

Financial Blueprint & Deal Structuring



KNOW YOUR EXPERT

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 Srf Capital Studio
- 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

WHY SHOULD YOU CHOOSE US?



Strategy

- Business Model Design
- Go-to-Market Strategy
- Financial Forecasting & Growth Planning
- Competitive & Market Intelligence
- Founder Clarity Sessions



Capital

- Investor-Readiness Assessment
- Pitch Deck & Investor Collateral
- Valuation & Financial Modeling
- Investor Network Access
- Capital Strategy & Structuring



Execution

- MIS & Performance Reporting
- Profitability & Cost Analysis
- Scenario Planning & Sensitivity Analysis
- Budgeting & Financial Control Systems
- Process Optimization & Efficiency Tracking

Key Takeaways

- Financial Frameworks
- Building Strategy Playbook
- Financial Modeling
- Cashflow Forecasting
- Budgeting
- Unit Economics
- Metrics and its importance
- Understanding Deal Structuring

Components of a Startup

Business Models

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

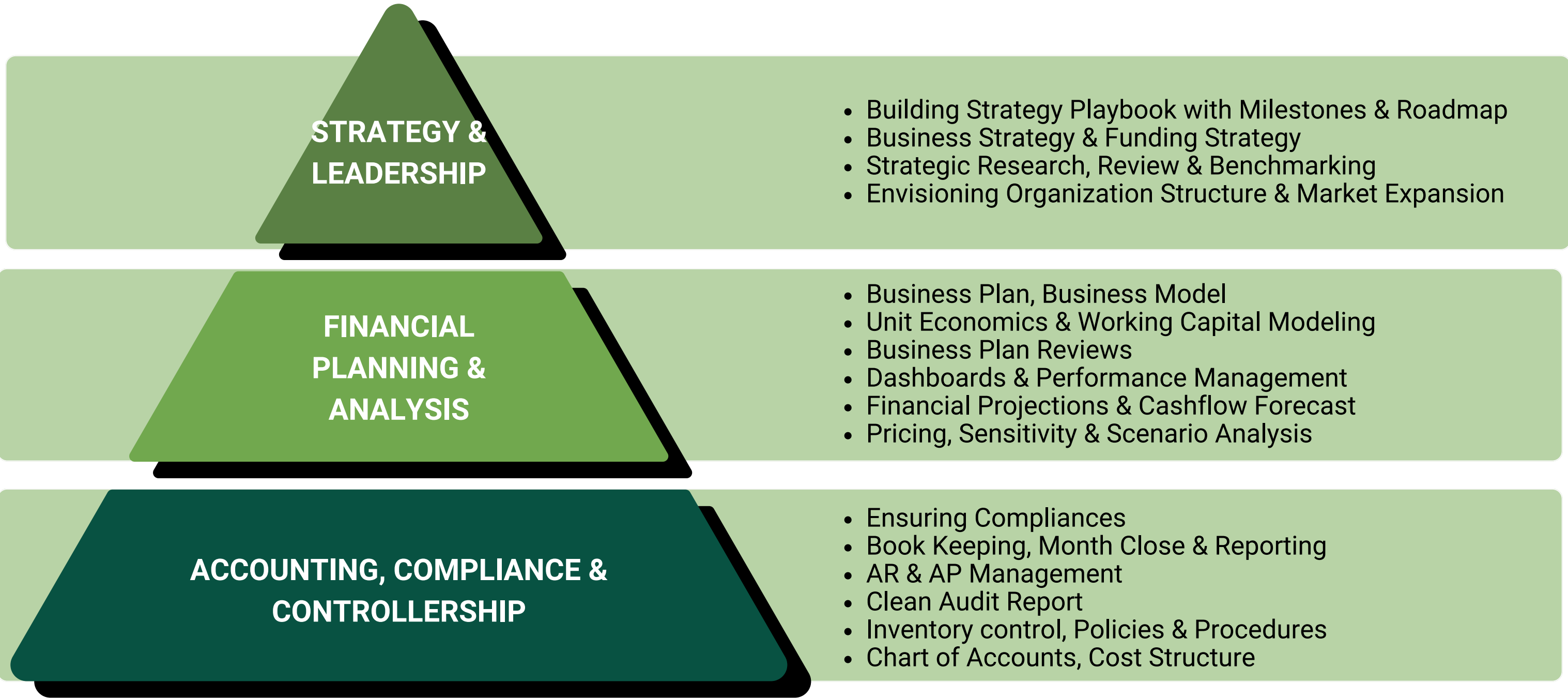
Customer Segment

- B2B
- B2C
- B2G
- B2B & B2C

Industry

AI, Big Data & Analytics Healthtech & Wellness
CleanTech **E-Commerce**
IT & Communication Fintech Agritech & New Food
SpaceTech **Fashion & Beauty**
EdTech Food & Beverage
Media & Entertainment Real Estate and Housing

The CFO Office Pyramid



STRATEGY & LEADERSHIP

- Building Strategy Playbook with Milestones & Roadmap
- Business Strategy & Funding Strategy
- Strategic Research, Review & Benchmarking
- Envisioning Organization Structure & Market Expansion

FINANCIAL PLANNING & ANALYSIS

- Business Plan, Business Model
- Unit Economics & Working Capital Modeling
- Business Plan Reviews
- Dashboards & Performance Management
- Financial Projections & Cashflow Forecast
- Pricing, Sensitivity & Scenario Analysis

ACCOUNTING, COMPLIANCE & CONTROLLERSHIP

- Ensuring Compliances
- Book Keeping, Month Close & Reporting
- AR & AP Management
- Clean Audit Report
- Inventory control, Policies & Procedures
- Chart of Accounts, Cost Structure

Key Differences

Business Strategy

Business Plan

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.



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?

Building a Strategic Playbook for your Startup

Components of a Startup Strategic Playbook

- Vision and Mission
- Market Opportunity
- Value Proposition
- Business Model and Revenue Strategy
- Product and Technology Roadmap
- Go-to-Market Strategy
- Team and Organization Structure
- Financial Plan and Metrics
- Operational Excellence
- Risk Management and Compliance
- Fundraising Strategy
- Exit Strategy

Building a Strategic Playbook for your Startup

Focus on the
Basics First

Start with Key
Questions

Use Simple
Frameworks

Identify Key
Metrics Early

Keep It Lean
and Iterative

Leverage
Advisors and
Networks

Align with
Immediate
Milestones

Build a Minimal
Team
Framework

Emphasize
Cash Flow and
Budgeting

Mastering the Numbers: Build a Financial Model That Drives Strategy and Growth



Why is Financial Modeling Important

"Most startups don't fail because they lack a great product, they fail because they run out of cash. A well-constructed financial model gives you control over that."

