

Introduction to Start-up Finance

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Dear Readers,

Posiview Ventures is an initiative of the Pune based Financial Advisory Group – **Posiview Ventures**. We work with Start-ups & Growth Stage Companies in India on one hand & Large Business Houses & Investors on the other to help them design financial strategies and raise funding.

Having worked with start-ups over the last decade and a half, we understand what One Person with focus, driven by passion and supplemented by mentorship can achieve. Start-ups are going to continue being the most critical aspects of global economy in the years to come and those with access to right information and agility in decision making will definitely emerge successful global leaders.

At Posiview Ventures, our mission is to take entrepreneurs ***From the Seed Stage to the World Stage***. We hope you will find these information nuggets helpful!

Best regards,

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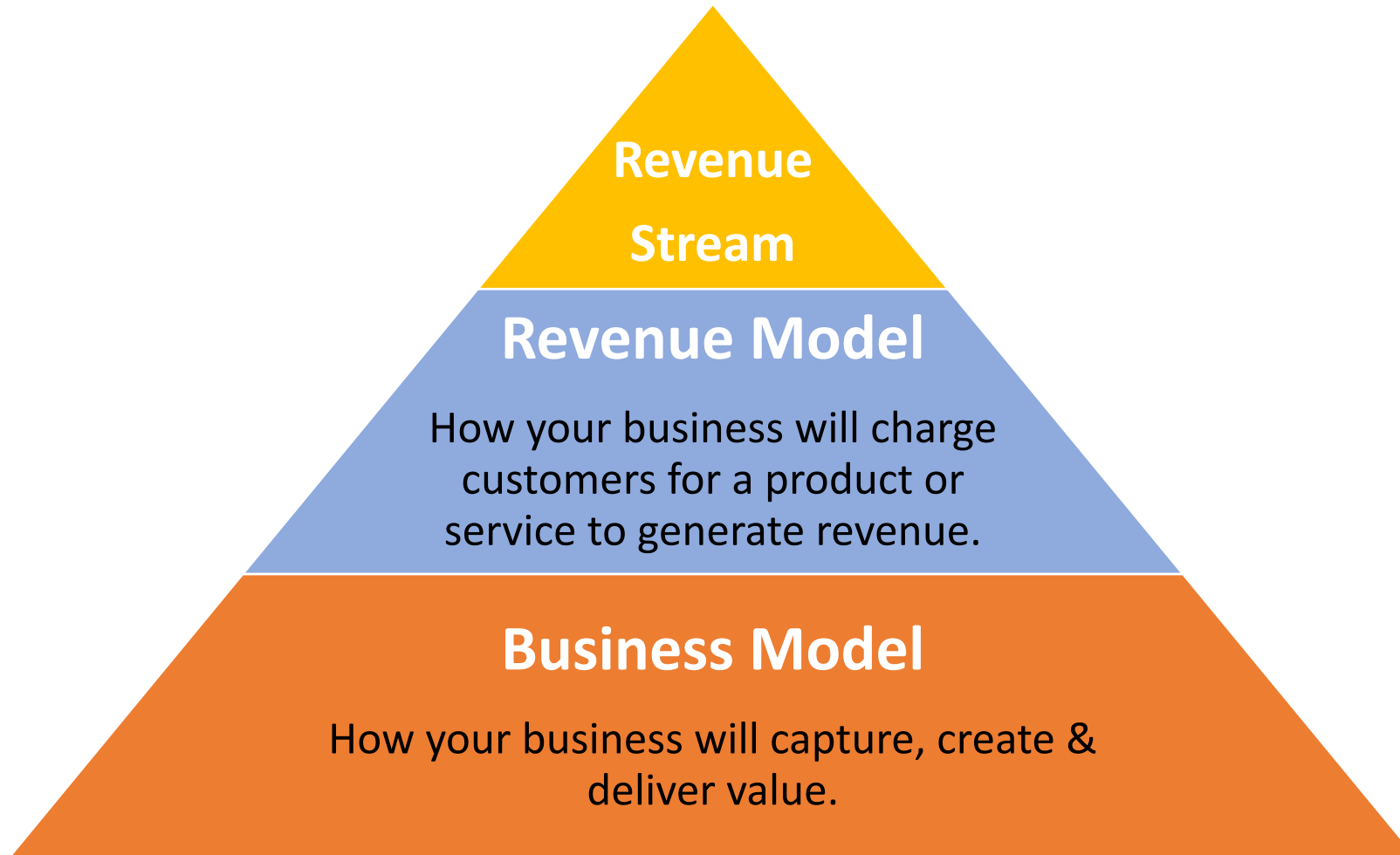
Presentation Flow

- Business Models
- Financial Statements
- Revenue, Costs & Profits
- Unit Economics
- Fund Raising Readiness



Business Models

What is a Business Model?



