

SaaS Orbit: Deal Structuring, Term Sheets & SHA



KNOW YOUR MENTOR

SRIRAM CHIDAMBARAM

Education

CGMA from CIMA, UK 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 Finance at E4E, a US based IT/ITeS multinational
 - Head of finance at MAS Holdings, UK
-

Relevant Professional Expertise

- Managed various Boards during the corporate and consulting career
 - Working currently with more than 50 companies managing their finance function, doing monthly reporting, reviewing with management, giving strategic advisory
 - Mentor with more than 20 startup Incubators
-

WHAT DOES SPICE ROUTE FINANCE OFFER?



Finance Function

- Bookkeeping Services
- Monthly Closure of Books
- Cashflow Forecasting
- MIS
- Monthly Financial Review with Founders
- Investor Reporting
- Audit Support



Investor Readiness

- Comprehensive Business Plans
- Financial Model
- Pitch Deck
- Business Valuation
- Term sheet & SHA Drafting
- Due Diligence
- Pre Due Diligence
- Secretarial Services



Strategic Consulting

- Pricing Advisory
- Pricing Discovery
- Metrics and Benchmarking
- KPIs and Performance Management
- Strategic Playbook
- Research and Strategy

WHAT WILL WE COVER TODAY

Business Models

- Manufacturing
- Product
- Service
- SaaS
- E-Commerce
- Marketplace

Customer Segment

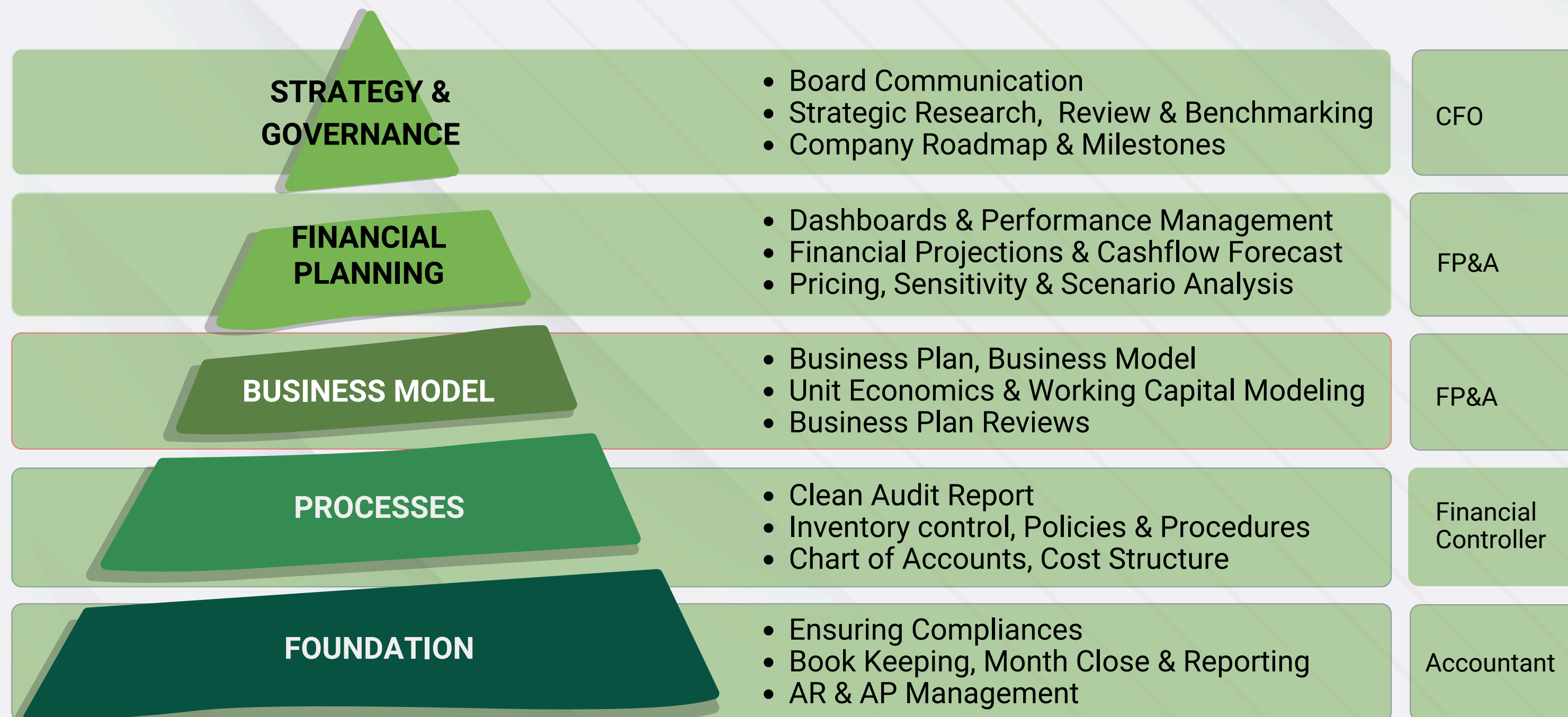
- B2B
- B2C
- B2B & B2C

Industry

AI, Big Data & Analytics
Textiles & Apparels
Environment, Sustainability & Governance
Advanced Manufacturing & Robotics
Technology & Innovation
Media & Entertainment

Mobility
Healthtech & Wellness
E-Commerce
Fintech
Agriculture & New Food
Gaming
Fashion & Beauty
EdTech
Food & Beverage
Real Estate and Housing

THE CFO OFFICE PYRAMID



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KEY DIFFERENCES

Business Strategy

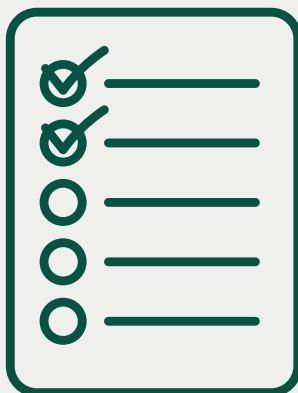
Business Plan

Business Model

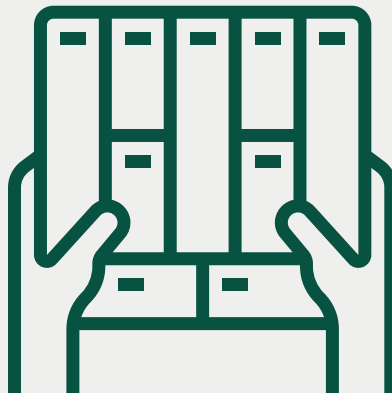
A business strategy sets out the purpose of your business, who it serves and what is the long term vision and mission. A strategy assesses and prioritizes options and then select the most advantageous. A business plan sets out how you will achieve your goals in detail, including the financial results. 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