Strategic Decision-Making

- Helps identify business levers (pricing, costs, customer acquisition).
- Supports informed growth planning and strategic decisions.
- Helps align strategy with financial performance.

Cash Flow and Runway Management

- Most startups fail due to cash shortages, not product failure.
- A financial model helps anticipate cash shortfalls and plan corrective actions.

Investor & Stakeholder Communication

- Demonstrates the company's financial health, growth potential, and risk profile to investors and stakeholders.
- Helps in securing funding by providing clarity on revenue, cost, profitability, cashflow

How can you implement a Financial Modeling?

Assumptions



- How will you acquire customers?
- What's the cost structure and scalability potential?
- What will drive revenue growth — pricing, volume, new markets?

Revenue Buildup



- SaaS → Monthly recurring revenue (MRR)
- Product → Unit sales × pricing
- E-Commerce → Conversion rates and average order value
- Services → Billable hours × rate per hour

COGS Structure



- SaaS → Cloud hosting, customer support
- Product → Raw materials, production costs
- Services → Direct salaries, project costs

Overheads & Working Capital



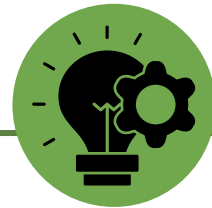
- Sales & Marketing → Scaling driver
- R&D → Future growth driver
- Cash Cycle → Inventory turnover, payment terms, deferred revenue

Focus Area - Financial Modeling across Business Models



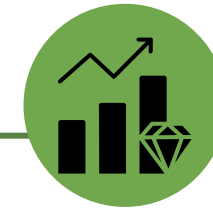
Business Model	Key Focus Area	Challenges
SaaS	MRR, churn, CAC vs LTV	High churn, payment delays
Manufacturing	Production efficiency, supplier terms	High CapEx, cash tied in inventory
Product	Sales volume, production cost	High working capital needs
E-Commerce	Conversion rates, AOV, fulfillment costs	Cart abandonment, refund rates
Services	Utilization rates, project margins	Misaligned staffing costs

Best Practices



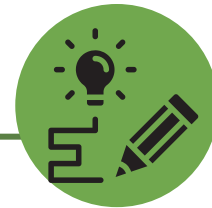
Build Top-Down and Bottom-Up

Cross-check consistency



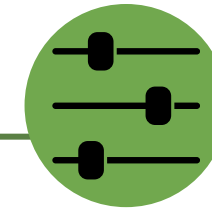
Focus on Drivers

Don't just project revenue; understand what drives it.



Scenario Planning

Build best-case, base-case, and worst-case models.



Track and Adjust

Update assumptions regularly based on actual performance.

Cost to focus on when making a financial blueprint

SaaS

Direct Costs	Operational Overheads	Sales & Marketing	R&D Expenses	G&A Expenses
• Cloud hosting • Software licenses • Third-party integrations • Data storage • Customer support costs	• Office rent, utilities • Employee benefits • Subscription costs (tools and services)	• Sales commissions • Digital advertising • CRM software costs • Content marketing	• Software development • Testing • Tools and technologies for development	• Accounting • Legal fees • Office expenses • HR management • Executive salaries

Platform

Direct Costs	Operational Overheads	Sales & Marketing	R&D Expenses	G&A Expenses
• Cloud hosting • Payment processing fees • Data storage • Transaction fees	• Platform hosting • Server maintenance • Data storage • Cloud infrastructure	• Advertising campaigns • Referral programs • Influencer partnerships • Community management	• Platform feature development • Usability testing • New functionality rollouts • Beta testing	• Administrative salaries • Insurance • Finance and legal services

Cost to focus on when making a financial blueprint



Manufacturing

Direct Costs	Operational Overheads	Sales & Marketing	R&D Expenses	G&A Expenses
• Raw materials • Direct labor Production utilities • Manufacturing supplies • Equipment maintenance	• Factory rent • Equipment depreciation • Maintenance • Safety compliance • Quality control	• Trade shows • Sales commissions • Product demos • Sales reps' travel expenses • Distributor fees	• Product design • Prototyping Engineering • New technology implementation • Innovation	• Administrative staff • Legal compliance • Insurance • HR management • Office utilities

Services

Direct Costs	Operational Overheads	Sales & Marketing	R&D Expenses	G&A Expenses
• Labor costs • Materials used in service delivery • Travel and accommodation expenses	• Office rent • Utilities employee benefits • Software subscriptions	• Digital marketing • Client relationship management • Sales commissions	• Service improvement research • Training and knowledge resources	• Administrative staff • Accounting fees • Office supplies • HR management

Cost to focus on when making a financial blueprint

E-Commerce

Direct Costs	Operational Overheads	Sales & Marketing	R&D Expenses	G&A Expenses
• Product procurement • Shipping costs, packaging • Returns handling • Warehousing costs	• Fulfillment centers • Warehousing • Logistics • Storage costs • Warehouse management	• Digital marketing • Affiliate fees • SEO costs • Paid search ads	• Website enhancements • UX testing • Mobile app improvements • Website optimization	• Office expenses • HR management • Finance services, compliance