Business Models

B2C / D2C



B2B

B2B2C



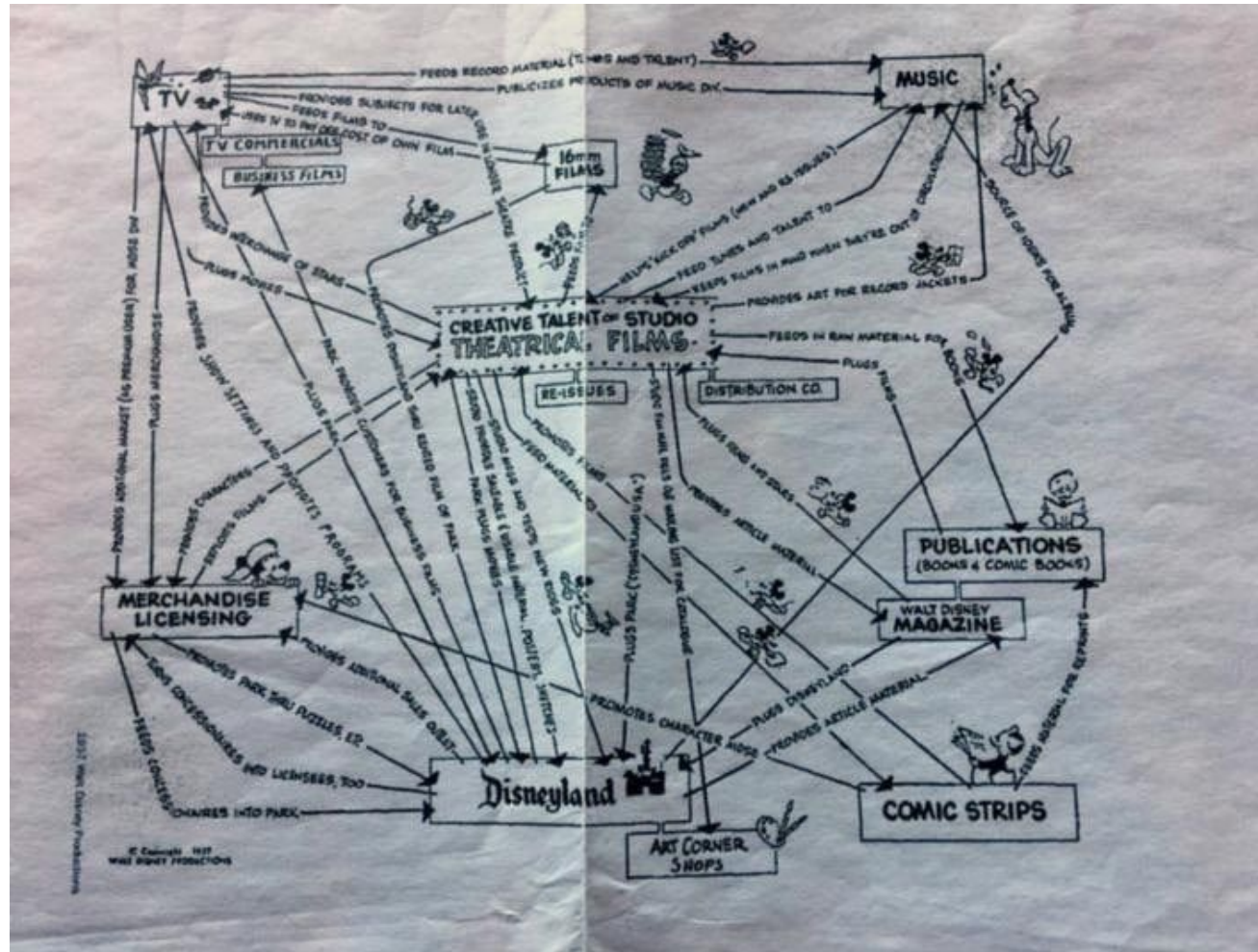
B2G

C2B

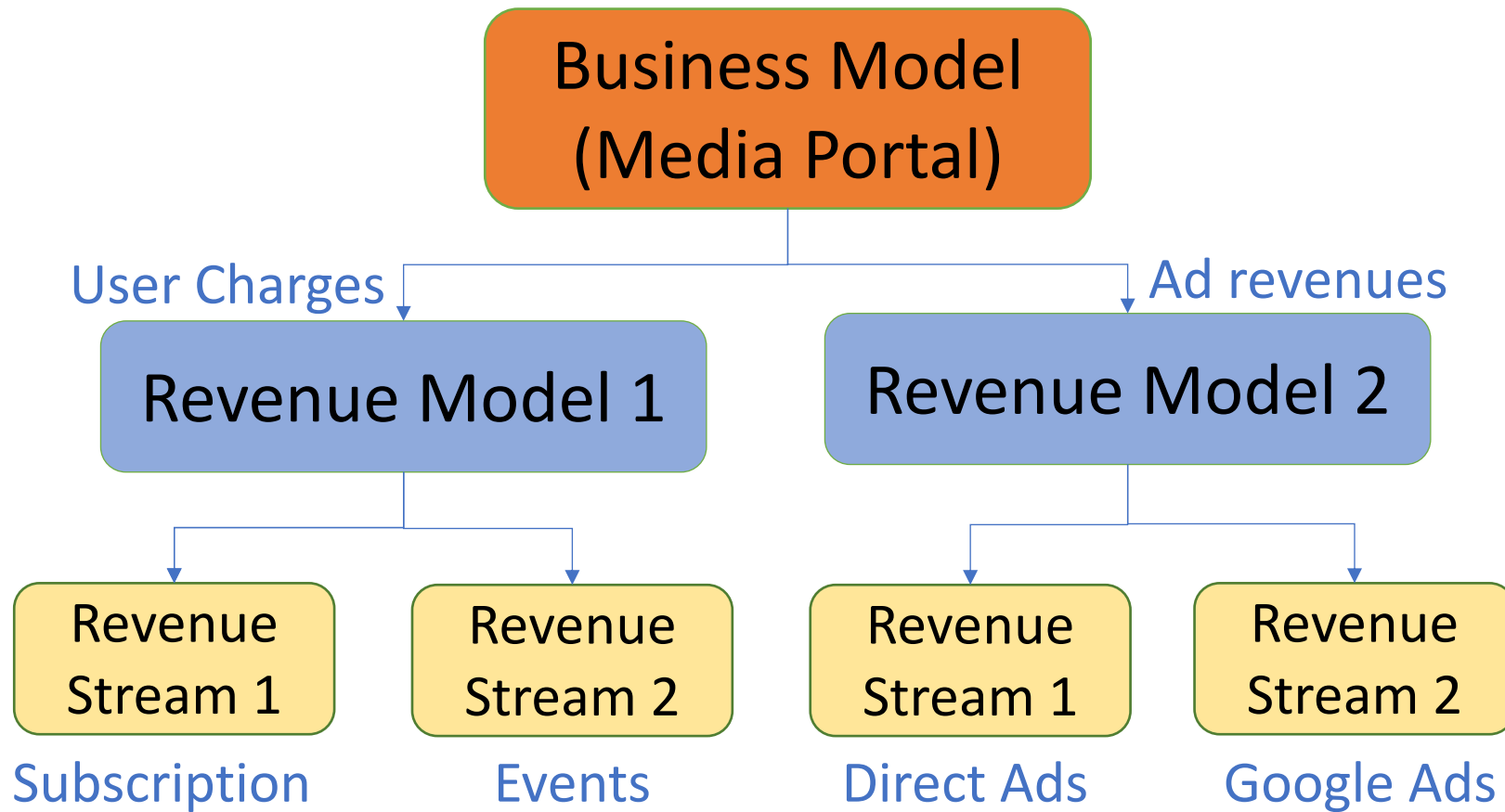
C2C



Business Model: As it should be

