



Fund Raising and Valuation Workshop

Venture Engine Workshop
Jan 2019



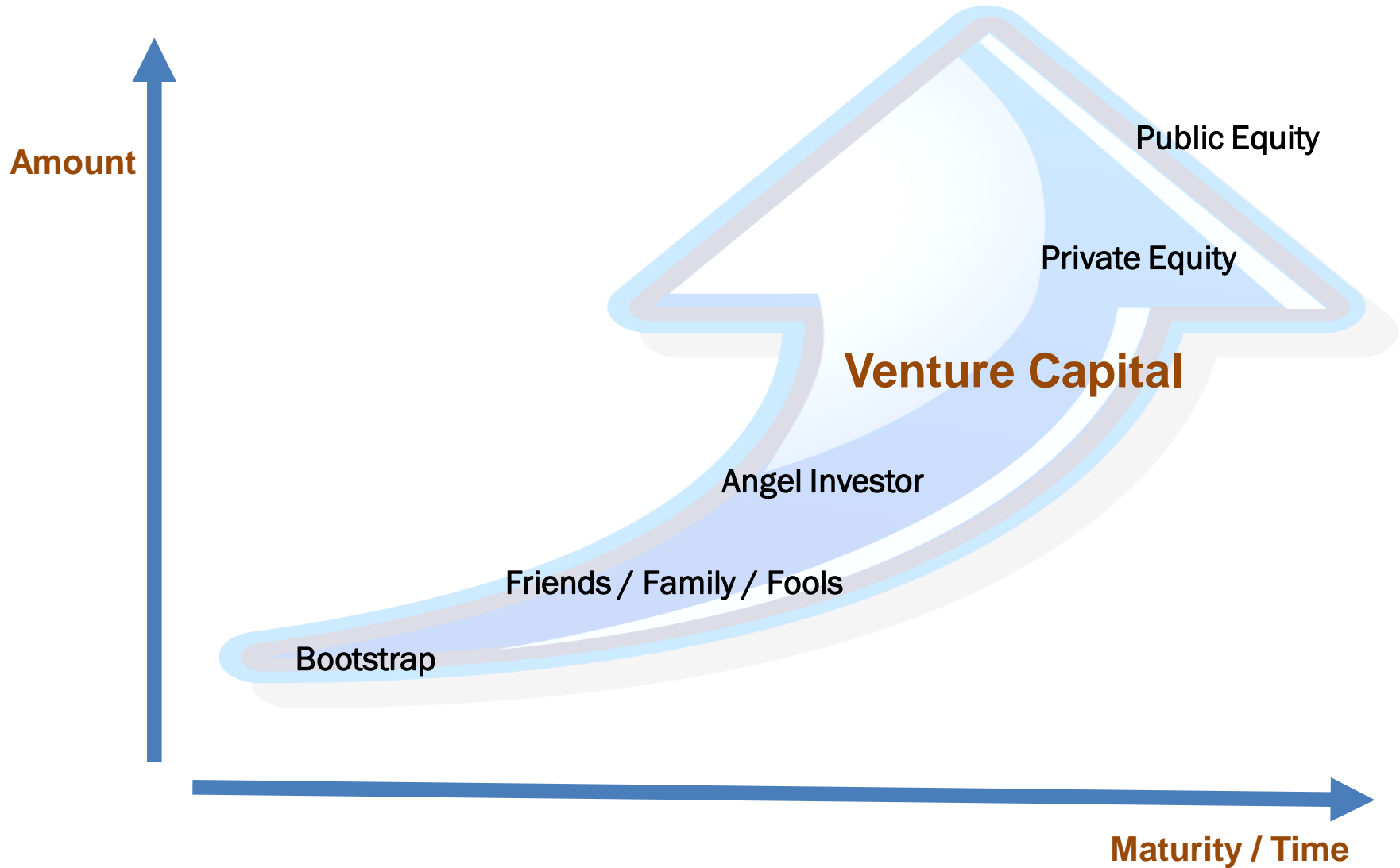
Agenda

- VC thought process -> valuation -> other key terms
- Case Studies



Venture Capital

Equity Capital Options for Entrepreneurs





What does VC equity investment mean

How VCs invest	By buying equity shares, thus becoming a shareholder. Can do structured investments, such as preferreds / convertibles.
Partnership not loan	In effect this is a type of partnership, between the VC and the Entrepreneur
Interest? Collateral?	Equity financing doesn't involve collateral (security) and there is no interest liability. Structured equity may involve preference dividend obligation.
VCs need to exit	Once the company reaches a certain size/valuation, VC will sell its shares to another investor – that's the "Exit"
Investment period	Exit typically in 4 - 7 years from time of investment. Linked to fund life.
Return Driver	Increasing valuation of the Company. So the VC does well only if the Company does well. Alignment of interest with Entrepreneur.



What Do VCs look for

Market Opportunity

- What problem are you trying to solve?
- How large is the market? How fast will it grow?
- Who is your competition – current and future?

Promoter & Team

- Do you really understand the business?
- Can you build a team?
- Do you understand the challenges to scale and to build a sustainable business?
- What's your skin in the game?

Business Model

- How are you different from others?
- Why will you grow faster than competition?
- How scalable/replicable is the model?
- Aavishkaar – social impact that the business will create



What We Promise to You – the Aavishkaar view

Mentoring, Strategic & Operational guidance

Provide guidance to the organization to grow rapidly and become a market leader

