



Financial Blueprint & Deal Structuring

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"Startups don't fail because they lack ideas — they fail because they run out of clarity."

About SRF Capital Studio



Strategy | Capital | Execution

Strategy

Building robust playbooks, financial models, and competitive benchmarking frameworks that give you clarity on your path forward

- Strategic playbooks
- Financial models
- Market benchmarking

Capital

Preparing you for investor conversations with funding readiness assessments, investor connects, and sophisticated deal structuring

- Funding readiness
- Investor connects
- Deal structuring

Execution

Delivering hands-on CFO services, comprehensive MIS reporting, financial controllership, and regulatory compliance support

- CFO services
- MIS & reporting
- Compliance

We act as your Strategic Finance Office — bringing institutional-grade financial leadership to early-stage companies, helping you navigate from vision to scale with confidence and clarity.

The Critical Importance of Finance Leadership

Strong finance leadership is the backbone of sustainable startup growth. Without it, even the most promising ventures can lose their way, running out of runway before realising their potential.

Visibility into Performance & Cashflow

Real-time insights into your financial health, understanding where every rupee comes from and where it goes, enabling proactive decision-making

Accountability in Decisions

Creating frameworks that ensure every strategic choice is backed by data, fostering a culture of responsible resource allocation and measurable outcomes

Alignment Between Growth & Capital Efficiency

Balancing aggressive expansion with sustainable burn rates, ensuring your growth trajectory matches your capital availability and fundraising timeline

Credibility with Investors

Demonstrating financial discipline and strategic thinking that builds investor confidence, opening doors to funding conversations and partnership opportunities

"Finance leadership is strategic foresight."

Core Finance Components for Startup Success

Every successful startup is built on three interconnected pillars that work together to create sustainable value. Understanding how these layers interact is essential for building a company that can scale effectively.



Strategy & Leadership

Direction

Defining your vision, setting clear milestones, and creating a roadmap that guides every decision

- Vision articulation
- Milestone planning
- Strategic roadmap



Financial Planning & Analysis

Insight

Building robust forecasting models, understanding unit economics, and tracking metrics that matter

