

# **FUND RAISING STRATEGY**

## **JUNE 28, 2023**



**ICAI - WIRC**

**Private and Confidential**

# NEED FOR FUND RAISING –INTROSPECTION

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Timing - Is this the right time to raise funds for my startup?

Purpose - Why do I need Funding? Is funding must for sustaining growth of business ?

What is my stage of funding

How to prepare a Pitch Deck?

Options for Fund raise – Debt or Equity?

Legal Status of startup



Investor Types - What kind of investors should be approached?

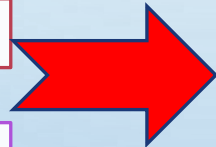
Ask: How much should I raise?

Valuation/Dilution - How will I value my Company and how much should I dilute?

•External Entities - How Accelerators and Incubators may help

# TYPES OF BUSINESS ENTITIES AND SELECTION CRITERIA

- Stage of Business
- Ease of Formation
- Cost of Formation
- Compliance Requirement
- Liability – Limited vs. Unlimited
- Ability to raise capital- Domestic vs. Foreign
- Transfer of Ownership
- Perpetuity of Business



# STAGE OF FUND RAISING

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## Angel Investment

Ideation Stage/Minimum Viable Product/ Proof of Concept/Pre-revenue

## Seed Investments

Minimum Viable Product/ Proof of Concept /Some traction with customer based stabilizing/ Revenue or Pre-revenue

## Pre-Series A (Early Stage)

Traction with customers/Some Revenue

## Series A

Revenue with profitability or path to profitability

## Series B

New Avenues of generating revenue, Stable existing revenues increasing/ Profitability

## Series C

Stable revenue, higher profitability

# TYPE OF INVESTOR – BASED ON JURISDICTION

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## Domestic Investor (Equity/Debt/Grant)

Entity has flexibility to issue any type of instrument

Only Registrar of Companies (ROC) compliances

## Foreign Investor (Equity/Convertibles /Grant)

Entity can only issue instrument as per FDI norms and FEMA regulations.

In addition to ROC, has to comply with FEMA regulations and FDI norms before taking funding, if applicable.

# TYPES OF INVESTOR FOR FUND RAISING – BASED ON INSTRUMENT

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<b>Grant</b>	Non-dilutive
<b>Incubation/Accelerators</b>	They have their own defined formula to fund the companies – Like Y-combinator takes equity stake in the Company in lieu of their program, global connects and cash
<b>Impact Investors</b>	Give patient capital and may be a combination of grant/debt/equity
<b>Early Stage VC Investors</b>	Prefers Convertible Instrument, Convertible Notes, SAFE
<b>Late Stage VC Investors</b>	Prefers Preference Shares/Equity/ Equity linked instruments
<b>PE</b>	Pure Equity/Equity linked instruments

# DEAL STRUCTURING – INSTRUMENT FOR FUND RAISING

## Pure Equity

- Not advisable at early stage

## Equity Shares with Differential Voting Rights (DVRs)

- As to dividend, voting or otherwise - Not advisable at early stage

## Preference Shares

- Not advisable at early stage

## Equity linked instrument or Convertible Instrument

- Compulsorily Convertible – Preference Shares/ Debentures (CCPS/CCD)
- Optionally Convertible – Preference Share/Debentures (OCPS/OCD)

## Convertible Notes

- Can be issued by DPIT registered startups subject to other conditions
- Minimum investment of INR 25 lakhs in a single tranche
- Note is redeemable or convertible as per terms of note (Maximum period of note – 5 years)
- Similar to OCD except notes can be subscribed by foreign investor

## SAFE – Simple Agreement for Future Equity

- Most preferred option if Investor agrees
- Like Warrant except actual price is determined at later stage
- Domestic Investor shall receive cash payment with an upside or stock of company on certain events
  - Event – follow-on round, maturity date of SAFE, sale of company

## DEAL STRUCTURING – VALUATION AND DILUTION

### **Dilution and Valuation - *2 sides of the same coin***

#### **Biggest Mistake by many startups –**

1. Dilute majority shareholding to Angel and Early stage investors and follow-on Investors consider this as a major issue/concern if Promoters has less than 50% stake in the Company at Pre-series A round.
2. Not choosing right Investor who may value add to your business.



# DEAL STRUCTURING – DUE DILIGENCE AND TERM SHEET

## Due Diligence (DD)

# INVESTORS PERSPECTIVE IN SELECTING A STARTUP FOR INVESTMENT

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- ❖ Are you a VC investable Company?
- ❖ Unique Selling Proposition or Differentiated Product or Services
- ❖ Innovation or Disruption which the product/service is creating
- ❖ Passion of Founders
- ❖ Team Strength
- ❖ Market Size and addressable market which you are catering to

# HOW TO MAKE A PITCH DECK

# PITCH DECK – DILEMMA / QUESTIONS

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What should I include in the deck?

How many slides? 50 slides, 30 slides or 20 slides?