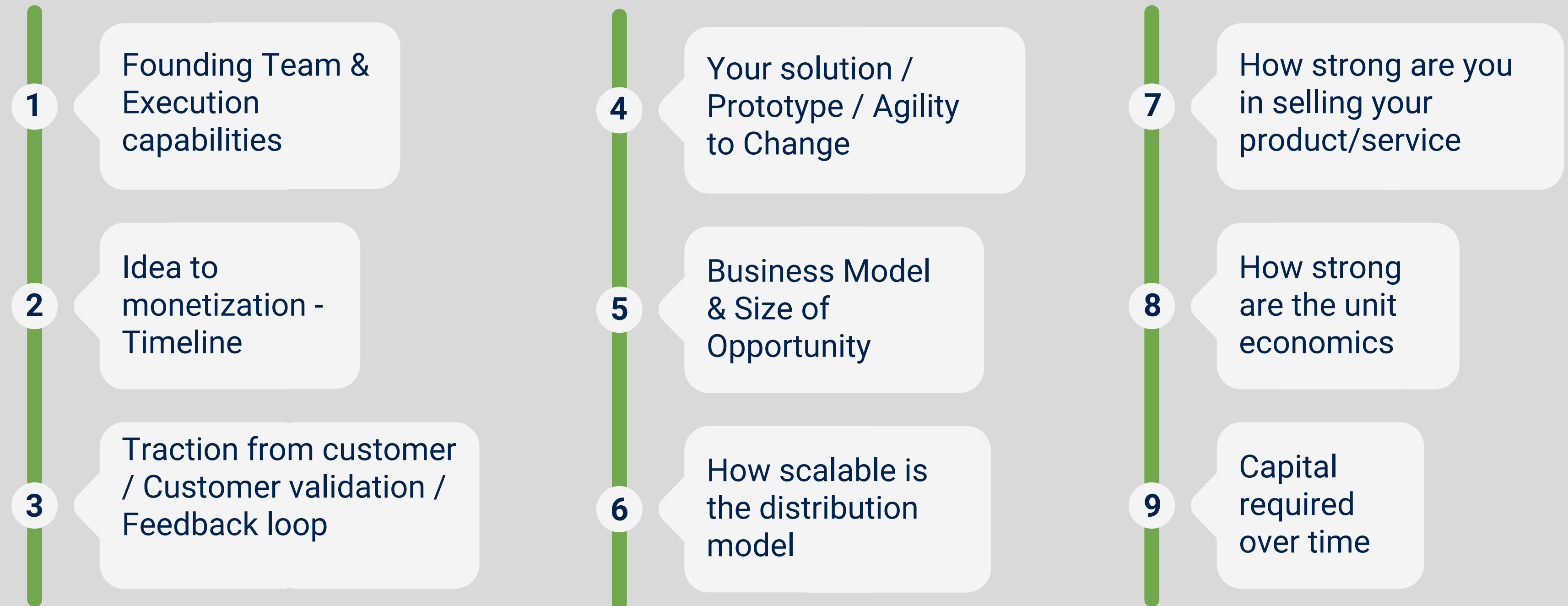
MODES OF FUNDING

Instrument	Convertible Notes and Convertible Debentures	Equity	Grant	Debt	Revenue Based Financing
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.

UNDERSTANDING THE STAGES OF FUNDING

Art Science	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

HOW DO INVESTOR VALUE EARLY STAGE STARTUPS



FUNDRAISING FUNDAMENTALS

- ☐ Figure out the right story for your startup
- ☒ Be a great storyteller
- ☐ Find the right investors
- ☒ Get organized and be prepared, always be DD ready
- ☐ Know how much money do you actually need
- ☒ Link funding with milestones
- ☐ Incorporate a company before talking to an investor
- ☒ Don't dilute more than 10% in each stage of your startup

Stage	Typical Funding	Typical Valuation
Idea	\$50K	\$500K
Idea + Strong Team	Upto \$250K	Upto \$1 Mn
Demo + Prototype	\$500K	Upto \$5 Mn
Validated Product and Initial Traction	\$1 Mn	Upto \$10 Mn

COMMON TERMS THAT AFFECT DEAL STRUCTURE

1

Type of instrument: equity, CCPS, CCD, Convertible Note

2

Validity of the term sheet: They have to be signed under a certain time frame

3

Valuation (pre and post money): The investor and founder must agree on this

4

Valuation cap or floor: These protect the investors

5

Discounts: benefit of lesser valuation in the next round.

6

Liquidation preferences: Guarantee a return on exit

7

Tag along rights: Minority investors will have the right to tag along the sale

8

Voting rights: Allows investors to participate in company management

9

Drag along clauses: Lead investors will have the right to drag the minority shareholders

OTHER TERMS TO BE KEPT IN MIND FOR TERM SHEET AND SHA

**Board Seat or Board
Observer**

ESOP Pool

**Restrictive
provisions**

Information rights

**Founders Share
Vesting**

**Anti Dilution
Provision**

ROFR

Redemption Rights

EQUITY SHARES

Meaning	- company ownership - common stock of company
When used?	- initial investment by promoters/founders - friends and family investment
Terms	Has rights as given under the Companies Act, 2013 or defined in SHA
Taxability	- capital gains tax on sale of ES in hands of founders - unlisted ES - sold after holding for 24 months or more - taxable at ~23%

CCPS

Meaning	- shares issued with specific rights to the investors under SHA - preference in liquidation over ES
When used?	- investors and angel network - priced round
Terms	- generally convertible at 1:1 - rights as per the SHA
Taxability	- 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%

CCD

Meaning	- convertible into equity based on predetermined conditions - preference in liquidation over shareholders
When used?	- generally used for angel rounds - no determined valuation, convertible to future round of funding - bridge rounds
Terms	- coupon rates - terms of conversion to ES - floor/cap valuation for conversion
Taxability	- 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

CONVERTIBLE NOTES

Meaning	- debt instrument - typically convertible to equity
When used?	- Angel investors / VC round
Terms	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	- 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

PREPARING FOR FUNDRAISING

Ensure that all the documents related to the registrations are in place.