- Revenue forecasting
- Unit economics
- KPI tracking



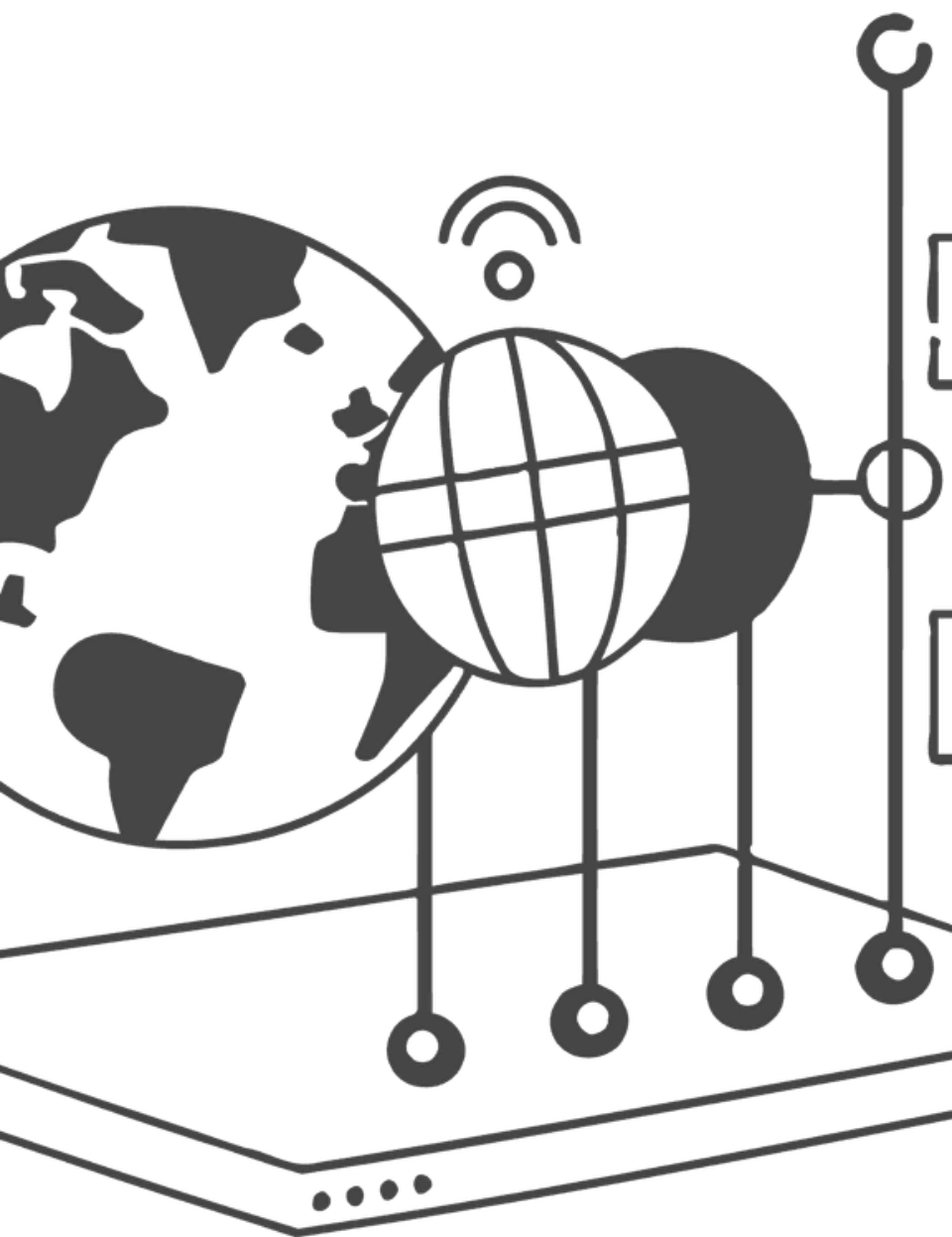
Compliance & Control

Confidence

Maintaining accurate books, generating actionable MIS, conducting audits, and ensuring governance standards

- Book-keeping
- MIS reporting
- Audit & governance

These three pillars must work in harmony — strategy without financial planning leads to guesswork, while compliance without strategy becomes bureaucratic overhead. The integration of all three creates a foundation for sustainable growth.



Understanding Your Business Context

Business Model | Customer Segment | Industry

Business Models

- Manufacturing
- Services
- SaaS
- E-Commerce
- Marketplace

Customer Segments

- B2B
- B2C
- B2G
- B2B2C

Industries

- EdTech
- FinTech
- HealthTech
- Agritech
- CleanTech
- AI
- F&B
- Fashion
- Real Estate
- Media



Your financial model depends on what you sell, to whom, and where you play. Each combination requires different metrics, capital structures, and growth strategies. A B2B SaaS company has fundamentally different unit economics than a B2C marketplace, just as FinTech faces different regulatory challenges than EdTech.

Strategy Playbook vs Business Plan

Many founders confuse these two critical documents, but they serve fundamentally different purposes in your startup journey. Understanding the distinction helps you build the right foundation.



Strategy Playbook

Defines **why** and **how** to win in your market

- Vision & market clarity
- Capital roadmap & priorities
- Competitive positioning
- Strategic frameworks



Business Plan

Defines **what** and **when** to execute

- Numbers & timelines
- Fundraising details
- Operational milestones
- Financial projections

Don't build models before you build strategy.

The playbook comes first — it's your strategic foundation. The business plan follows, translating that strategy into executable actions and financial targets. Attempting to create detailed financial models without strategic clarity leads to numbers that look precise but lack meaningful direction.

Key Components of a Strategy Playbook



A comprehensive strategy playbook serves as your company's north star, guiding decisions from product development to fundraising. Each component builds upon the others to create a cohesive strategic framework.

01

Vision & Mission

Articulating your long-term aspirations and the fundamental purpose that drives your company forward

04

Business & Revenue Model

Explaining how you capture value, including pricing strategies, revenue streams, and the economic engine of your business

07

Fundraising & Exit Plan

Mapping your capital requirements, funding timeline, and potential exit scenarios that align with investor expectations

02

Market Opportunity & Value Proposition

Defining the market size, growth potential, and the unique value you deliver to customers that competitors cannot match

05

Financial Plan & Metrics

Establishing key performance indicators, unit economics, and financial targets that measure progress towards your goals

03

Product & Go-to-Market

Outlining your product roadmap, distribution strategy, and the channels through which you'll acquire and retain customers

06

Risk & Compliance

Identifying potential risks, regulatory requirements, and mitigation strategies to protect your business

Building Your Playbook



Practical Principles

■ Focus on Basics

Start with fundamental questions: Who are you serving? What problem are you solving? How are you uniquely positioned to win? Don't overcomplicate with jargon or complexity.