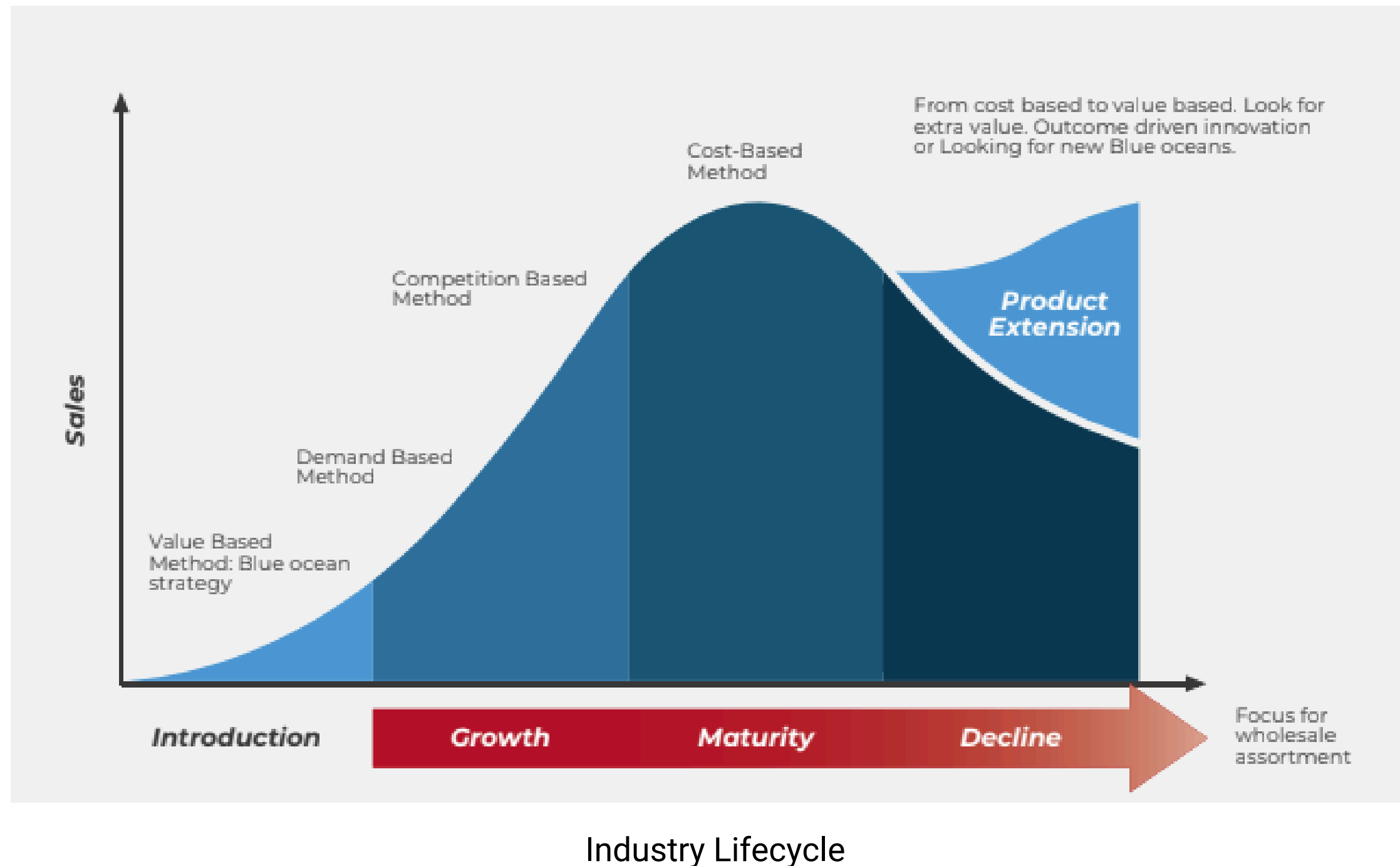
Product

Direct Costs	Operational Overheads	Sales & Marketing	R&D Expenses	G&A Expenses
• Raw materials • Production costs • Packaging • Assembly costs • Direct labor	• Equipment depreciation • Factory rent • Utilities • Safety compliance • Quality control	• Marketing materials • Promotional events • Sales team incentives • Marketing events	• Product development • Quality testing • Prototype iterations • Innovation in product features	• Corporate insurance • Legal compliance • HR management • Executive salaries

Pricing for Profit: Unlocking the Right Pricing Strategy for Growth



Pricing Frameworks



- It is important to have an effective mechanism for discovering the appropriate pricing for your products and services.
- In the early stages, price is determined by the value perceived by the customer.
- In the growth stages, price is determined by external factors like demand and competition
- In the late stages, once the product has reached maturity, pricing can become cost based.

Key Differences

Price Discovery



Price Discovery is the process of determining the optimal price for a product or service based on the supply and demand in the market

Price discovery is crucial for startups, impacting profitability, customer satisfaction, and competitive advantage, requiring ongoing adjustments.

Pricing Model



Pricing Model is the way you format your price and present it to the customer pricing models.

Ex:

- Hourly Pricing Model
- Tiered Subscription
- Subscription Model
- Milestone based Pricing
- Result based Pricing

Pricing Strategy



A pricing strategy is the way your company determines the best price for your product in your market.

Ex:

- Dynamic Pricing
- High Low Pricing
- Skimming Pricing
- Penetration Pricing
- Premium Pricing

Key Indicators for pivoting a Business Model

Key Indicators

- Stagnant or Declining Revenue
- Poor Product-Market Fit
- Market Saturation or Decline
- Customer Behavior Shifts
- Unprofitable Unit Economics
- Difficulty Scaling the Business
- Competitive Pressure
- Technological Advancements
- Resource Constraints
- Regulatory or Environmental Changes
- Lack of Engagement or Growth in Key Metrics
- Founder's or Team's Vision Misalignment
- External Feedback
- Burnout or Resource Drain

Types of Pivots to Consider

Zoom-In Pivot

Focus on a single feature or product that resonates most with customers

Zoom-Out Pivot

Expand the offering to include complementary products or services

Customer Segment Pivot

Target a different group of customers than originally planned

Problem-Solution Pivot

Tackle a completely different problem identified in the market

Revenue Model Pivot

Shift from one revenue model to another, such as moving from a subscription to a freemium model.

Technology Pivot

Leverage new or existing technology to create a different value proposition.

Unit Economics that Scale: Master your Margins & Customer Value



Unit economics is the financial analysis of the revenue and costs associated with a single unit of a product or service

Why Unit Economics Profitability Matters



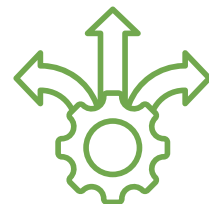
Sustainable Growth



Attracting Investors



Reduced Dependency on
Funding



Flexibility and Adaptability

How can you find the unit economics?



Understand Revenue and Costs

- Identify revenue and costs per unit.
- Separate fixed (e.g., rent, salaries) and variable costs (e.g., marketing, transaction fees).



Assess Profitability

- Determining the Gross Profit : Revenue generated by a single unit- COGS
- Determining the Net Profit: Revenue generated by a single unit- all expenses (COGS and Fixed Costs)



Customer Metrics

- Determine Customer Acquisition Cost (CPA): $\text{Total acquisition cost} \div \text{New customers}$.
- Determine Customer Lifetime Value (LTV): $\text{Avg revenue per customer} \times \text{Avg customer lifespan}$.
- Determine Payback Period: $\text{CPA} \div \text{Monthly revenue per customer}$.