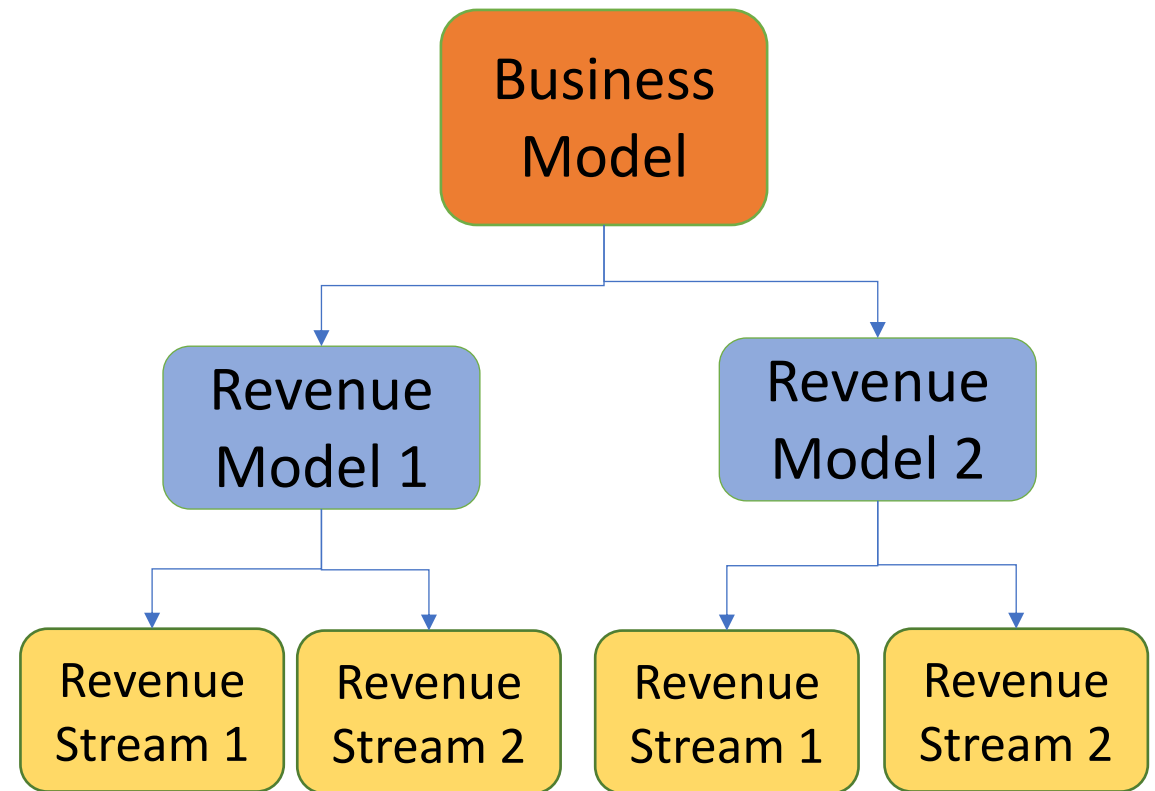


Business & Revenue Models: Connection



Quick Exercise

- Describe your business in 1 line on the basis of what problem does it solve
- List down what Revenue Model(s) are you using or plan to use for your business
- Make a Hierarchy Chart for your business