■ Use Simple Frameworks

Leverage proven tools like business model canvas, value proposition canvas, and SWOT analysis. These frameworks provide structure without constraining creativity.

■ Identify Key Metrics Early

Determine the 5-7 metrics that will truly indicate whether your business is on track. Focus on leading indicators, not just lagging results.

■ Build Iteratively

Your playbook is a living document. Start with version 1.0 and refine as you learn from the market, customers, and operational experience.

■ Align with Milestones

Connect your strategy to specific, measurable milestones that demonstrate progress. These become checkpoints for both internal teams and external stakeholders.

■ Emphasise Cashflow

Always keep cashflow visibility at the centre. Beautiful strategies fail when companies run out of money. Plan for capital needs well in advance.

From Strategy to Financial Blueprint

A financial blueprint is where strategy meets reality. It's the translation layer that converts your ambitious vision into concrete numbers, timelines, and resource requirements.



What a Financial Blueprint Does

It transforms abstract goals into quantifiable targets, helping you understand not just where you want to go, but exactly what resources you'll need to get there.



Forecast Growth & Runway

Project revenue trajectories and calculate how long your current capital will last, identifying when you'll need additional funding

Allocate Capital Wisely

Determine optimal resource distribution across product, marketing, sales, and operations to maximise impact and efficiency

Align Financial & Strategic Goals

Ensure your financial projections support your strategic objectives, creating coherence between vision and execution

Communicate Clearly with Investors

Provide transparent, credible financial narratives that build confidence and demonstrate deep understanding of your business economics

Why Financial Modeling Matters

Numbers Tell Stories



Turns Strategy into Measurable Outcomes

Financial models convert qualitative aspirations into quantitative targets, creating accountability and clarity around what success looks like at each stage of growth.

Predicts Cash Gaps & Capital Needs

By modelling different growth scenarios, you can anticipate when you'll need additional capital, how much, and what milestones you need to hit before raising.

Builds Investor Credibility

Sophisticated financial models demonstrate strategic thinking and operational maturity. They show investors you understand your business deeply and have thought through the path to profitability.

"If your assumptions aren't written, they're guesses."

The discipline of building a financial model forces you to articulate and test your assumptions. It's not about predicting the future perfectly — it's about understanding the levers that drive your business and making informed decisions.

Elements of a Financial Model



A comprehensive financial model is built from interconnected components that together provide a complete picture of your business economics. Each element informs the others, creating a dynamic system.



Revenue Drivers

Identifying the key factors that generate income — whether that's customer acquisition, pricing, upsells, or usage-based billing. Understanding these drivers lets you model different growth scenarios.



Cost Structure & Scalability

Mapping fixed versus variable costs, understanding how costs behave as you scale, and identifying where efficiencies can be gained through volume or automation.



Overheads & Working Capital

Accounting for operational expenses like salaries, rent, and technology, plus the capital tied up in inventory, receivables, and other working capital needs.



Cashflow Projection

Tracking actual cash movements — when money comes in and goes out — which often differs significantly from profit and loss due to payment terms and timing.



Scenario & Sensitivity Analysis

Building best-case, base-case, and worst-case scenarios, then testing how changes in key assumptions impact your outcomes and runway.

Cost Structures by Business Model



Different business models have fundamentally different cost structures. Understanding these patterns helps you benchmark against industry standards and identify opportunities for efficiency.

Model	Direct Costs	Operational Overheads	Sales & Marketing	R&D / Product
SaaS	Hosting, customer support	Cloud infrastructure, tools	Digital ads, content marketing	Feature development, engineering
Services	Salaries, travel	Administration, office rent	Business development, CRM	Training, skill development
E-Commerce	Procurement, shipping	Warehousing, logistics	SEO, affiliate programmes	UX, site optimization
Manufacturing	Raw materials, direct labour	Factory maintenance, utilities	Demos, trade shows	Prototyping, process improvement
Product	Assembly, packaging	HR, compliance	Events, promotions	Innovation, design

 **Cost structure defines sustainability more than revenue.** You can have impressive top-line growth, but if your cost structure doesn't scale efficiently, profitability will remain elusive. Understanding your cost drivers is essential for building a sustainable business.

Cashflow Forecasting

Profit $\neq$ Cash Flow

Liquidity = Survival

Cashflow is the lifeblood of any startup. Many profitable companies have failed because they ran out of cash before receivables came in. Understanding the timing of cash movements is as important as understanding profitability.



Forecast 12–24 Months Ahead

Build rolling cashflow forecasts that look far enough ahead to identify potential cash crunches and give you time to secure additional capital if needed.