Key Unit Economics by Business Model

SaaS

- Customer Acquisition Cost
- Customer Lifetime Value
- Churn Rate
- Monthly Recurring Revenue

Manufacturing

- Bill of Materials
- Capacity Utilization
- Machine Run Time Per Unit
- Labor Cost Per Unit

Platform

- Customer Acquisition Cost
- Lifetime Value
- Take Rate
- Gross Merchandise Value

Services

- Gross Margin Per Service
- Revenue Per Employee
- Average Revenue Per User
- Service Delivery Cost

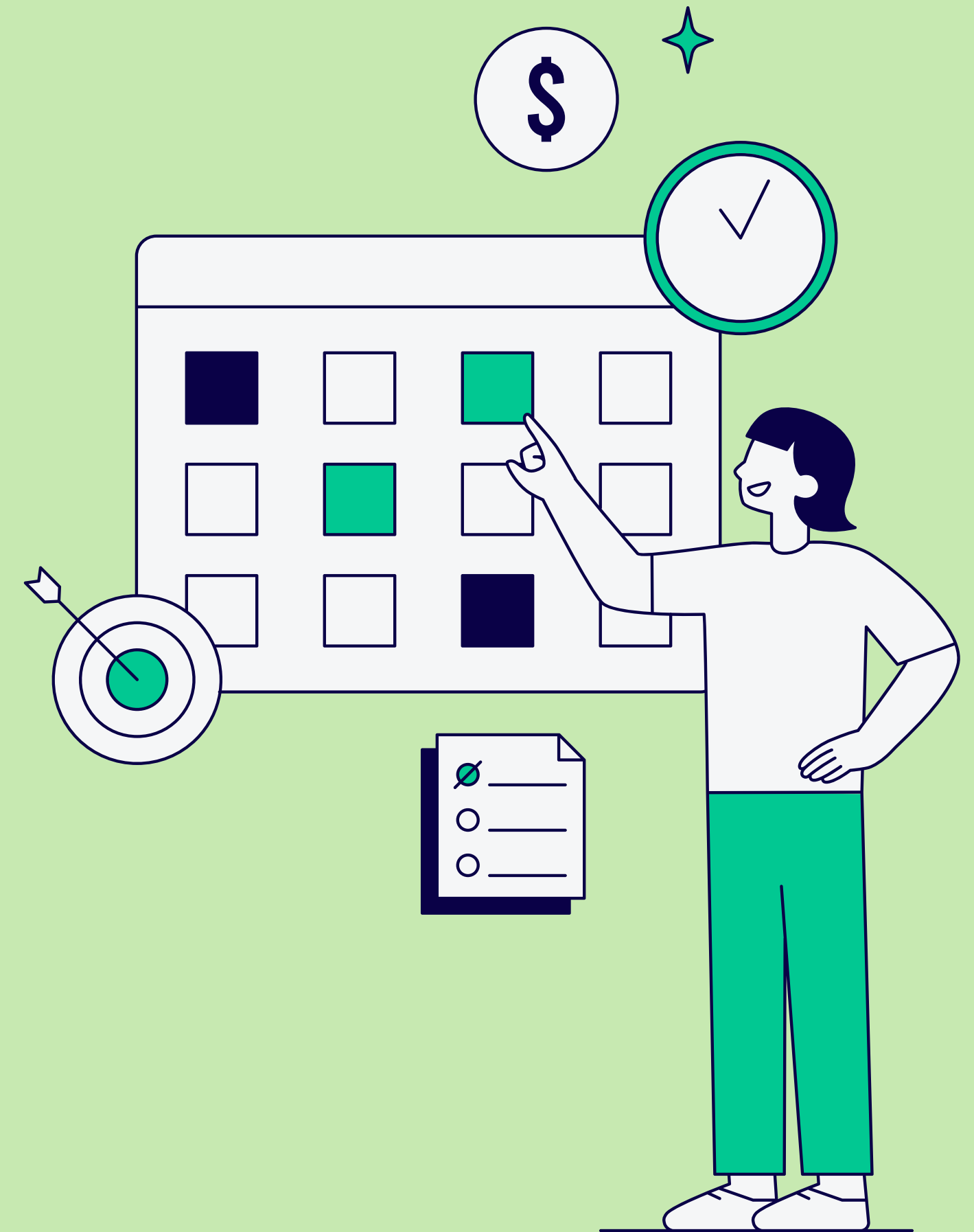
E-Commerce

- Average Order Value
- Gross Margin
- Return Rate
- Cart Abandonment Rate

Product

- Product Contribution Margin
- Contract Manufacturing Cost
- COGS

Metrics: Track to scale for sustainable Growth



Key Sales Metrics Across Business Models

SaaS

- Customer Acquisition Cost (CAC)
- Monthly Recurring Revenue (MRR)
- Churn Rate

Manufacturing

- Sales Growth Rate
- Average Order Value
- Customer Lifetime Value (CLV)

Platform

- Monthly Active Users
- Customer Acquisition Cost
- Gross Merchandise Value

Services

- Average Revenue Per User
- Utilization Rate
- Customer Retention Rate

E-Commerce

- Cart Abandonment Rate
- Conversion Rate
- Average Order Value

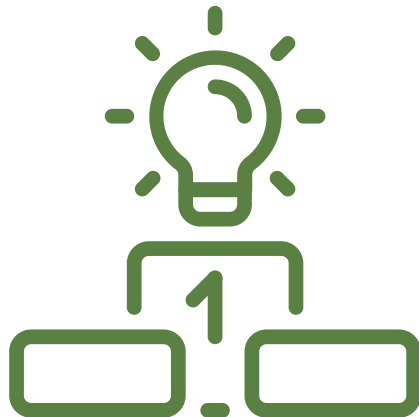
Product

- Conversion Rate
- Average Order Value
- Repeat Purchase Rate

Deal Structuring: Crafting Investor - Friendly Structures that work



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.

Preparing for fundraise

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

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.

The Real Essence of Deal Structuring

Deal structuring is not just about valuation or paperwork - it's about how trust, risk, and alignment are shared between founders and investors.

Every deal structure decides three fundamental dimensions:

- **Who owns what** - the distribution of equity and economic rights
- **Who decides what** - control over strategic and operational decisions
- **Who benefits when** - the order and magnitude of returns at exit

Why Founders Get Deal Structuring Wrong

Over-focusing on valuation

Chasing the highest valuation while ignoring the terms that come with it. A lower valuation with founder-friendly terms often creates better outcomes.