Financial Statements

Basic Terms

AT PROFIT AND LOSS LEVEL : EXPENSE

INCOME

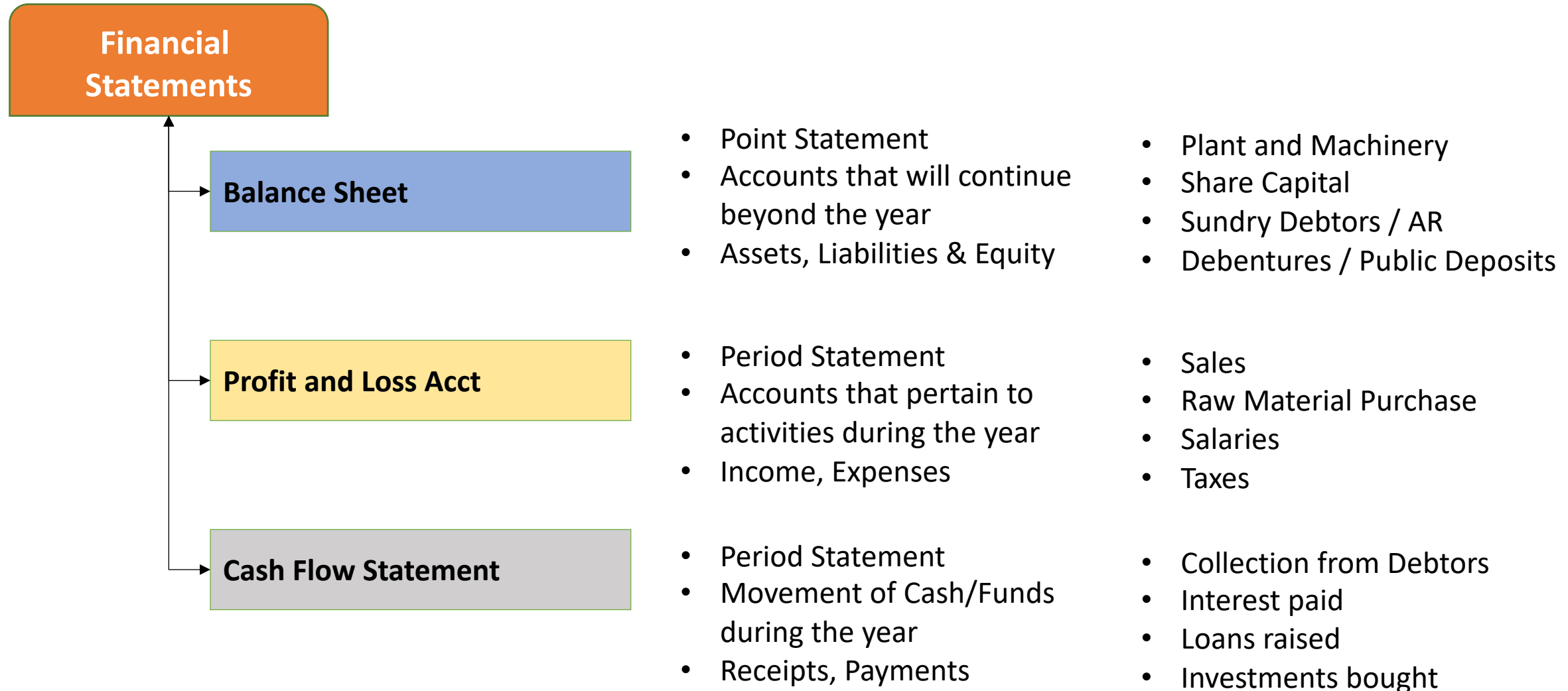
AT BALANCE SHEET LEVEL : ASSET

LIABILITY

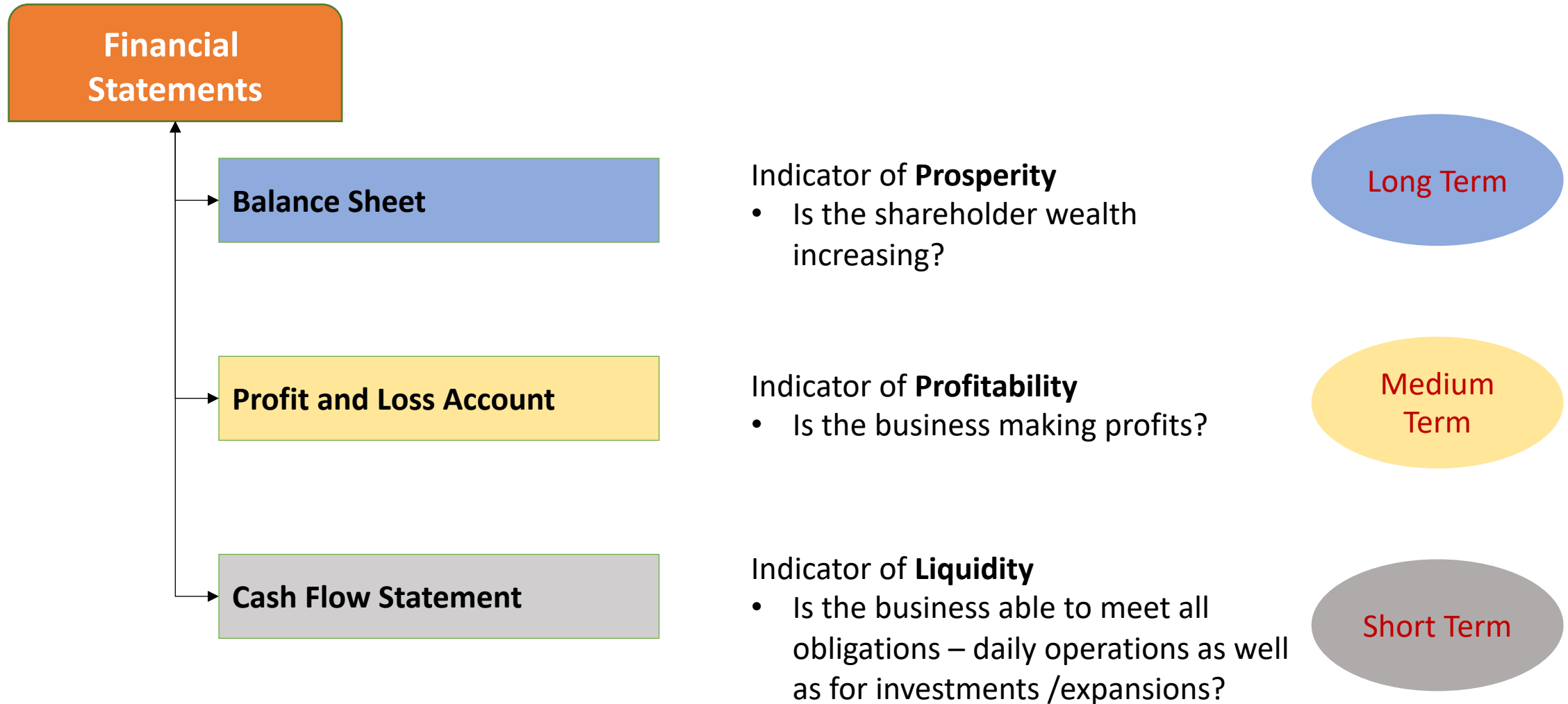
AT TRANSACTION LEVEL : DEBIT

CREDIT

Financial Statements : Types



Financial Statements – Significance



Revenues, Costs & Profit

Revenue Models

Service



Subscription

Transactional



Advertisements



Commission



Licensing

Interest



Leasing

Classification of Costs

By Nature

- Direct
- Indirect

By Function

- Production
- Sales and Marketing
- General, Admin

By Behaviour

- Fixed
- Variable
- Semi-Variable

By Frequency

- One-Time
- Recurring

By Accrual

- Capital
- Revenue

Management
of Business

Risk
in Business

Investment
in Business

Classification of Profits

Gross Profit

- Profit after deducting all direct expenses for making the product / delivering the service
- Shows: Operating Efficiency of the business

EBIDTA

- Earnings Before Interest, Depreciation, Taxes & Amortization
- Shows: Shows Business efficiency & strength of the business model

Net Profit

- Profit that a business makes after deducting all expenses.
- Shows: True picture of Profitability

Measuring Profitability

EBIDTA Margin

- $\text{EBIDTA} / \text{Revenue}$
- Shows: Metric used for comparative analysis

Earning Per Share

- Net Profit earned per equity share
- Shows: Value of business through PE Multiple

Return of Investment

- $\text{Net Profit} / \text{Investment in business (Debt+Equity)}$
- Shows: Efficiency of the business model

Return of Capital Employed

- $\text{Net Profit} / \text{Equity}$
- Shows: How attractive the business is for an equity investor

Unit Economics

Unit Economics

What?

- Costs and Revenues associated with a business model on per unit basis

Why?