Maintain 3–6 Months Cash Buffer

Always keep sufficient runway to weather unexpected challenges, delayed payments, or slower-than-expected growth. This buffer provides strategic flexibility.



Track Conversion Cycles

Monitor how long it takes to convert sales into cash, including payment terms, collection periods, and the time inventory sits on shelves.



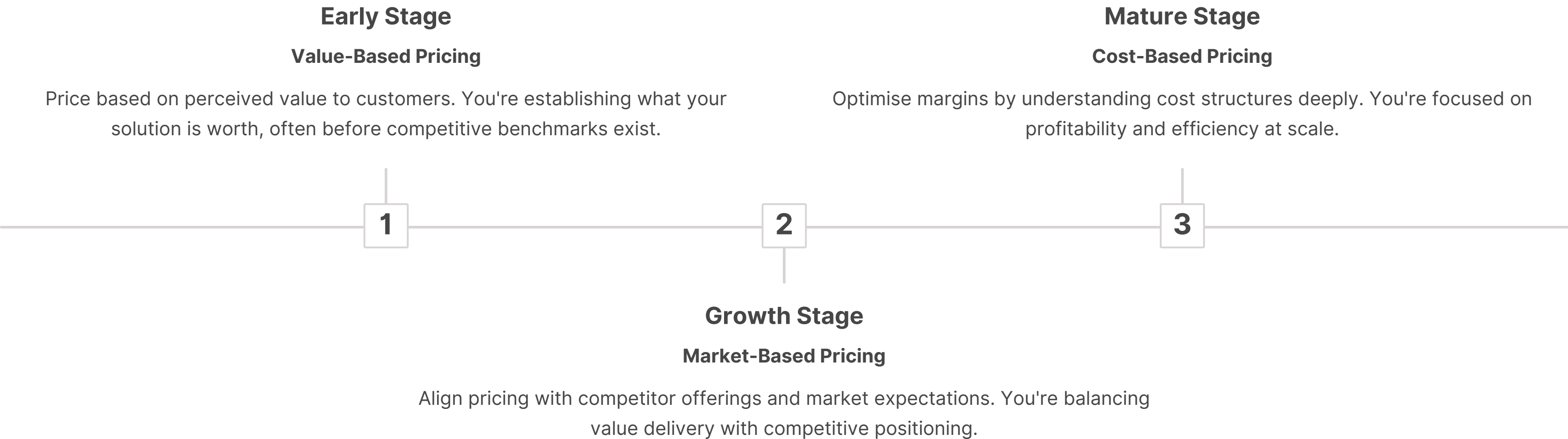
Use Rolling Forecasts

Update your cashflow projections regularly based on actual performance, always maintaining a forward-looking view of your liquidity position.

Pricing Fundamentals



Pricing strategy evolves as your company matures. What works in the early days of market entry may not serve you well as you scale and face competitive pressure.



Pricing is both a signal and a strategy.

Your price communicates positioning in the market. Premium pricing signals quality and exclusivity, while penetration pricing signals accessibility and volume. The right pricing strategy depends on your goals, competitive landscape, and customer perception.

Price Discovery | Model | Strategy

Many founders conflate three distinct aspects of pricing. Understanding the differences helps you make more informed decisions about how to capture value.



Price Discovery

Finding the right price through market validation

This is the process of testing different price points with real customers to understand willingness to pay, conducting surveys, analysing competitive pricing, and iterating based on feedback.



Pricing Model

How you charge for your product or service

The structural format of your pricing — whether you charge hourly, offer tiered subscriptions, use usage-based billing, or employ milestone-based payments.



Pricing Strategy

Why you charge the way you do

The strategic intent behind your pricing decisions — penetration pricing to gain market share quickly, premium pricing to signal quality, or freemium to drive volume and upsells.

 **Discovery = Feedback | Model = Format | Strategy = Intent**

All three elements work together. Discovery informs what customers will pay, the model determines how you structure that payment, and strategy explains why you've chosen that approach.

Pricing by Business Model

Different business models naturally lend themselves to different pricing approaches. Aligning your pricing model with your business model creates coherence and reduces friction in customer acquisition.



SaaS

Typical Approaches: Freemium, Tiered subscriptions, Usage-based pricing

SaaS businesses benefit from recurring revenue models that align customer success with company growth.



Services

Typical Approaches: Hourly rates, Milestone-based, Retainer agreements

Service businesses often price based on time or deliverables, with retainers providing predictable revenue.



