



FINANCIAL MODELING: A STRATEGIC TOOL





ABOUT ME

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



WHAT DOES SRF CAPITAL STUDIO OFFER?



SERVICES FOR PRE FUNDED STARTUPS



Incorporation
Services



Financial
Controllship



Strategy
Playbook



Financial
Modeling



Pitch Deck &
Storytelling



Valuation
Benchmarking



Deal Advisory &
Deal Structuring



Monthly Investor
Reporting



Pricing
Discovery



Market
Research

WHAT DOES SRF CAPITAL STUDIO OFFER?



CFO/STRATEGIC CONSULTING FOR LARGE ENTERPRISES



Transaction
Advisory



Deal
Structuring



Market
Research



Pricing Strategy
Development



Strategic
Roadmapping



Market Research
& Benchmarking



Entry Strategy
Development



Performance
Management



Finance
Transformation



ERP
Integration



WHAT DOES SRF CAPITAL STUDIO OFFER?



CFO OFFICE FOR VC-FUNDED STARTUPS



Financial
Controllship



Financial Planning
& Forecasting



Compliance
Management



Risk
Management



Cash Flow
Forecasting



Sales Funnel
Management



Sensitivity &
Scenario Analysis



Management
Dashboards



Secretarial
Desk



Path to
Profitability



WHAT DOES SRF CAPITAL STUDIO OFFER?