Ignoring rights and preferences

Not understanding liquidation preferences, anti-dilution clauses, and protective provisions that fundamentally alter economic outcomes.

Underestimating control dilution

Equity dilution is visible, but control dilution through board seats, veto rights, and information rights is often overlooked until it's too late.

Signing before financial model readiness

Raising capital without a clear milestone-linked plan leads to inefficient use of funds and premature dilution.

Forgetting impact on next round

Today's terms set precedent for tomorrow's fundraising. Aggressive investor protections compound across rounds.

 The term sheet you sign today decides your freedom tomorrow.

The Pre-Deal Pause

Step Back Before You Step In

Before entering any negotiation, successful founders develop deep clarity on four fundamental questions. Deal structuring doesn't start with the term sheet — it starts with strategic self-awareness.

01

Why am I raising funds?

Growth acceleration, market validation, or runway extension? Each purpose demands different deal structures.

02

How much do I actually need?

Calculate to the next meaningful milestone with 6-month buffer. Over-raising dilutes unnecessarily; under-raising kills momentum.

03

Who fits my stage and philosophy?

Strategic investors, financial investors, or hybrid partners? Mission alignment matters more than check size.

04

What am I ready to give up?

Control, economics, or speed? You can optimize for two, rarely all three. Know your non-negotiables.

Clarity on Founder Goals



Different founder objectives require different deal structures and investor types. Align your structure with your ultimate vision, not just near-term validation.

Founder Goal	Structure Bias	Ideal Investor Type
Speed & Scale	Flexible valuation, aggressive growth terms	Growth VC, Institutional Capital
Control & Longevity	Founder-friendly terms, patient capital	Family Office, Strategic Angels
Strategic Leverage	Shared governance, value-add focus	Corporate VC, Strategic Investor
Financial Flexibility	Minimal dilution, debt-equity mix	Revenue-based Financing, Venture Debt

📌 Don't optimize for valuation. Optimize for fit and long-term alignment with your strategic vision.

Defining the "Why" Behind Your Fundraise

Funds Are Leverage, Not Just Fuel

Capital should be milestone-linked and strategically deployed, not emotion-led or opportunistic. Every rupee raised should have a clear ROI tied to company value creation.

Build a financial model that demonstrates a clear causal chain: how ₹X investment enables milestone Y, which creates valuation Z at the next round.

Key milestones to fund:

- Product-Market Fit validation
- Go-To-Market execution and scaling
- Unit economics optimization
- Team building and organizational capacity
- Infrastructure for next growth phase

Product-Market Fit

Validation phase

Go-To-Market

Initial traction

Scale

Growth acceleration

Institutional Round

Market leadership

The Foundation Summary



Before entering deal negotiations, ensure you have built a solid foundation of clarity and conviction. These four elements determine negotiation success:



Clarity on Purpose

Deep understanding of why you're raising, how much you need, and what milestones you'll achieve with the capital.



Awareness of Trade-offs

Clear understanding of control dilution, governance rights, and economic preferences you're willing to accept.



Conviction in Model

Strong financial projections and valuation justification based on market comparables and unit economics.



Investor-Vision Fit

Strong alignment between investor philosophy, value-add capability, and your long-term strategic vision.

The 4 Pillars of Deal Structuring

1. Economics

How money and ownership flow between founders and investors — valuation, dilution, preferences, and payout structures.

2. Control

How decisions are made and who has veto power — board composition, voting rights, and protective provisions.

3. Protection

How risk is managed and downside is mitigated — anti-dilution, drag-along, tag-along, and founder vesting.

4. Incentives

How everyone stays motivated and aligned — ESOP pools, milestone-based releases, and performance metrics.

A fair deal balances all four pillars. Over-optimizing one dimension often creates vulnerabilities in others.

Pillar 1: Economics



What It Decides

Economics is the foundation of any investment deal. It determines the financial relationship between founders and investors across the entire lifecycle of the company.

Key economic dimensions:

- **How much you give up** — the percentage of company ownership transferred to investors
- **What investors get** — their rights to cash flows, exit proceeds, and future rounds
- **How future rounds impact ownership** — dilution mechanics, anti-dilution protection, and preference stacking

Understanding these mechanics is critical. Many founders focus exclusively on pre-money valuation while ignoring the economic terms that can dramatically alter actual returns.

Valuation: Pre-Money vs Post-Money

Understanding the difference between pre-money and post-money valuation is fundamental to calculating dilution and ownership stakes accurately.

1

Pre-Money Valuation

The company's value **before** new investment is added. This is what existing shareholders own.

2

Investment Amount

The new capital being invested into the company by incoming investors.

3

Post-Money Valuation

Pre-money + Investment. This determines investor ownership percentage.

Example Calculation

- Pre-Money Valuation: ₹20 crore
- New Investment: ₹5 crore
- Post-Money Valuation: ₹25 crore
- Investor Stake: ₹5 Cr ÷ ₹25 Cr = **20%**

□ Always model ESOP pool allocation and future round dilution in your post-money context. Unallocated ESOP pools dilute founders, not investors.

Instruments of Investment



Different stages and situations call for different investment instruments. Each has distinct characteristics, conversion mechanics, and implications for founders.

Instrument	Meaning	Typical Stage
Equity	Direct ownership stake with immediate valuation	Growth rounds, established startups
CCPS	Compulsorily Convertible Preference Shares — converts to equity on trigger events	Series A/B VC rounds, institutional investors
CCD	Compulsorily Convertible Debentures — debt instrument that converts to equity	Bridge rounds, interim financing
SAFE	Simple Agreement for Future Equity — deferred valuation, converts at next round	Pre-seed, seed stage, angel investors
Convertible Note	Debt with conversion option, includes discount and valuation cap	Early-stage, quick closures

Each instrument has different tax implications, conversion mechanics, and rights structures. Choose based on stage, investor profile, and strategic objectives.

Cap Table & Dilution Planning

Your Cap Table = Your Control Map

The capitalization table is more than an Excel sheet — it's a dynamic power structure that evolves with each funding round.

Essential cap table principles:

- Always model **2-3 future rounds** to understand ultimate dilution
- Include ESOP pool expansion in each round
- Factor in convertible notes and SAFE conversions
- Track fully diluted ownership, not just current stakes
- Model different exit scenarios and preference stacks

Dilution Across Rounds

Typical dilution pattern:

- Seed: 15-25% dilution
- Series A: 20-30% dilution
- Series B: 15-25% dilution
- Series C+: 10-20% per round

Founders who raise 4-5 institutional rounds typically retain 15-30% ownership at exit. Plan your dilution trajectory early.