E-Commerce

Typical Approaches: Dynamic pricing, Competitive pricing, Bundle pricing

E-commerce leverages real-time data to optimise pricing based on demand, inventory, and competitive activity.



Manufacturing

Typical Approaches: Cost-plus pricing, Volume discounts, Contract pricing

Manufacturing typically uses cost-plus models with discounts for volume, ensuring margins while incentivising larger orders.



Product

Typical Approaches: Value-based pricing, Premium positioning, Psychological pricing

Physical products often use value-based or premium pricing to signal quality and differentiation in the market.

Unit Economics: The Heart of Modeling

The Core Formula

$$\text{Revenue per Unit} - \text{Cost per Unit} = \text{Contribution Margin}$$

Unit economics reveal whether your business model fundamentally works. They show if each additional customer, transaction, or product sold contributes positively to your bottom line — and whether that contribution can fund your growth.

A positive contribution margin means each unit sold helps cover fixed costs and eventually generates profit. A negative contribution margin means you lose money on every sale, making scale dangerous rather than beneficial.



"If your unit economics don't scale, neither will your business."

Investors scrutinise unit economics closely because they indicate whether growth is sustainable and fundable. Venture capital can accelerate growth, but it cannot fix broken unit economics.

Unit Economics & Metrics Across Models



While the concept of unit economics is universal, the specific metrics vary dramatically by business model. Understanding which metrics matter for your model is essential for effective financial management.

Model	Revenue Driver	Cost Driver	Key Metric
SaaS	Monthly recurring revenue per user	Customer acquisition cost, churn rate	LTV:CAC ratio, payback period
Services	Billable hours, project value	Delivery cost, salary burden	Gross margin percentage
E-Commerce	Average order value	Fulfilment, returns	AOV, return rate, repeat purchase rate
Manufacturing	Units produced and sold	Material and labour costs	Cost per unit, gross margin per unit
Product	Sales per SKU	Returns, packaging, distribution	Contribution margin per product

Additional Critical Metrics to Track

- **Burn Multiple:** How efficiently you're converting capital into growth
- **Payback Period:** Time to recover customer acquisition costs
- **Cash Runway:** Months of operation at current burn rate
- **Retention Rate:** Percentage of customers who stay over time
- **Net Revenue Retention:** Growth from existing customer base
- **Magic Number:** Sales efficiency metric for SaaS

Modes of Funding

Not all capital is created equal. Different funding modes serve different purposes and come with different expectations, terms, and implications for your business.

Equity Purpose: Strategic scaling Best For: Product-market fit achieved, building team and infrastructure Equity funding trades ownership for capital, typically from angels or VCs who expect significant returns through exit events.	Grants Purpose: R&D and prototype development Best For: Early innovation, technology development Non-dilutive funding from government or institutions, ideal for research-intensive projects with social or technological impact.	Debt Purpose: Working capital Best For: Short-term cash needs, inventory financing Traditional loans or credit lines that must be repaid with interest, suitable when you have predictable cash flows.
Revenue-Based Purpose: Growth and marketing Best For: Companies with predictable monthly revenue Repayment tied to revenue percentage until cap is reached, offering flexibility without dilution.	Convertible Purpose: MVP and testing Best For: Pre-valuation stage companies Debt that converts to equity later, allowing you to raise quickly before establishing a clear valuation.	

Stages of Funding



Your funding journey typically progresses through distinct stages, each with different investor types, check sizes, and valuation methodologies. Understanding this progression helps you plan your capital roadmap.

Stage	Source	Typical Size	Valuation Basis
Idea	Bootstrap, Friends & Family, Angels	₹50L–₹1Cr	Market potential, founder credibility, problem-solution fit
Prototype	Angel Investors, Pre-seed Funds	₹1Cr–₹5Cr	Proof of concept, early user feedback, technology validation
MVP	Seed Funds, Early-stage VCs	₹10Cr–₹50Cr	Customer traction, unit economics, growth metrics, market validation
Growth	Series A VCs, Growth Funds	₹50Cr–₹200Cr	Revenue visibility, proven business model, path to profitability
Scale	Late-stage VCs, Private Equity	₹200Cr–₹1000Cr	Market share, profitability, defensible moat, exit potential

Each stage builds on the previous one. You cannot skip directly to Series A without demonstrating the traction expected at seed stage. The key is hitting the right milestones before attempting to raise at the next stage.

Ready to Build Your Financial Blueprint?