INVESTOR SERVICES



*Governance
Framework*



*Portfolio management &
Review*



*Due Diligence
Services*



*Pre Due Diligence
Readiness*



*Investment
Research*



*Business
Valuation*

THE CFO OFFICE PYRAMID



THE CFO OFFICE PYRAMID

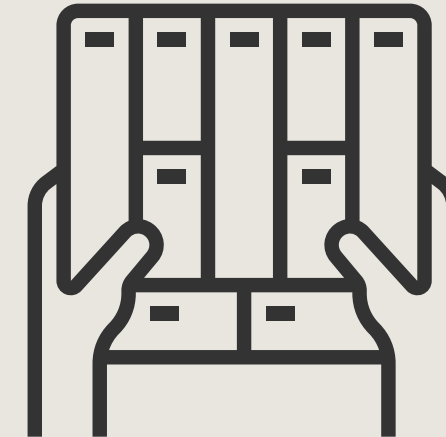
THE IMPORTANCE OF METRICS

Business Strategy

Business Plan

Business Model

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



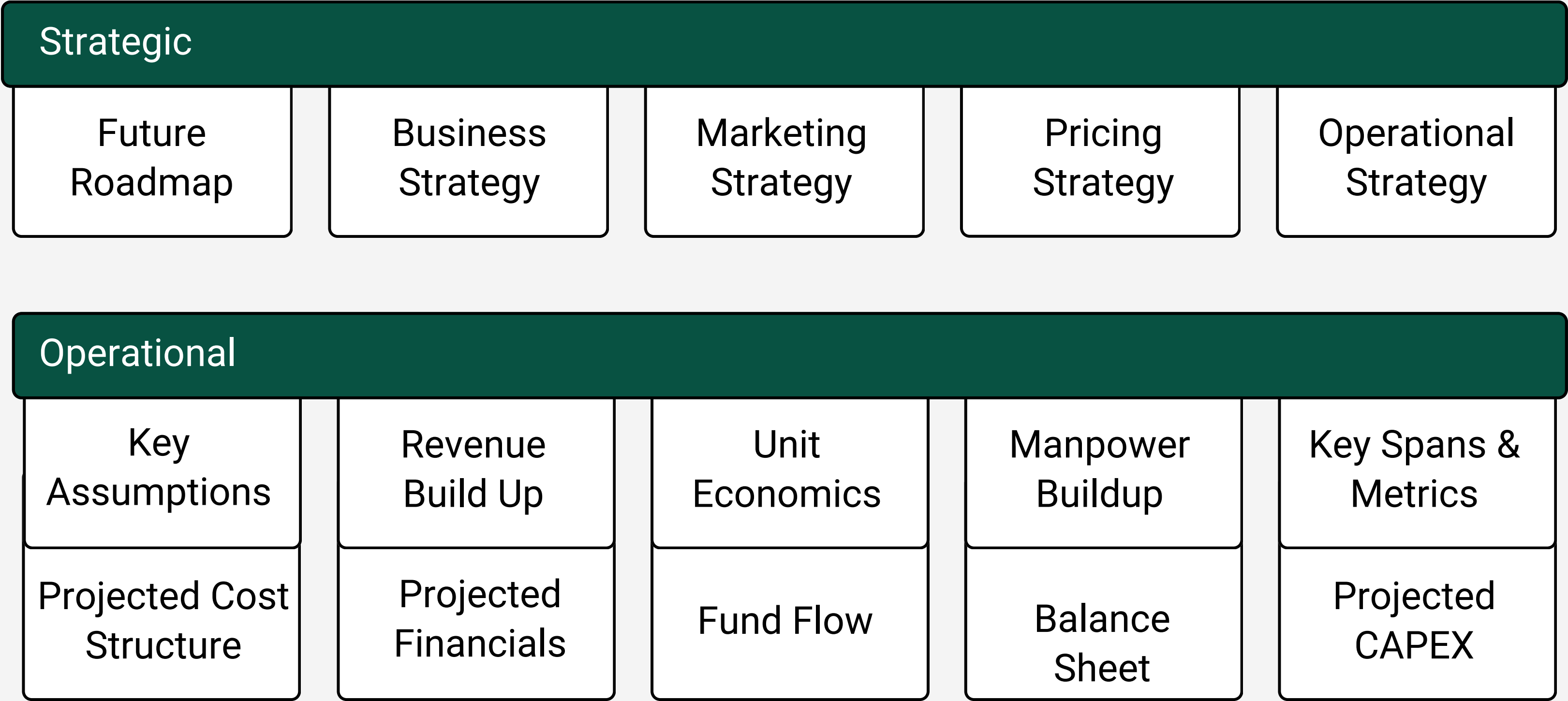
What is your business?
What is your purpose?
Who is your customer?
Analysis of business environment
Competition and market gaps
How can you compete?

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

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

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

STRUCTURE OF FINANCIAL BLUEPRINT



HOW TO CREATE REVENUE PLAN

Creating a revenue budget sets the foundation for your business planning process and will have impact on the entire funding strategy. Here are few ways of creating a revenue plan:

Sales
Growth
Modelling

Growth of price
and volume
inflation

Unit volume growth

Market Size and Market
Market Share

Unit Market
Size and
Growth and
impacts due
to pricing of
product /
service

Volume Capacity
Approach :
Relevant where
revenue plan is
linked to the
capacity to
produce

Revenue Driven by
investment in R&D
and Marketing
Spends

Manpower Based
Revenue plan with
Tiered Pricing for
each type

Revenue Plan basis the
produce/service roadmap

COST TO FOCUS ON WHEN MAKING YOUR BLUEPRINT

Operational Overheads	Fixed Overheads	Marketing Cost	Manpower	CAPEX	Scale up Costs
- Skill development - QA - Training - Cloud costs - Staff welfare - R&R	- Management Salaries - Office Space - Professional Expenses - Legal help for	- Advertisement - PR - Events - Conferences - Research - Marketing Materials - SEO - Data analytics	- Linked to revenue - Linked to org structure - Annual appraisals - Market benchmarking for salaries - Span-based headcount planning - Stage based org structure planning - Tech setup	- IP development (stage-wise increase in CAPEX) - Plant setup (manufacturing) - App development (e-commerce, marketplace) - Technical architecture - IP (global vs India)	- Costs are dependent on the metric of scaling. - Metric of scaling is dependent upon the business model and the expansion strategy - Necessary to define responsibility metrics when scaling!

HOW YOUR STARTUP CAN WIN WITH RIGHT PRICING

Price to the value what customer perceive and not the cost

Your pricing determines acquisition strategy and sales cycle

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

Understand the relation between cost, price and value

Your pricing will define your target customer

Dont press the volume button until you understand the optimal price

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

Understand the pricing vs complexity of your product / Service

IMPORTANCE OF FINANCIAL BLUEPRINT

The financials are a key aspect of a fintech startup's valuation, often seen as the quantifiable backbone of the company's valuation narrative.