- Forecast Profits
- Optimize Offering/Product
- Assess Market Sustainability

Methods

- Defining Unit as “One Item Sold”
- Defining Unit as “One Customer”

Customer Ratios

Customer Acquisition Cost

- Amount of money you spend to attract each new customer

Life Time Value

- Amount of Revenue a customer is estimated to deliver, across the entire period they continue to buy from the business

Monthly / Annual Run Rate

- Revenue that a business can count on receiving every single month.

Monthly Churn Rate

- Percentage of customers lost over the course of a month

Fund Raising Readiness

3 Steps to Financial Readiness



Assessment

- Why do I need Funds?

Quantification

- When?
How much?
For How Long?

Fulfilment

- From Whom?

1. Why do I need the funds?

- Core Value Proposition
- Base metrics of the business
- Growth Trajectory
- Gap – Short, Medium or Long Term

Industry Terminology:

- Unit Economics
- CAC
- LTV

2. How much do I need?

- Building a Basic Cash Flow

Particulars	Month1	Month2	Month3
A. Collections from Customers			
B. Expenses			
1. Variable Costs			
2. Fixed Costs			
3. Taxes			
C. Operating Margin (A-B)			
D. Fixed Assets / Infrastructure			
E. Net Inflow / Outflow			
F. Cumulative Net inflow/outflow			

Industry Terminology:

- Ask
- Runway
- Burn

3. From Whom?

- Who are the best sources to fund a business?
- What are the other options available?

Industry Terminology:

- Friends & Family
- Angels
- Super-Angels

Annexure: Revenue Models

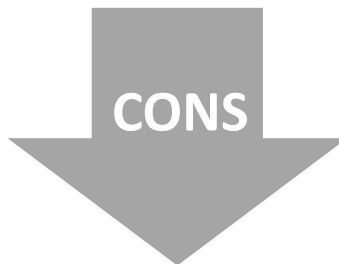
Transactional Revenue Model

- ❖ Charge of Revenue for every transaction / product sale
- ❖ The Traditional Way of Selling



Simple Sales Model

Fits B2B, B2B2C, D2C, B2C / offline as well as online



Difficult and Expensive to Scale (Supply & Distribution chains)

Applications

- Physical Goods & Commodities
- Digital Products
- Licenses



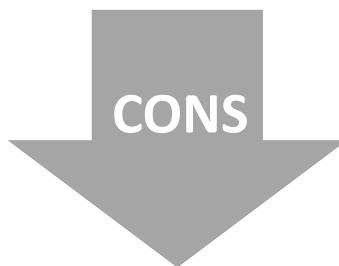
Service based Revenue Model

- ❖ Charge for the time, effort, expertise spent in delivering the service
- ❖ Applicable to the Service Sector



Low Start-up Costs; High Profit Margins

Simple to get started



Difficult to Scale up

Hands-on, Labour intensive

Applications

- Consulting
- Utility Services



Subscription Revenue Model

- ❖ Charge of Recurring Subscriptions (Monthly / Quarterly / Annually)
- ❖ Very Popular Model currently

PROS

Predictable, Consistent Revenue
Scalable, Flexible
Cross-sell / Up-sell possible

CONS

Customer retention is Key
Popularity leading to increased competition

Applications

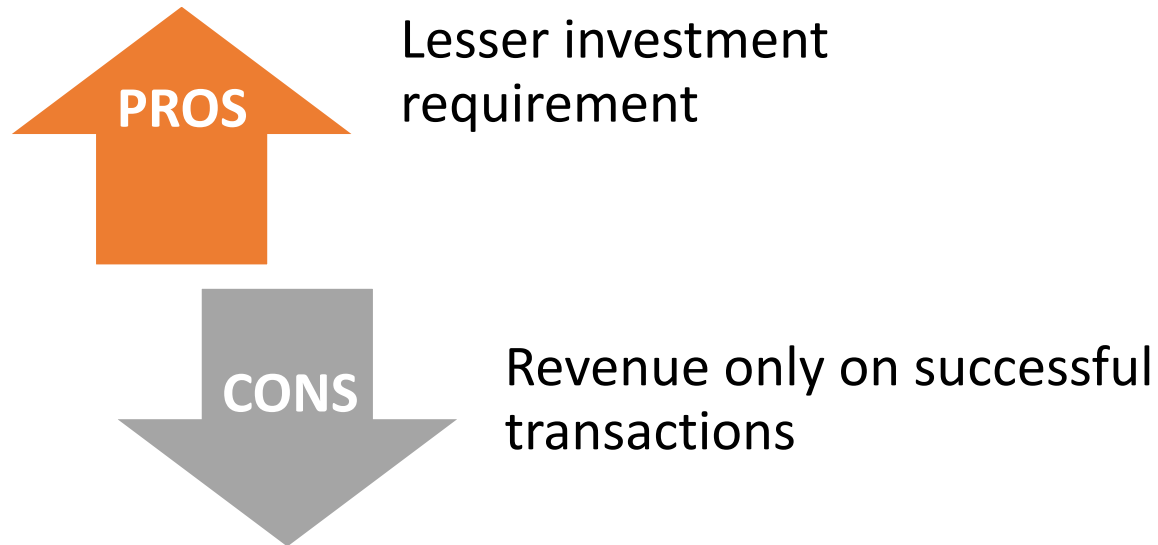
- Software / SaaS
- Apps / Portals
- Entertainment / Media
- Aggregators