Ensure that all the compliances are in place and filed within the due date.

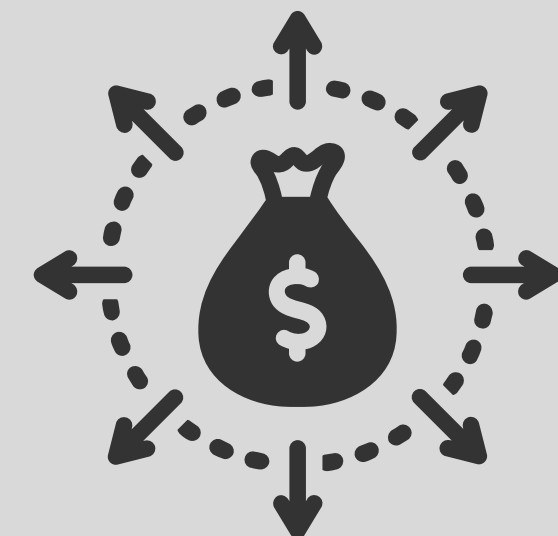
Due Diligence preparedness such as data room preparation which includes collation of information.

Ensure all the compliances such as paperwork, secretariat and statutory compliances related to the earlier fundraise are in place.

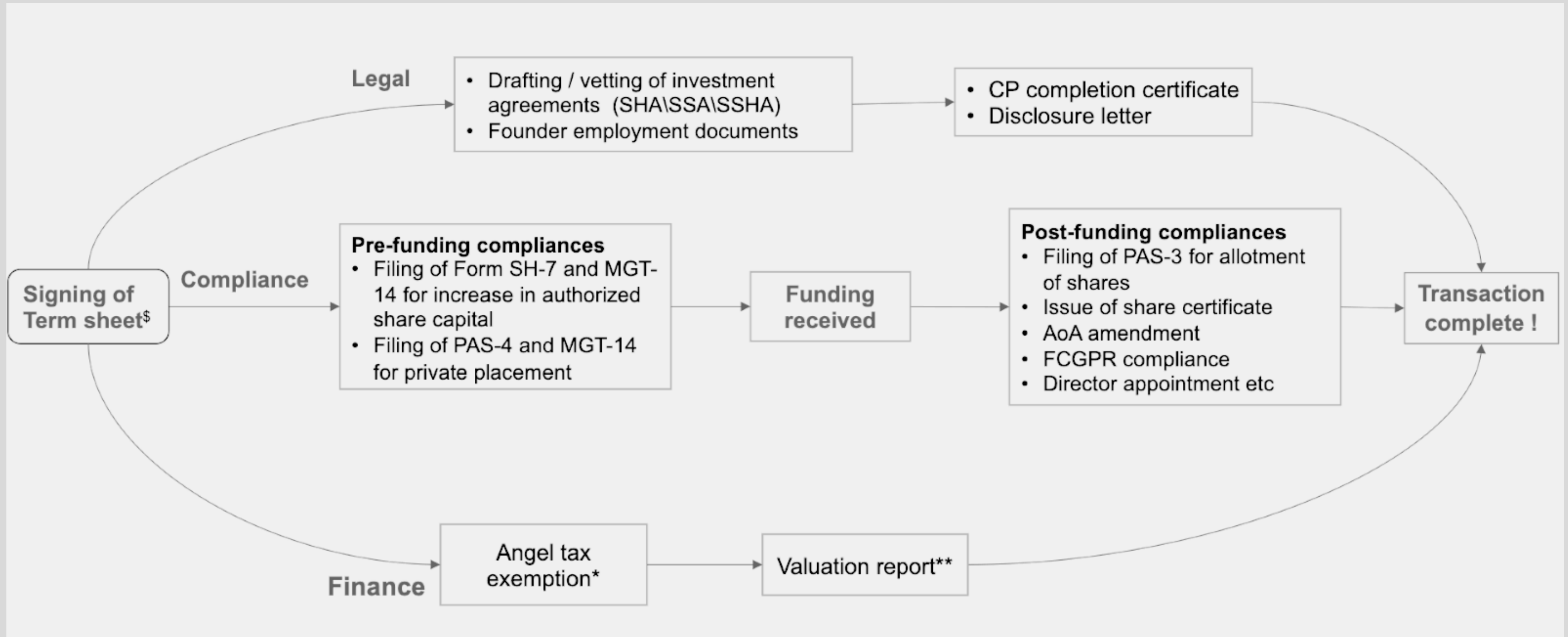
Ensure that financial projections including the utilization of the fundraise to be done.