📌 Use cap table management software from day one. Manual spreadsheets become error-prone as complexity increases.

Anti-Dilution Clauses

Anti-dilution provisions protect investors when a company raises capital at a lower valuation than previous rounds (a "down round"). This protection comes at the founder's expense.

Full Ratchet

Most aggressive, founder-unfriendly

Completely resets the investor's conversion price to the new lower price, regardless of the amount raised. If Series A was at ₹100/share and Series B is at ₹50/share, all Series A shares convert as if purchased at ₹50.

Impact: Massive dilution to founders and common shareholders. Avoid unless absolutely necessary.

Narrow-Based Weighted Average

Moderately protective

Adjusts conversion price based on new round pricing, but only considers preferred stock in the calculation. Partially protects investors while limiting founder dilution.

Impact: Moderate dilution to founders in down rounds.

Broad-Based Weighted Average

Balanced and founder-friendly

Adjusts conversion price proportionally based on all outstanding shares (common + preferred). Spreads the dilution impact across all shareholders more fairly.

Impact: Minimal additional dilution to founders. This is the market standard you should negotiate for.

Negotiation Tip: Always push for broad-based weighted average anti-dilution. It's the most balanced approach and increasingly the market norm.

Liquidation Preference

Understanding Exit Payout Order

Liquidation preference determines who gets paid first and how much when the company exits through acquisition or IPO. This single term can dramatically alter founder economics.

1x Non-Participating

1 Standard and founder-friendly

Investor chooses: (A) Get 1x their investment back, OR (B) Convert to common and take their ownership percentage. They cannot do both. Best for founders.

1x Participating

2 Investor-favorable

Investor gets 1x their investment back PLUS their pro-rata share of remaining proceeds. This "double dipping" significantly reduces founder returns in modest exits.

2x+ Participating

3 Highly aggressive

Investor gets multiple of investment back (2x, 3x) PLUS pro-rata share of remainder. Extremely punitive to founders. Only acceptable in distressed situations or turnarounds.

Each preference "stacks" across rounds. If Series A has 1x participating and Series B has 1x participating, total preference burden grows significantly.

Convertible Notes: The Basics



What Is a Convertible Note?

A convertible note is a debt instrument that converts into equity at a future date, typically at the next funding round. It's used when parties want to close quickly without fixing valuation.

Key advantages:

- Fast execution (1-2 weeks vs 4-8 weeks for equity)
- No immediate valuation negotiation
- Lower legal costs
- Flexible for early-stage uncertainty

Conversion Triggers

Qualified Financing

Note converts when company raises a specified minimum amount (e.g., ₹2 crore Series A).

Maturity Date

If no qualified round by maturity (18-24 months), note converts at pre-agreed valuation or becomes repayable.

Exit Event

If company is acquired or goes public before conversion, noteholders receive either conversion to equity or repayment with interest.

Convertible Note: Discount, Cap & Floor



Convertible notes protect early investors through three key mechanisms. Understanding how these work together is essential for fair negotiations.

Term	Meaning	Example
Discount	Percentage discount on next round price as reward for early risk	20% discount means if Series A is ₹100/share, note converts at ₹80/share
Valuation Cap	Maximum valuation at which note converts, protecting against high valuations	₹25 Cr cap means even if Series A is ₹50 Cr, note converts at ₹25 Cr valuation
Valuation Floor	Minimum valuation at which note converts, protecting investor downside	₹10 Cr floor means even if Series A is ₹5 Cr, note converts at ₹10 Cr valuation

Working Example

Terms: ₹1 Cr note, 20% discount, ₹25 Cr cap

Next round: ₹40 Cr post-money valuation

Calculation:

- With discount: $₹40\text{ Cr} \times 0.8 = ₹32\text{ Cr}$ effective valuation
- With cap: ₹25 Cr valuation
- Investor gets **better** of the two: ₹25 Cr
- Conversion: $₹1\text{ Cr} \div ₹25\text{ Cr} = \textbf{4\% equity}$

Without cap: $₹1\text{ Cr} \div ₹32\text{ Cr} = \text{only } 3.1\% \text{ equity}$

The cap delivered an extra 0.9% equity, worth ₹360,000 at the ₹40 Cr valuation. This is the investor's reward for early risk.



Caps typically range from 1.5-3x current estimated valuation. Lower caps favor investors; higher caps favor founders.

Convertible Note: Example in Numbers

Understanding Cap Impact on Conversion

Let's walk through a detailed example showing how valuation caps protect early investors and impact founder dilution.

₹1Cr

Note Amount

Initial investment via convertible note

20%

Discount

Reward for early-stage risk

₹25Cr

Valuation Cap

Maximum conversion valuation

₹40Cr

Series A Valuation

Next round post-money

Conversion Calculation

Step 1: Calculate discount valuation

$$₹40 \text{ Cr} \times (1 - 0.20) = ₹32 \text{ Cr}$$

Step 2: Compare with cap

$$\text{Lower of (₹32 Cr, ₹25 Cr)} = ₹25 \text{ Cr}$$

Step 3: Calculate ownership

$$₹1 \text{ Cr} \div ₹25 \text{ Cr} = \mathbf{4.0\% \text{ equity}}$$

Without Cap Protection

Alternative calculation:

$$₹1 \text{ Cr} \div ₹32 \text{ Cr} = \text{only } \mathbf{3.1\% \text{ equity}}$$

Impact: The cap gave the investor an additional 0.9 percentage points, worth ₹360,000 at the ₹40 Cr valuation.

This is why modeling both cap and no-cap scenarios is critical before signing.

Founder Takeaway: Always model convertible note conversions at multiple Series A valuations (low, medium, high). Caps that seem reasonable at ₹50 Cr can create significant dilution if your next round is ₹100 Cr+.

Pillar - 2

What Control Really Means in Investment Deals

Beyond Shareholding

Control in venture deals isn't just about who owns the most equity. It's fundamentally about decision rights and governance structure. An investor holding only 20% equity can wield 70% of the actual influence through carefully structured board composition, veto rights, and reserved matters.

The critical question founders must ask isn't "who owns more?" but rather "who can say NO to key decisions?" Understanding this distinction is the first step to negotiating a balanced deal.

Board Composition: The Power Center

Typical Structure

One founder director, one investor director, and one independent director creates a balanced three-person board.