Do I need to hire someone to prepare a deck

What do Investor expect in the deck?

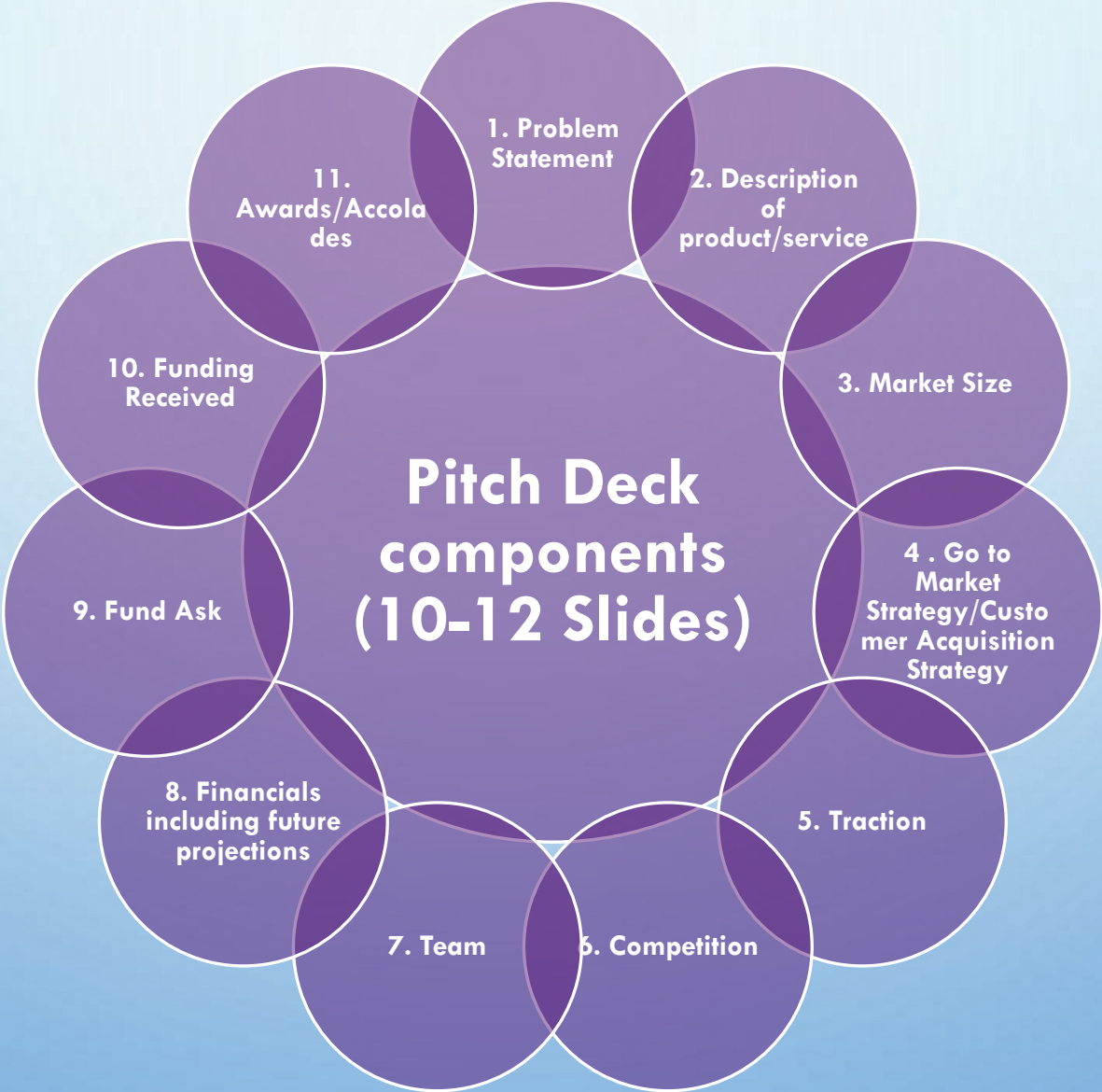


What if I give away too much information and my idea is infringed.

***YOUR FIRST IMPRESSION***

# WHAT TO INCLUDE IN PITCH DECK?

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# PITCH DECK COMPONENTS

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# PITCH DECK COMPONENTS

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**THANK YOU**

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# HOW TO PREPARE BEFORE AND AFTER AN INVESTOR MEETING

## Before the meeting

- ❖ Practice makes a human perfect. Do rehearse
- ❖ Reflect that passion
- ❖ Be confident
- ❖ Know your financial number well

## During the meeting

- ❖ Understand the questions asked by Investor.
- ❖ Be honest and truthful – If you don't know anything accept it or tell you will get back after checking from the team.
- ❖ Do ask questions if you want to. Don't be afraid
- ❖ Open Mindedness - Be open to feedback which you receive and work on improvisation

## After the meeting

- ❖ Don't loose heart if you are not selected - Understand that there are no bad meetings, you learn from an investor who says "NO"