They address critical queries regarding the path to profitability, anticipated growth rates, and key financial milestones.

It should rigorous analysis of the startup's revenue streams, cost structures, and cash flow is conducted to determine the robustness and scalability of its business model.

It helps in aligning with future potential, investors on projected financial trajectory with their valuation expectations and investment objectives.

IMPLEMENTING THE BLUEPRINT



HOW TO IMPLEMENT FINANCIAL BLUEPRINT

Ensure you have a good finance account function in house or outsourced

Ensure month close is performed and the team provides credible financial metrics

Set up framework to collect key data across organisation for measuring metrics

Measure all key metrics on a monthly basis along with a common management meeting

Ensure you establish a clear financial plan which is reviewed on a monthly basis. Use an external analyst team if needed

Business plan should incorporate all or any variables which you come across while interacting with external stakeholders

Understand the costructure and define cost structure across organisation. Define Operational costs, R&D, Support etc

Constantly benchmark yourself against peers or closest peers in the industry against all metrics

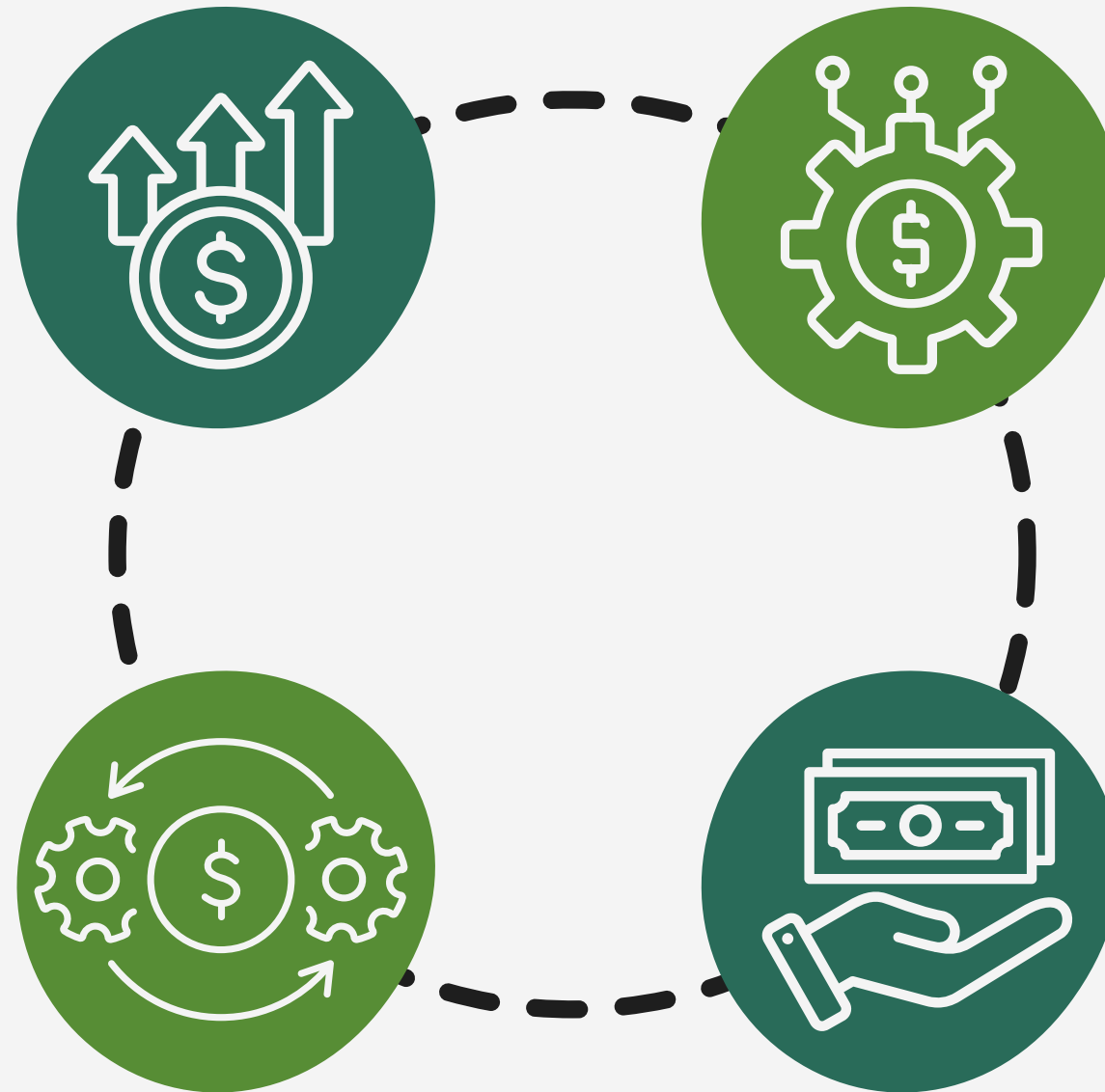
KEY AREAS IN AN INCOME STATEMENT

REVENUE:

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

CONTRIBUTION MARGIN:

The difference between the revenue and direct costs on your P&L.



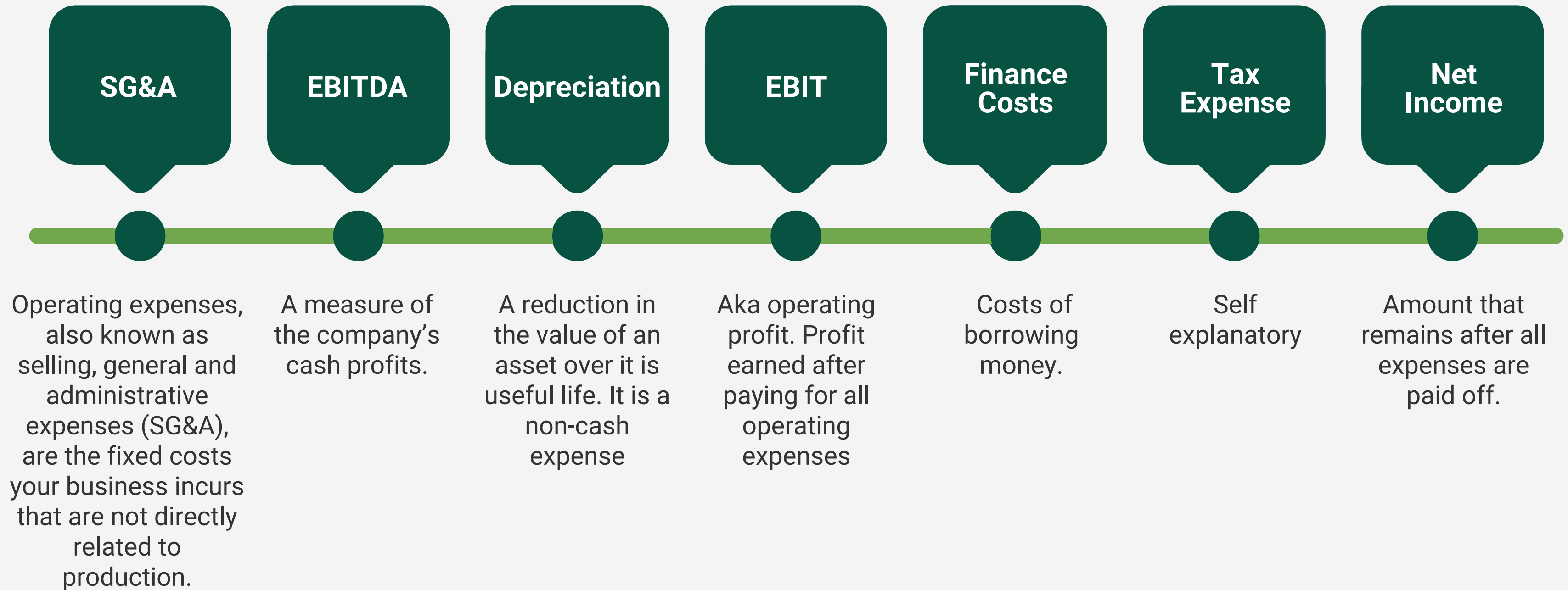
OPERATIONAL OVERHEADS

These includes operational overheads you incur for generating revenue in your company

GROSS MARGIN:

Contribution margin - Operational overheads

KEY AREAS IN AN INCOME STATEMENT



EXAMPLE OF FUND FLOW STATEMENT

ABC Co.