Quorum Mechanics

Quorum requirements are subtle control mechanisms. A two-out-of-three quorum means any two directors can make binding decisions, giving the independent director kingmaker status.

Observer Rights

Early-stage investors often request observer rights instead of a full board seat, allowing participation without voting power—a softer form of governance.

Board composition determines the actual balance of power in your company. Don't underestimate how quorum rules and observer rights shape decision-making dynamics long after the deal closes.

Reserved Matters: The Veto List

Reserved matters are specific decisions that require investor approval, regardless of shareholding percentage. These typically include fundraising rounds, mergers and acquisitions, significant budget deviations, and executive leadership changes.

Smart founders create a tiered approach:

01

Must Approve

Material decisions requiring formal investor consent—fundraising, M&A, asset sales over threshold amounts, changes to capital structure.

02

Must Be Informed

Operational matters requiring notification but not approval—hiring key executives, entering major contracts, significant partnerships, strategic pivots.

This framework prevents micro-management while ensuring investors stay informed on matters affecting their investment value and risk profile.

Drag-Along & Tag-Along Rights

Drag-Along Rights

Enables majority shareholders to force minority shareholders to join in selling the company. This prevents small shareholders from blocking an otherwise attractive exit opportunity.

Why it matters: Protects against holdout problems and ensures clean exits when you find the right buyer.

Tag-Along Rights

Allows minority shareholders to join a sale on the same terms as majority sellers. This ensures smaller investors aren't left behind when founders or major investors exit.

Why it matters: Provides liquidity protection and fair treatment for all shareholders.

- ❏ A good term sheet includes both drag-along and tag-along provisions, protecting both majority and minority interests while facilitating future exits.

Founder Vesting & Lock-In Provisions

Vesting as Commitment

Founder vesting typically runs four years with a one-year cliff. This ensures founders remain committed to building the company and aligns long-term incentives with investors. If a founder leaves before the cliff, they forfeit unvested equity.

Lock-In Periods

Lock-in clauses prevent founders from selling shares for a specified period—usually until a liquidity event or milestone. This maintains founder skin in the game and prevents premature exits that could destabilize the company.

Liquidity Windows

Post-Series A, many deals allow founders to sell a small percentage of their holdings in secondary transactions—typically 10-15% if justified by personal circumstances. This provides some reward for early success without compromising commitment.

Pillar - 3

Investor Protections

Investor protections ensure transparency, proper governance, and audit rights throughout the investment period. These provisions safeguard investor interests while maintaining operational flexibility for founders.

- ❏ Don't over-promise on reporting frequency or detail. Set realistic expectations you can consistently meet. Under-promising and over-delivering builds trust; the opposite erodes it quickly.

Information & Audit Rights

What Investors Expect

Investors typically require monthly MIS reports, quarterly board presentations, and annual audited financials. The key is defining upfront the frequency, format, and level of access that balances transparency with operational efficiency.

Three critical elements to specify:

- **Frequency:** Monthly MIS, quarterly board updates, annual audits
- **Format:** Standardized templates agreed in advance
- **Access:** "Reasonable inspection rights" with advance notice

Put guardrails around audit rights to prevent disruption. "Reasonable inspection rights during business hours with 7 days notice" is far better than unlimited access.

Founder Obligations & Representations



Non-Compete & Non-Solicit

Founders typically agree not to compete with the company or poach employees for 1-2 years post-exit. Keep these reasonable in scope and duration to remain enforceable.



Representations & Warranties

Founders make statements about the company's financial condition, legal compliance, intellectual property ownership, and material contracts. Always qualify these "to the best of knowledge" to limit personal liability.



Breach Clauses

Material breaches of representations can trigger investor exit rights, penalties, or indemnification claims. Ensure you can stand behind every representation you make.

- ❏ Never make absolute representations about matters outside your direct knowledge. Use qualifiers like "to the best of founder's knowledge" or "except as disclosed in the data room."

Exit Rights: Planning for Liquidity

Right of First Refusal (ROFR) / Right of First Offer (ROFO)

Gives investors the first opportunity to purchase shares before founders can sell to third parties. Balance these rights with liquidity flexibility as the company matures.

Buyback Provisions

Allows founders or the company to repurchase investor shares under specific circumstances. Useful for removing misaligned investors or consolidating cap tables.

IPO Conversion Triggers

Specifies when and how preferred shares convert to common stock upon public listing. Clear conversion mechanics prevent disputes during IPO preparation.

Put Options

Grants investors the right to force the company or founders to purchase their shares upon specific trigger events. Use sparingly and with clear, objective triggers.

Pillar - 4

Why Incentives Matter

Alignment Creates Success

The most successful startup partnerships align incentives across three critical groups: founders, team members, and investors. When everyone shares in the upside and understands how their contributions drive value, you create sustainable, high-performance partnerships.

Poorly aligned incentives lead to early conflict, mismatched expectations, and broken relationships. Getting this right from day one prevents problems that can derail even promising companies.

Employee Stock Option Plans (ESOPs)



Pool Size

Typical ESOP pools range from 10-15% of fully diluted equity. Negotiate whether this comes from pre-money or post-money valuation—it significantly impacts founder dilution.



Refresh Cycles

Plan to refresh the ESOP pool every 2-3 years as you hire senior talent and grow the team. Budget for this in your cap table modeling to avoid dilution surprises.



Liquidity Mechanisms

Consider employee buyback programs or secondary sale opportunities to provide liquidity before an exit. This helps retain talent who need to realize some value along the journey.

A well-structured ESOP program attracts top talent, reduces cash compensation needs, and aligns the entire team with long-term company success.

Milestone & Tranche Investment Deals

Rather than releasing all capital upfront, milestone-based tranches release investment as the company achieves specific, pre-agreed objectives. This structure protects investors from deployment risk while adding performance pressure on founders.

How It Works

Initial tranche funds immediate needs. Subsequent tranches unlock upon hitting revenue targets, product milestones, or operational metrics. Each release is contingent on demonstrated progress.

The Trade-Off

Founders get better valuations and prove execution ability. Investors limit downside risk. However, poorly defined milestones create conflict and cash flow uncertainty.

- ❏ Define milestones objectively and measurably. Not "achieve growth" but "reach \$500K MRR" or "launch in 3 markets with 10K users each." Subjective metrics breed disputes.