SRF Capital Studio partners with founders to translate vision into executable financial strategy, from initial modeling through successful fundraising.



Deal Structuring for Founders

Beyond Valuation

Designing the right partnership between Capital, Control & Conviction. Same money can lead to vastly different outcomes depending on how the deal is structured.



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.

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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

Understanding Ownership at Different Stages

Ownership ≠ Control ≠ Wealth

Smart founders distinguish between three related but distinct concepts:

- **Ownership %** — your share of equity
- **Control** — your decision-making power
- **Wealth** — your economic outcome at exit

Early dilution is acceptable if it builds enterprise value faster. The goal isn't maximizing ownership percentage — it's maximizing the absolute value of your stake.

Think Value Per Percent

Many founders obsess over maintaining high ownership percentages, missing the bigger picture of total value creation.

Owning 40% of a ₹100 crore company (₹40 crore) is significantly better than owning 70% of a ₹10 crore company (₹7 crore).

Plan cap table velocity: Model ownership dilution across 3-4 rounds, including ESOP pools. Aim to retain 15-25% at exit if scaling to institutional rounds.

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

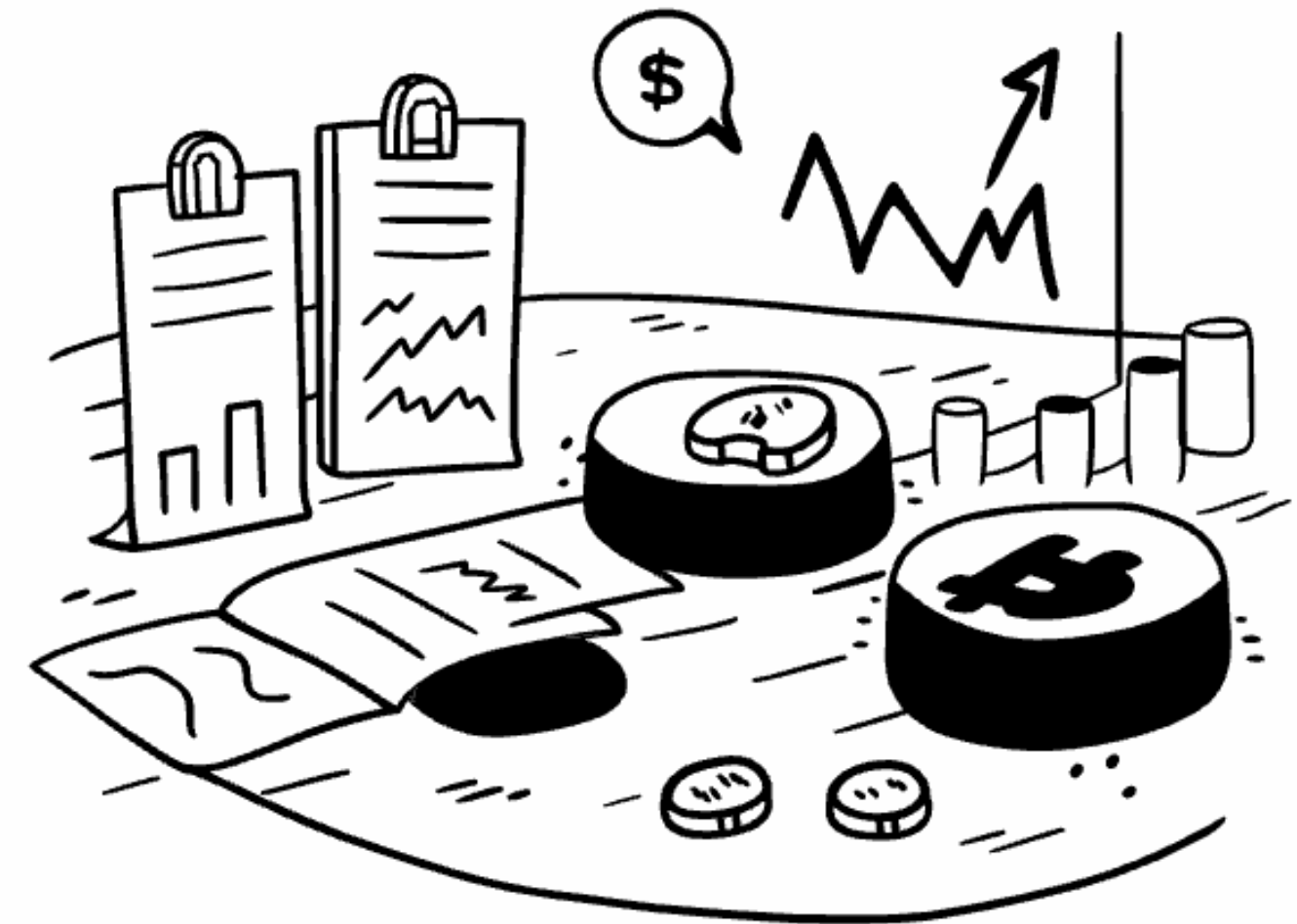
What It Decides

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

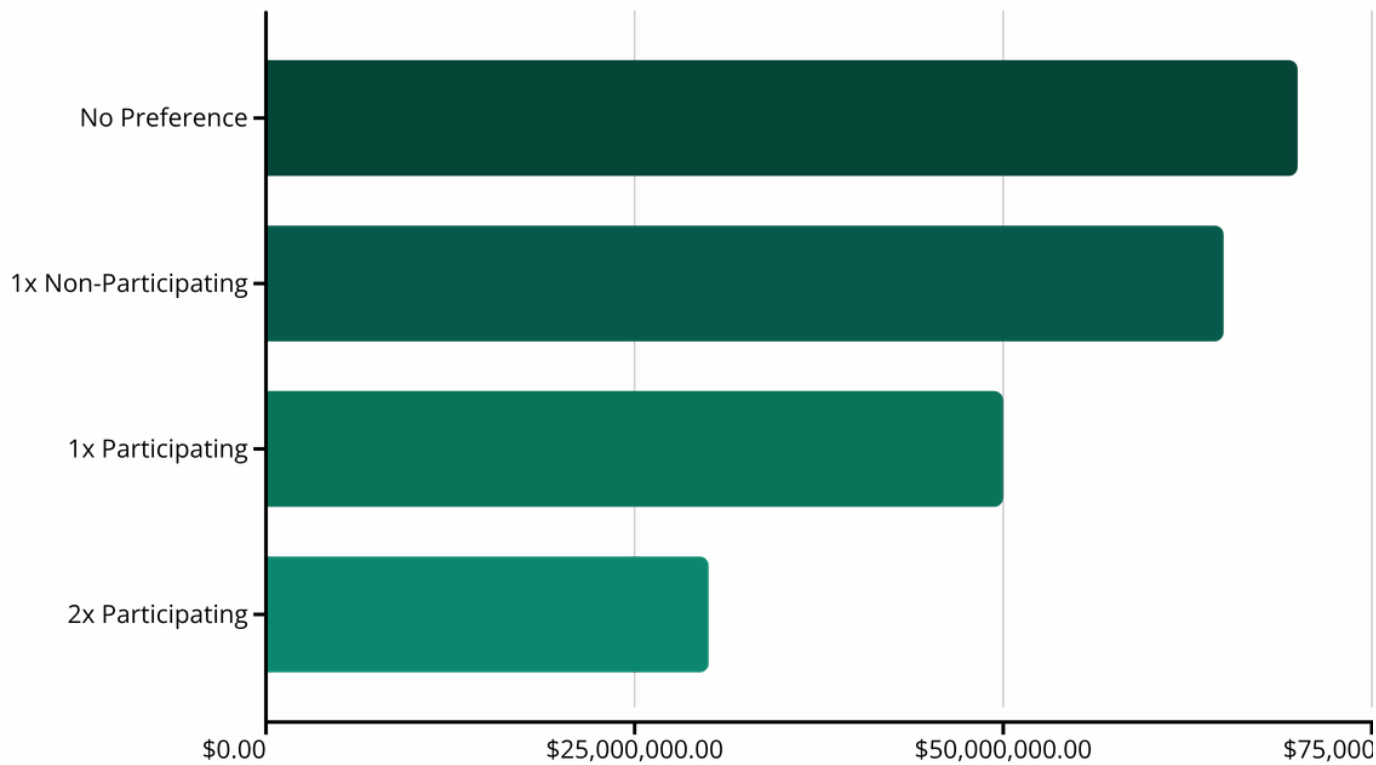
3 Highly aggressive

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.

Exit Waterfall: Economics in Action

Same company, same exit value, dramatically different founder outcomes based solely on liquidation preference terms. Understanding this waterfall is critical.



Example: ₹100 Cr Exit

Investor owns 30% after investing ₹20 crore across rounds. Founder owns 70%.