Networking & Connections

Via Aavishkaar's networks built over a decade of strong relationships, provide useful connections to help the business grow

Fund-raising

Support in raising further capital - our companies have raised 5x the amount we invested after our investment



What drives Venture Capitalists?

- Manage other Investor's (LPs) funds
 - Higher risk = higher return
 - Incentivized by Carry
 - Closed ended funds (mostly)
 - Fees paid on assets managed
- Investor's seek returns**
- VC is high risk**
- Seek high returns**
- Need to exit within fund life**
- Follow-on Funds**



Scale, scale, scale !

- Typical return expectation ~ 3x plus Multiple, 15% plus IRR (USD)
- Many will fail, so look for 10X in each !
- Assuming VC funds the following at post-money value of USD 40 million

	Rev (Yr 1)	Growth	Rev (Yr 6)	Rev Multiple	Valuation	VC 's Multiple
Co. 1	\$ 1 mn	100% p.a.	\$ 64.0 mn	6x	\$ 384 mn	9.6x
Co. 2	\$ 1 mn	50% p.a.	\$ 11.4 mn	4x	\$ 45.6 mn	1.1x
Co. 3	\$ 1 mn	25% p.a.	\$ 3.8 mn	2x	\$ 7.6 mn	0.2x

- Aavishkaar has a differentiated approach



Valuation – Art, and a Science

Drivers

- Traction / Revenues / Profits
- Scale projections – Revenues/profits at exit
- Funding Requirement & Expected Dilutions
- Comparables – current and possible exit multiples
- Entrepreneur stake
- Execution risk

The Basics

- $\text{Pre-money Value} + \text{Investment} = \text{Post-money Value}$
- $\text{Investor's stake} = \text{Investment} / \text{Post-money Value}$



Valuation – The Pitfalls (Scenario 1: High valuation)

- In general, Entrepreneurs would like to maximize valuation, thereby limiting dilution
- Higher fund-raising at higher valuation does not necessarily mean Success
- Valuation comes with expectations - Too much, too early can be a challenge !