Negotiation Framework: The RAG Model

Use this Red-Amber-Green framework to quickly assess which terms are dealbreakers, which are negotiable, and which are acceptable. This mental model helps you prioritize negotiation energy and know when to walk away.

Category	Red (Never Accept)	Amber (Negotiate Hard)	Green (Acceptable)
Economics	Full Ratchet Anti-Dilution	Weighted Average Anti-Dilution	Simple Equity Investment
Control	2+ Investor Board Seats	1 Board Seat + Observer	1 Seat, Balanced Board
Protection	2x+ Participating Preferred	1x Non-Participating Preferred	Simple ROFR
Exit	Fixed IRR Guarantee	Put Option with Triggers	Standard Drag/Tag Rights

Clauses You Should Never Accept

Some terms are so founder-unfriendly they should be automatic dealbreakers. Don't confuse "standard" with "fair"—just because an investor claims these are normal doesn't mean you should accept them.

Dangerous Clause	Why It's Toxic	Safer Alternative
Full Ratchet Anti-Dilution	Causes massive founder dilution in down rounds, transferring all downside risk to founders	Weighted Average Anti-Dilution (broad-based preferred)
2x+ Participating Preferred	Investor gets preference multiple AND participates in upside—founders lose on exits	1x Non-Participating Preferred OR simple participating
Multiple Investor Board Seats	Complete loss of founder control over company direction and decisions	One investor seat plus observer rights
Personal Guarantee	Puts founder's personal assets at risk for company obligations	Avoid entirely—investors should bear investment risk
Fixed IRR with Buyback	Forces founder to buy out investor at guaranteed return regardless of company performance	Exit rights only post-IPO or in secondary transactions

Clauses That Depend on Context

Not every term is black and white. Some provisions are perfectly reasonable in certain situations but problematic in others. Understanding the context helps you negotiate intelligently rather than reflexively.

Contextual Clause	Acceptable When	Important Note
Drag-Along Rights	Majority threshold set at 70%+ and applies to all shareholders equally	Protects exit opportunities; ensure threshold is high enough to prevent minority control
Tag-Along Rights	Extended to all minority shareholders without discrimination	Creates fairness and equal treatment—generally founder-friendly
Founder Vesting	Introduced at first institutional VC round with reasonable schedule	Demonstrates commitment; standard 4-year vest with 1-year cliff is acceptable
ROFR/ROFO	Limited to early funding rounds and removed after Series A or B	Reasonable for early investors but should sunset as company matures

Documentation Trail: Corporate Secretarial Requirements

Every investment creates a paper trail of legal documents and regulatory filings. Misalignment between your lawyer, CFO, and Company Secretary causes most deal delays. Plan this workflow before you close.

Instrument	Key Documents	Company Secretarial Actions
Equity / CCPS	Term Sheet, SHA, SSA, Articles Amendment	Form PAS-3, MGT-14, ROC filings, share certificate issuance
Compulsorily Convertible Debentures	Debenture Agreement, Trust Deed, Board Resolution	Form SH-7, PAS-3, debenture trustee appointment, register maintenance
Convertible Note	Note Purchase Agreement, Board Resolution, Disclosure Letter	Record as debt until conversion, update quarterly borrowing returns
SAFE	Simple Agreement for Future Equity	Maintain as contingent liability note until triggering event
ESOP	ESOP Plan Document, Grant Letters, Exercise Forms	PAS-3 for option pool, maintain ESOP register, file disclosures

Post-Deal Obligations: What Happens After Closing



MIS & Board Updates

Monthly Management Information System reports covering financial performance, operational metrics, and key initiatives. Quarterly board meetings with detailed presentations on strategy, results, and forward plans.



Cap Table Maintenance

Keep your capitalization table current with every equity event—new hires receiving options, option exercises, investor transfers, and funding rounds. Use dedicated cap table software to avoid errors.



Governance Rhythm

Establish regular cadence for board meetings, shareholder communications, and reserved matter approvals. Create templates and processes that scale as complexity grows.



Compliance Calendar

Track all regulatory filing deadlines, audit schedules, tax obligations, and contractual reporting requirements. Missing deadlines creates investor anxiety and potential legal exposure.



Future Funding Readiness

Maintain data room documentation, update financial models, and track metrics that matter for your next round. Fundraising preparation starts the day your current round closes.

Founder's Deal Readiness Checklist

Before entering serious term sheet negotiations, ensure you've done the foundational work. Being prepared strengthens your negotiating position and accelerates the deal process.

01

Valuation Logic & Financial Model

Build defensible valuation with comparable companies, market opportunity, and revenue projections. Understand your numbers deeply—investors will stress test every assumption.

02

Cap Table Modeling

Model your cap table through at least two future funding rounds. Understand dilution impact, ESOP refresh needs, and how different scenarios affect founder ownership.

03

RAG Negotiation Plan

Identify your red lines (dealbreakers), amber terms (negotiate hard), and green zones (acceptable). Know your walkaway point before sitting down to negotiate.

04

Legal & CS Alignment

Ensure your lawyer, CFO, and Company Secretary understand the deal structure and timeline. Coordinate document preparation to avoid last-minute surprises.

05

Investor Fit Assessment

Evaluate beyond the money—does this investor bring relevant expertise, valuable networks, and aligned values? The wrong investor at any price is a bad deal.

A Great Deal Brings More Than Capital

"A great deal doesn't just bring capital—it brings conviction, clarity, and continuity."

The best investment partnerships are built on mutual respect, aligned incentives, and transparent communication. When you negotiate with these principles in mind—balancing founder control with investor protection, ensuring fair economics while maintaining commitment mechanisms, and creating governance structures that scale—you set the foundation for lasting success.

Remember: every term in your agreement will be tested during challenging times. Negotiate deals that work when things go wrong, not just when everything goes right. Choose investors who understand your vision and can support you through the inevitable ups and downs of building a company.

Your term sheet is more than a legal document—it's the blueprint for your partnership. Make it count.

Key Takeaways

- Financial Frameworks
- Building Strategy Playbook
- Financial Modeling
- Cashflow Forecasting
- Budgeting
- Unit Economics
- Metrics and its importance
- Understanding Deal Structuring

SCAN HERE

TO RECIEVE THE COPY OF THIS DECK AND
OTHER RELATED RESOURCES



+91 99403 92753

sriram@srfcapitalstudio.com

SCAN HERE

TO FOLLOW OUR WHATSAPP CHANNEL
FOR UPDATES AND VALUABLE INSIGHTS



<https://www.linkedin.com/in/sriramchidambaram/>