Ensure that there is a Formal business plan in place.

Prepare on the data room collation 6 months prior to fund raise journey



TYPICAL FUNDING CYCLE



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THE DUE DILIGENCE PROCESS

There are 3 stages to a diligence processes:

Business Due Diligence

This validates the business model, GTM strategy, and includes a SWOT analysis.

Financial Due Diligence

This validates the company's financial position and whether they have been compliant with all financial regulations applicable to them.

Legal Due Diligence

If the results of the business and financial due diligence are favourable, the investor's legal team will conduct a legal review of the deal.

Once these practices have concluded, and the results are favourable, you can expect to receive funds.

UNDERSTANDING DEBT INSTRUMENTS

WHY DEBT?

No loss of
shareholding

Less governance
measures to deal with

Lower cost
of capital

Easier to access as
opposed to equity capital

Faster
scalability of
operations

Tax benefits, as
interest is tax
deductible

Higher operational
flexibility

No future
obligations once
repaid

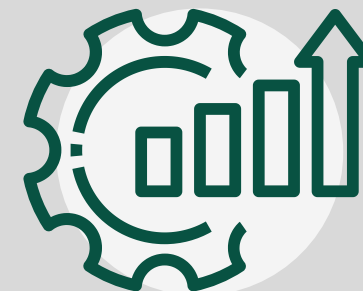
WHEN TO USE DEBT?



When you need
cash to scale
operations



When you need
cash to fund
working capital



When you need to
undertake capital
expenditures to
improve productivity



When the scaling
requirement is short term
and operational, and not
strategic and long term

WHAT SHOULD YOU CONSIDER WHEN UNDERTAKING DEBT?

Type of loan

1. **Fund based:** cash credit, OD
2. **Non-fund based:** LoC, bank guarantee

Working capital debt funding will generally be a cash credit, i.e a fund based loan. Term loans are also cash credit

Purpose of loan

1. **Working capital funding:** Need cash to make up for short-fall during the cash conversion process. Usually the liability will last less than 12 months
2. **Term loan:** Buying capital goods, machinery, for which the liability will last over 12 months

Collateral

For WC loans: the primary security is the inventory or the receivables

For term loans, it is the asset which is purchased with the term loan.

Depending on the nature of the loan (secured or unsecured), collateral may also have to be given

WHAT DO BANKS LOOK AT BEFORE DISBURSAL?

Financial Ratios

1. **TOL/TNW:** Shows how much leverage the company has on its books.
2. **Current ratio:** Shows the ability of paying short term obligations.
3. **Interest cover:** Shows how easily a business can make its interest payments.
4. **PAT/Sales:** Shows how much revenue is earned per rupee of sale.

Operating History

Public sector banks are generally more open to catering to startups

Private banks require a minimum operating history of 3 years to start the application process

**Under the CGTMSE scheme, private banks have begun giving out loans to startups with minimal operating history*

Type of Loan

Public sector banks are open to giving out unsecured loans

Private banks mostly do secured loans and require collateral.



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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?



I

CFO Services

Our CFO office service, enables us to provide hands-on support for companies needing help in managing transactions, financial reporting and staying on top of unit economics

II

Advisory Services

Our advisory services bring strategic leadership to your finance function and is a key part of your top management till the time you need a new CFO.

III

Consulting

Our consulting services are short term engagements that ensure quick turnarounds and implementation of strategic initiatives.

OUR PRACTICE AREAS