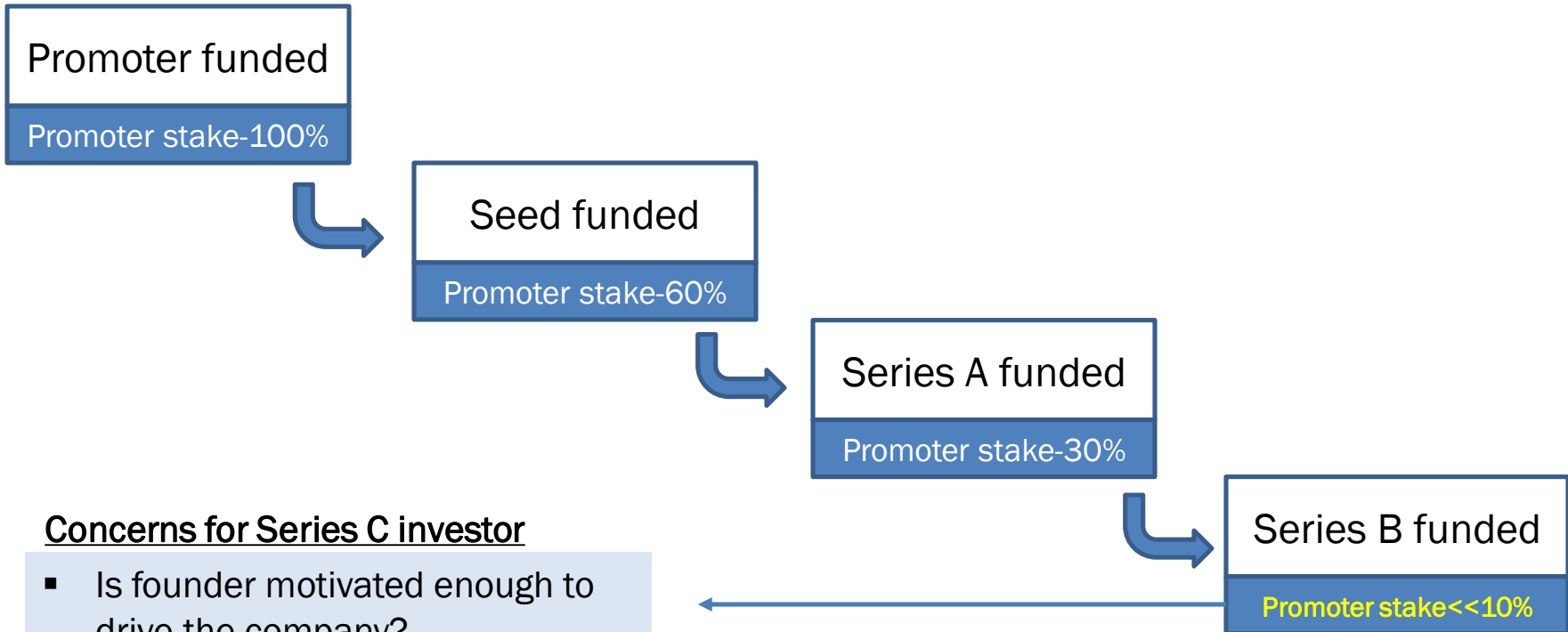
	Revenue	Multiple	Pre-money Valuation	Raise	VC Stake	Promoter Stake
Year 1	\$ 2 mn	10x	\$ 20 mn	\$5 mn	20%	80%
Year 3	\$ 5 mn	4x	\$ 20 mn	\$10 mn	17% + 33% = 50%	50%
Year 4	\$ 5 mn	3x	\$ 15 mn	?	100%	0%

Lower valuation - negative perception
- anti-dilution !



Valuation – The Pitfalls (Scenario 2: Low valuation)

- If you dilute too much too early. Illustration below:



Concerns for Series C investor

- Is founder motivated enough to drive the company?
- Who is really calling the shots at the company now?

