



# Introduction to Investment in Startups

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# What is a Startup - (General Meaning)



Startup is any entity that is -

- ◇ Creating innovative products / solutions
- ◇ Aiming to be a market leader in its segment
- ◇ Targeting continuous growth
- ◇ Focused on increasing value for shareholders

# What is a Startup (Government Definition)



- ◇ An Entity shall be considered a Startup if:
  - ◇ Upto a period of ten years from the date of incorporation/ registration
  - ◇ Turnover of the entity for any of the financial years since incorporation/ registration has not exceeded one hundred crore rupees.
  - ◇ Entity is working towards innovation, development or improvement of products or processes or services, or if it is a scalable business model with a high potential of employment generation or wealth creation.
  - ◇ Provided that an entity formed by splitting up or reconstruction of an existing business shall not be considered a 'Startup'.

# Definitions



- ◇ Entity - Private Limited Company (under The Companies Act, 2013) or a Registered Partnership Firm (under The Indian Partnership Act, 1932) or Limited Liability Partnership (under The Limited Liability Partnership Act, 2002)
- ◇ Inter-Ministerial Board of Certification - Inter-Ministerial Board of Certification comprising of the following members: (i) Joint Secretary, Department of Promotion of Industry and Internal Trade, Convener (ii) Representative of Department of Biotechnology, Member (iii) Representative of Department of Science & Technology, Member

# Why invest in Startups?



- ◇ Unlimited Growth potential
- ◇ Playing role of Advisor / Mentor / Director
- ◇ Business opportunities in the Startup Ecosystem
- ◇ Increasing knowledge & understanding of new domain
- ◇ Applying your / client's knowledge of his sector

# Risks of Startup Investing



- ◇ Illiquid investment
- ◇ Uncertainty of exit
- ◇ Lower Returns than expected
- ◇ Risk of partial or total loss of investment

# What to look for in a startup?



- ◇ Quality of Founders
- ◇ Market Size
- ◇ Problem / Solution Statement
- ◇ Stage of Startup
- ◇ Funding Needed Stage-wise
- ◇ Other backers/investors
- ◇ Competition / other funded companies in the same space

# How to identify Startups for investment?



- ◇ Professional Network
- ◇ News sources
- ◇ Networks like LinkedIn
- ◇ Investment Bankers
- ◇ Winners of Competitions

# Due Diligence



- ◇ Legal including patents, copyrights etc.
- ◇ Technology
- ◇ Business Processes
- ◇ Human Resources
- ◇ Clients
- ◇ Financial

# Financial Analysis



- ◇ 5 Year Annual Plan
- ◇ 1 Year Monthly Plan
- ◇ Cash Flow is critical
- ◇ Assumptions of Revenue and Costs
- ◇ Capex Budget
- ◇ Fund raising assumptions

# Tracking Progress



- ◇ Business Plan vs Actuals
- ◇ Key Business Parameters
- ◇ Key Deviations
- ◇ Additions / Deletion of products / services
- ◇ New regions Added
- ◇ Key people added

2005  2020

15 Years of Supporting Entrepreneurs

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# Thank You



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