Fund Flow

All amounts in INR Lakhs

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

HOW TO MAKE A BUDGET

Identify key members in-charge of the idea and project delivery

Identify Support members who support in execution

Identify Key resources that are needed for the project, example- software, hardware, and other technological resources

Identify Overheads associated with the project like, travelling, rent and so on

Set milestones and the phases of completion

Allocate the members and costs for each milestone and phases of completion

Find the total budgeted costs and cost per phase and milestone

Track actual costs and progress against budget on a weekly basis

HOW DO BUDGETS ADD VALUE

It is very important to have a detailed financial plan (operational budgets) in place which explain how each variable in your business can impact your finances

Provides clarity on **Processes**

Provides clarity on **Resources** to be utilised

Provides clarity on the Expected **outcomes**

Identifies gaps in cost structure for elimination

Identifies resource gaps to meet the target, leading to effective resource allocation

Identifies cost, **profit and revenue centers** and also finds ways to optimize & drive performance

Helps to link **milestones** and the resources needed to meet them

Tracks changes between actual and estimated resource allocations and costs

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

CASH BURN & RUNWAY

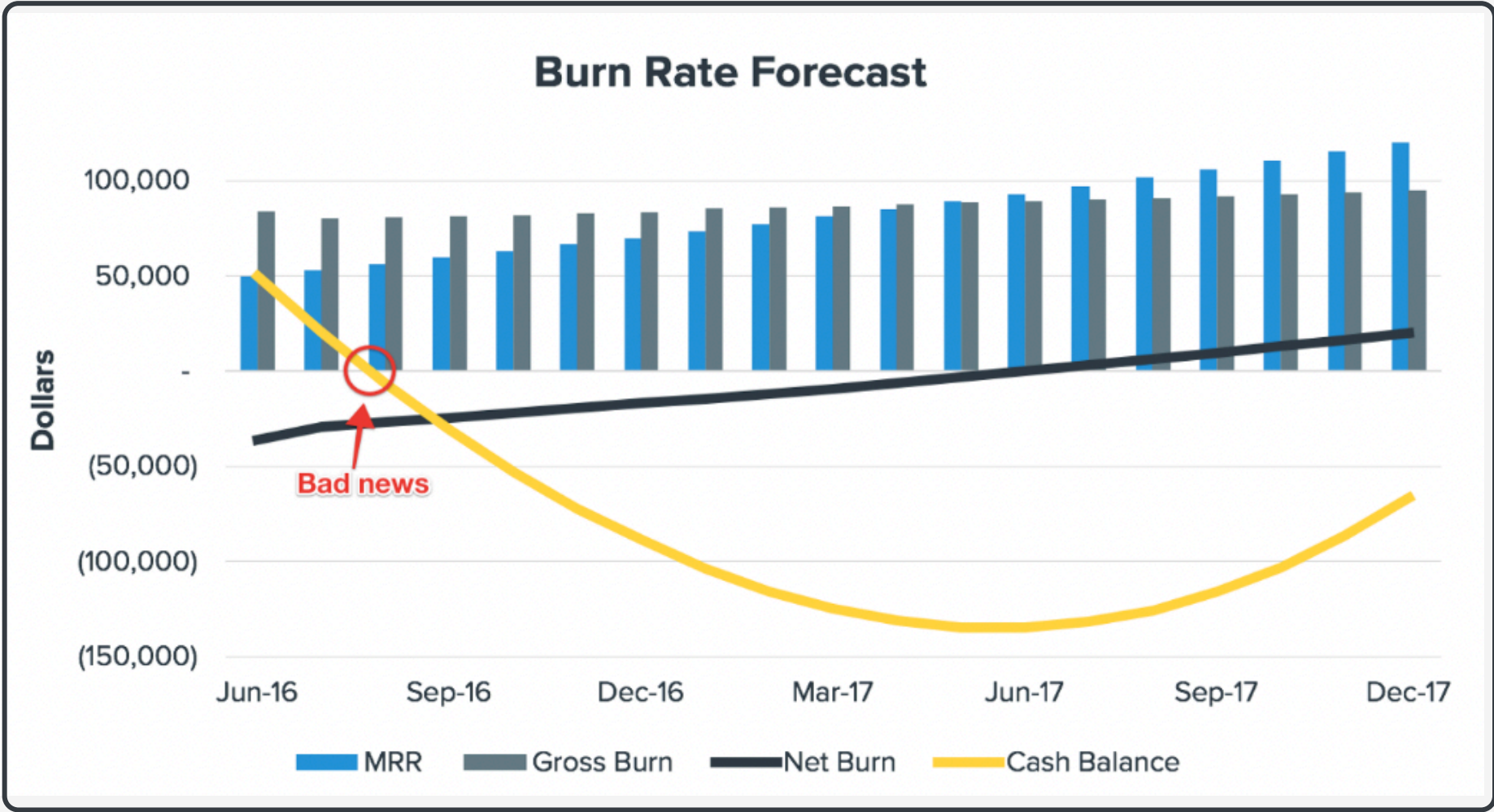
CASH BURN RATE

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

Two types of cash burn rates:

Gross burn rate	Net burn rate
Total of all monthly expenses.	Gross burn rate - Income

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



CASH BURN & RUNWAY

RUNWAY

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

Receivables

Fundraising

- Burn Rates can be reduced with:

Layoffs and Downsizing

Increasing Client Churn

RUNWAY CALCULATIONS



Operating Runway

=

Cash on hand

Operating Cash Flow (OCF)

[avg. past 6 months]

Predicted Runway

=

Cash on hand

Operating Cash Flow (OCF)

[avg. future 12 months]

Standard Runway

=

Cash on hand

Change in cash

THE FUND FLOW STATEMENT

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

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

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