Exceptions: You are already running USD 100 mln+ business and have built an institutional structure; highly unlikely with 2-3 rounds of funding so best to tread dilution path carefully



Typical VC Terms

- Affirmative rights on business decisions
- Board seats
- Transfer restrictions on Entrepreneur's shares
 - Lock-in
 - Tag-along
 - Drag-along
 - Right of First Refusal
- Pre-emptive rights on new fund-raise
- Exit Obligations
 - Can trigger additional rights if no exit within defined time
- Liquidation Preference
- Anti-dilution adjustment
- Information and access rights



Typical Investment Process

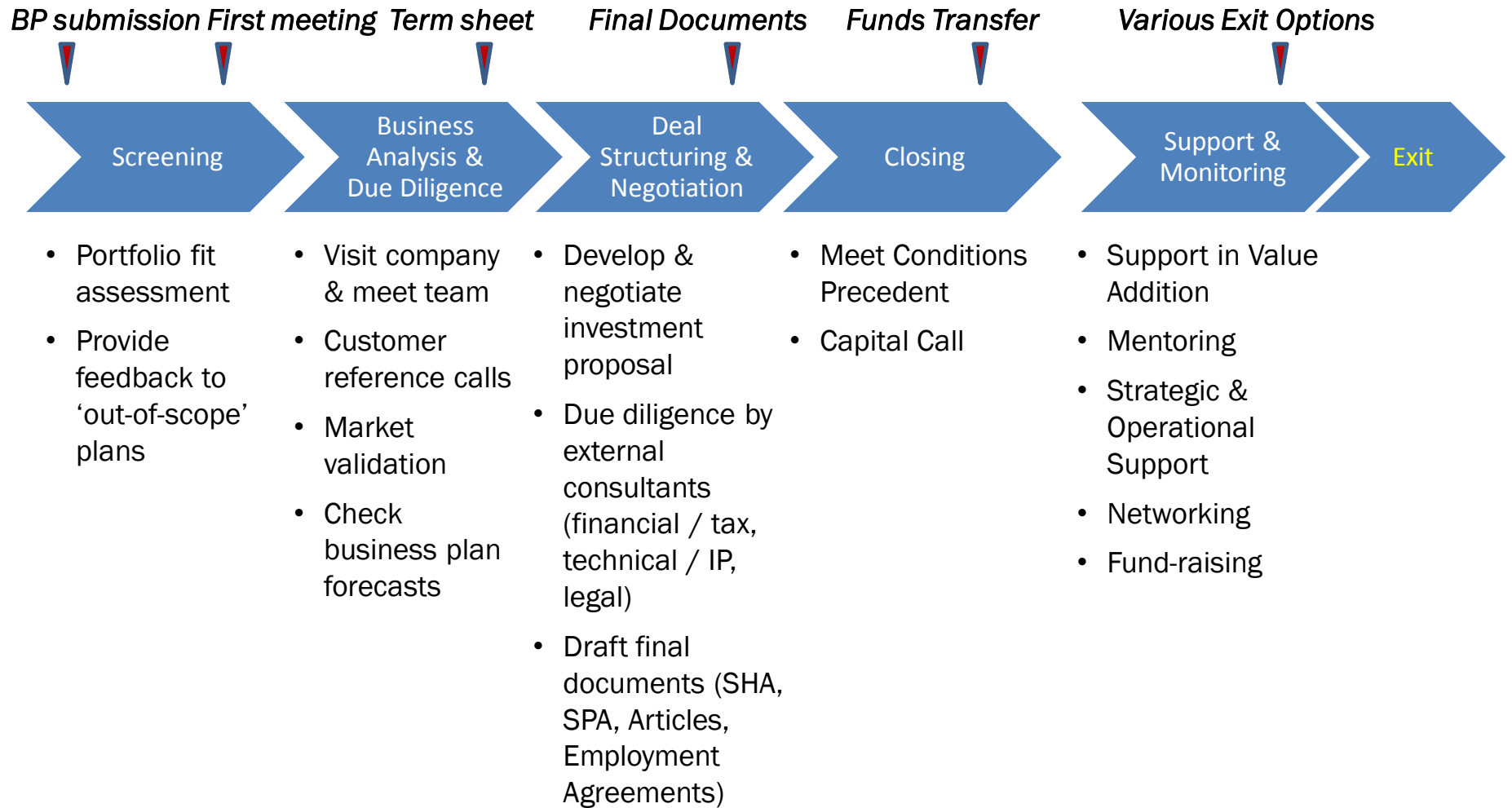




Illustration- Indian tech VC norms

Startup - Valuation , Investments and Dilution					
Stage	Investor	Investment Amount	Valuation (X) [<i>Subject to growth and market conditions</i>]	Equity Dilution	How to utilise the funds
Idea Stage + MVP + Initial users (Preferably Paid)	Bootstrapping (Self/ Friends/Relatives)	Rs 20-50 Lakhs (All put together)	Rs 1-3 Cr.	5 - 20%	Ideate, Gather Market Intelligence, Research, Market Validity etc.
Post Initial Traction	Angel / HNI / Early Stage Funds	Rs. 1-3 Cr.	2X - 4X of previous valuation	10 - 20%	Product improvement and increase in the funnel: More users, revenue, active base etc.
Initial Product Market Fit	Institutional Round (Early Stage VCs)	Rs. 3-10 Cr.	1.5X - 4X of previous valuation	15 - 25%	Achieve Product Market Fit in few initial geographies / markets.
Sales are on	Series A (Institutional Round - VCs)	Rs. 15-30 Cr.	1.5X - 3X of previous valuation	20-30%	Growth Phase - Geographical, Demographic, Markets etc.
Go all guns blazing	Series B & C (Late Stage VCs/PE Funds/ Strategic Investors)	INR 40 Cr.+	1.5X - 3X of previous valuation	20-30%	Further Expansion

All the above is fine as long as you don't kill the business momentum for minor battles; choose your battles wisely!!



Case Studies



Portfolio stories (1/1)



**Ulink
(Agtech -
inputs)**

Business model

Disrupt the agri inputs value chain through technology and provide farmers doorstep service of curated agri inputs that help them maximize output and minimize costs

Investment case

- 100% unorganized distribution chain with heavy reliance on shops in proximity; effectiveness of Farm extension services get dented due to such local monopolies
