



NAVIGATING COMPLEXITY: ESSENTIALS OF DEAL STRUCTURING





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
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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
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WHAT DOES SRF CAPITAL STUDIO OFFER?



SERVICES FOR PRE FUNDED STARTUPS



Incorporation
Services



Financial
Controllershship



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
Controllershship



Financial Planning
& Forecasting



Compliance
Management



Risk
Management



Cash Flow
Forecasting



Sales Funnel
Management



Sensitivity &
Scenario Analysis



Management
Dashboards



Secretarial
Desk



Path to
Proftiability

WHAT DOES SRF CAPITAL STUDIO OFFER?



INVESTOR SERVICES



Governance
Framework



Portfolio management &
Review



Due Diligence
Services



Pre Due Diligence
Readiness



Investment
Research

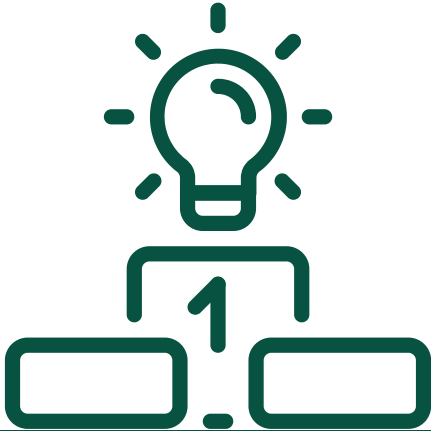


Business
Valuation

UNDERSTANDING DEAL STRUCTURING



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

	Startup Stages of Evolution	Source of Capital	Typical Funding Size	Typical Valuation Range	Funding Basis
Art ↑	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
Science ↓	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

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

CONVERTIBLE NOTES - DISCOUNT, FLOOR & CAP

Discount

Converts at a **discounted price** compared to new investors.

Example:

If the Series A valuation is \$10 million with a 20% discount, the convertible note holder converts at 80% of the share price.

Cap

Sets a **maximum valuation** for conversion.

Example:

With an \$8 million cap and a \$12 million Series A valuation, the note converts as if the valuation were \$8 million.

Floor

Sets a **minimum valuation** for conversion.

Example:

With a \$6 million floor, the investor converts as if the valuation were \$6 million, even if Series A is \$5 million.

CONVERTIBLE NOTES - KEY TAKEAWAYS FOR FOUNDERS

Founders must **balance the terms** of convertible notes (discount, cap, floor) to protect themselves from **too much dilution** while still offering **attractive terms** for early investors.

PRE AND POST MONEY VALUATION

For Instance,

Startup	ABC Tech
Investor	VC Firm XYZ
Investment	\$2 Million
Pre Money Valuation	\$8 Million

Pre Money Valuation

Valuation before the investment.

Value: \$8 million

Post Money Valuation

Pre-Money Valuation + New Investment

Value: \$8 million + \$2 million = \$10 million

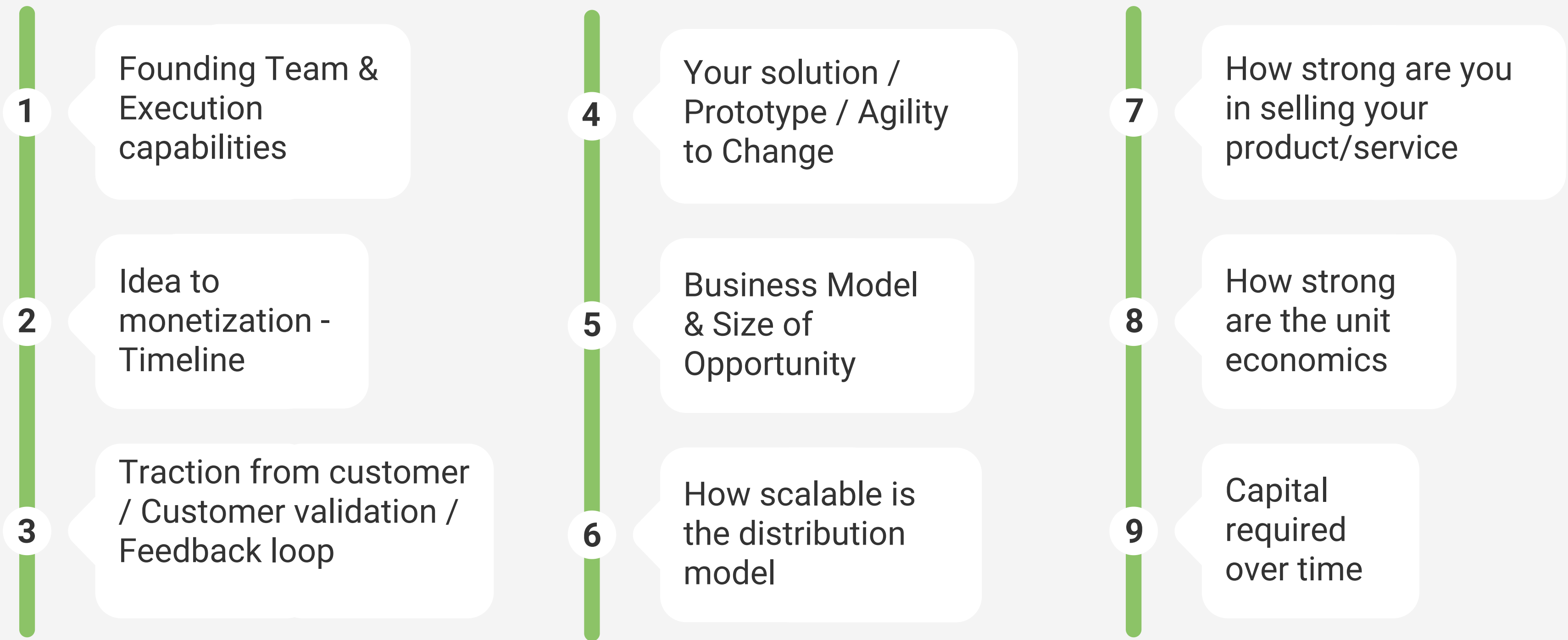
Equity Given to Investors

- **Calculation:**
Investment / Post-Money Valuation
- **Equity Stake:**
\$2 million / \$10 million = 20%
- **Implication:** VC Firm XYZ will own 20% of ABC Tech.

PRE AND POST MONEY VALUATION: KEY TAKEAWAYS FOR FOUNDERS

Founders need to understand the **dilution effects** of bringing in investors and ensure the **post-money valuation** reflects both the current and potential **future value** of the company.

HOW DO INVESTOR VALUE EARLY STAGE STARTUPS



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 TERMSHEET AND SHA

**Board Seat or
Board Observer**

ESOP Pool

**Restrictive
provisions**

**Information
rights**

**Founders Share
Vesting**

**Anti Dilution
Provision**

ROFR

**Redemption
Rights**

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



Best Of Luck