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

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

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

METRICS AND ITS IMPORTANCE



METRICS OFFER INSIGHTS FOR STARTUPS INTO THEIR:



Growth trajectory



Profitability



Customer retention



Operational efficiency



Risk levels

METRICS OFFER INSIGHTS FOR STARTUPS INTO THEIR:

Guided Decision Making

Metrics provide data driven insights for **improving user experiences** and optimizing marketing strategies.

Resource Allocation

Metrics **highlight areas for investment**, like product development, customer service, and marketing.

Performance Benchmarking

Metrics help set and **track performance goals**, highlighting successes and areas for improvement.

Showcasing Value

Metrics offer **tangible growth metrics**, essential for attracting investors.

Building Credibility

Positive metrics trends show market understanding and goal achievement, boosting company credibility.

Risk Assessment

Metrics **reveal challenges**, enabling transparent risk discussions and mitigations with investors.

METRICS

Product

- Cost Per Unit
- Production Volume
- Production Downtime
- Capacity Utilization
- Total Effective Equipment Performance
- Return on Assets
- Cost of Goods Sold
- Scrap Rate

Platform

- Customer Satisfaction Score
- Net Promoter Score
- Client Retention Rate
- Operational Efficiency Ratios
- Average Resolution Time
- Lead Conversion Rate
- Churn Rate

METRICS

SaaS

- Monthly Unique Visitors
- Product Signups
- Conversion Rate
- Customer Acquisition Cost
- Monthly Recurring Revenue
- Product Qualified Leads
- Number of Active Users
- Churn Rate
- Customer Retention Rate

Marketplace

- Number of active buyers and sellers
- Number of transactions
- Retention Rate
- Lifetime Value
- Gross merchandise value (GMV)
- Average Order Value
- Take Rate

METRICS

Manufacturing

- Overall Equipment Effectiveness
- Inventory Turnover Ratio
- Cost Per Unit
- Production Downtime
- First Pass Yield
- Capacity Utilization
- Scrap Rate
- Cycle Time

Services

- Billable Hours leverage
- Employee Utilization Rate
- Customer Satisfaction Score
- Net Promoter Score
- Client Retention Rate
- Operational Efficiency Ratios
- Average Resolution Time
- Lead Conversion Rate
- Churn Rate



Best Of Luck