NETFLIX

 Office 365

Commission Revenue Model

- ❖ Charge for referrals / successful converts or sales
- ❖ Offshoot is per transaction model by services companies



Applications

- Marketplaces
- Apps / Portals



Advertising Revenue Model

- ❖ Charge of Ad Space
- ❖ Per click / Targeted / Banner etc

PROS

Advertising is an universal need
Revenue linked to user base

CONS

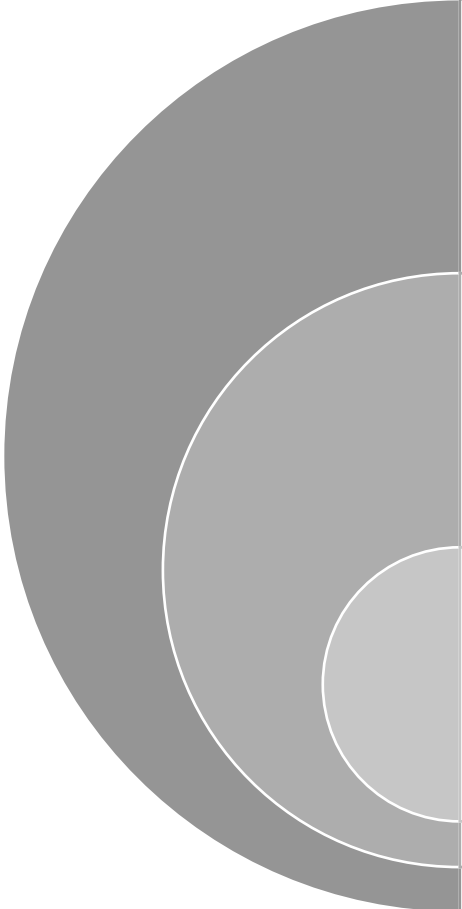
Quality of Audience is important
Building an Audience takes time,
effort and money

Applications

- Media / Social Media
- Apps / Portals



Other Revenue Models



Interest Revenue Model	<ul style="list-style-type: none">• Charge of Interest on Amount Lent• Banks, Lending Fintechs
Leasing Revenue Model	<ul style="list-style-type: none">• Charge of Rent for use of property• Hotels/Resorts, Car Rentals, Equipment Hires
Licensing Revenue Model	<ul style="list-style-type: none">• Charge for Grant of Intellectual Property• Entertainment sector

Some Off-shoots of Revenue Models

- Pay-per-use
 - Based on Subscription and Transaction Revenue Model
 - Instead of fixed subscription amount, charge on the usage
 - IT / IT Services
- Freemium
 - Based on Subscription Revenue Model
 - Base version is free, Premium features are charged
 - Very wide usage – Social Media / Media, Apps, Entertainment (Games)
- Peer-to-Peer
 - Based on Transactional Revenue Model
 - Charge to both sides when value being created for both
 - Marketplaces

“Tough times never last. Tough people do.”
Robert H Schuller



Incubation, Mentoring &
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Fund Raising for Real Estate &
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Policy Advisory to Government &
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For any queries/comments/suggestions, please get in touch with :-

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