Ola, Uber, etc – try learning what is missing

✓Understanding of valuation concepts and terminologies like, COE, DLOC, DLOM, IP Valuation concepts, Start-up Terminologies, etc. – Google God will help in this

✓ICAI Valuation Standards

✓General knowledge – anything and everything relating to the deals which are happening it could be Microsoft buying some thing or a small start-up being valued – anything can provide some perspective to us

✓Professionalism in valuation approach, reports, interaction with the client

✓High ethical standards, no compromise, no adjustment

Examples


Thank You
Chinmaya AM | chinmaya@gurujana.com | 9945751525
Sindhu Hedge | sindhu.hegde@gurujana.com | 9972420026