- Professional entrepreneurs with deep insights through on-the-ground execution

Key milestones

- Pre-revenue company that secured USD 0.67 mln as seed funding from Aavishkaar, raised USD 4 mln from IDG and subsequently raised USD 11 mln from Accel Partners in March 2017
- 1 mln+ farmers served annually across 3 states in India

Business model

Create a premium milk brand in a state with a local govt-run dairy being the only significant organized player

Investment case

- Only 14% of the market catered by organized players and the market was growing at 20% CAGR
- Farmer income augmented by USD 75/month by the business model in Sep '15
- Entrepreneur's ability to raise angel rounds

Key milestones

- Pre-revenue company in Feb '11 to 70,000 farmer network company with a capacity of 3,00,000 liters per day
- Aavishkaar's exit to Fidelity (global private equity investor) at a 3.1x multiple and 41% IRR



**Milk Mantra
(Dairy)**



Portfolio stories (2/2)



SWARNA PRAGATI HOUSING

**Swarna Pragati
(Housing
Finance)**

Business model

Introduce a new housing finance product focusing on incremental building requirements of rural/semi-urban masses, within the microfinance group lending framework

Investment case

- Innovative product with a very large scale potential and limited market competition
- Demonstration in terms of raising money from banks at a startup stage as well as institutional investor

Key milestones

- 5x growth in portfolio in 24 months of investment by Aavishkaar
- Raised funds from a private equity fund recently for the next stage of growth



NEPRA

**Nepra Resource
Management
(Waste)**

Business model

Create a dry-waste processing facility (MRF) with scalable processes and ethical sourcing from the waste pickers

Investment case

- Introduced spot payments, transparent weighing and web/mobile application for real-time tracking in an unorganized market with severe inefficiencies affecting the marginalized waste picker community
- Strong growth in the sector driven by inadequate waste processing infrastructure in the country

Key milestones

- From 15 Tons/month with 1 MRF (manual) in Feb '13 to 300 Tons/month with 3 MRFs (2 automatic) dealing with 950+ waste pickers
- Raised USD 10 mln in Series B round last year for foraying into multiple geographies via inbound interests