- **No preference:** 70% = ₹70 Cr
- **1x non-participating:** ₹65 Cr (investor takes ₹20 Cr first, remainder split 70/30)
- **1x participating:** ₹50 Cr (investor takes ₹20 Cr + 30% of ₹80 Cr)
- **2x participating:** ₹30 Cr (investor takes ₹40 Cr + 30% of ₹60 Cr)

Always model exit waterfalls at 3-5 different exit values. A participating preference that seems acceptable at ₹500 Cr exit becomes devastating at ₹100 Cr exit.

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

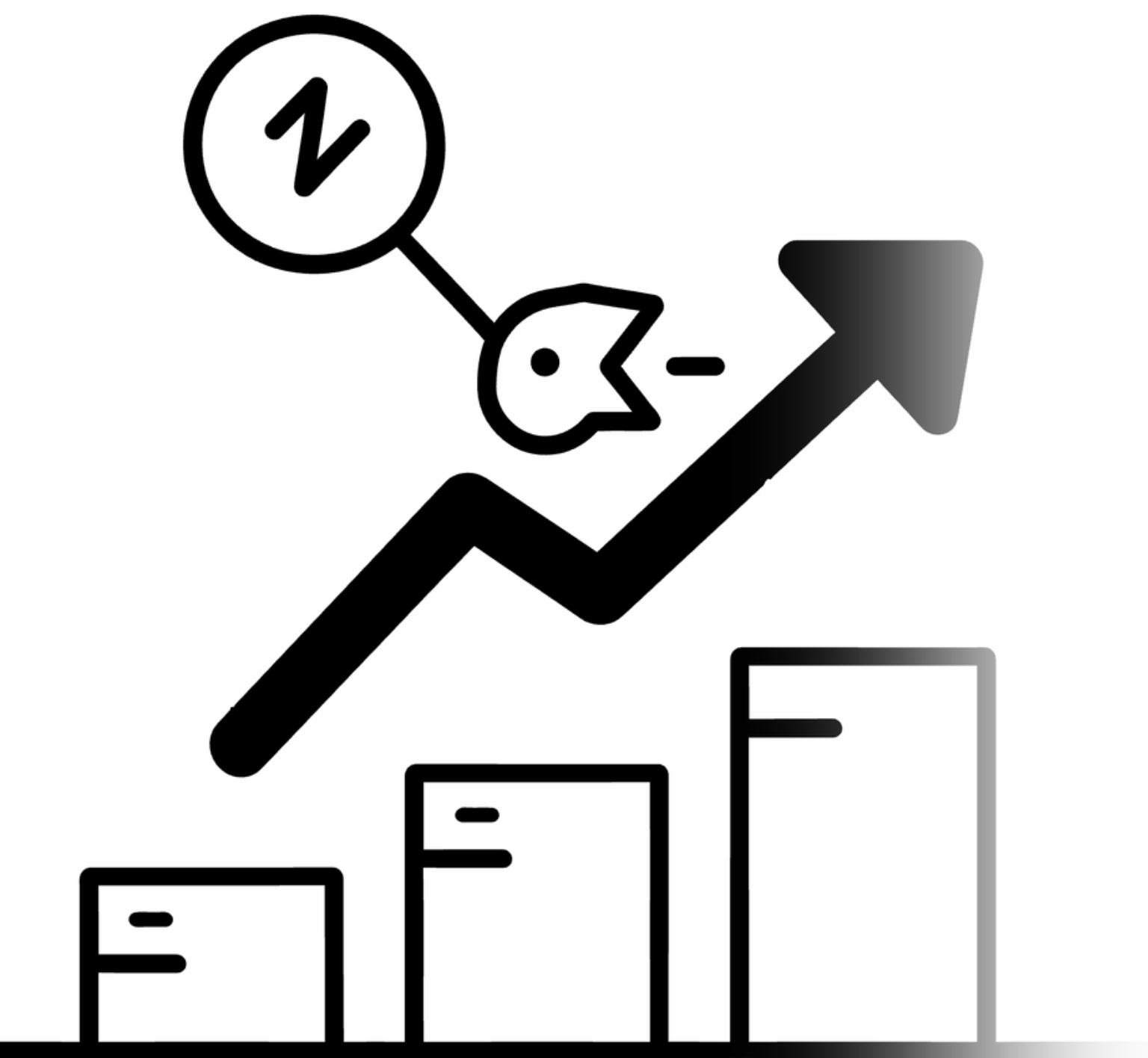
Material decisions requiring formal investor consent—fundraising, M&A, asset sales over threshold amounts, changes to capital structure.

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.