

PE / VC Funding – An Overview

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- How PE's / VC's and founders make money
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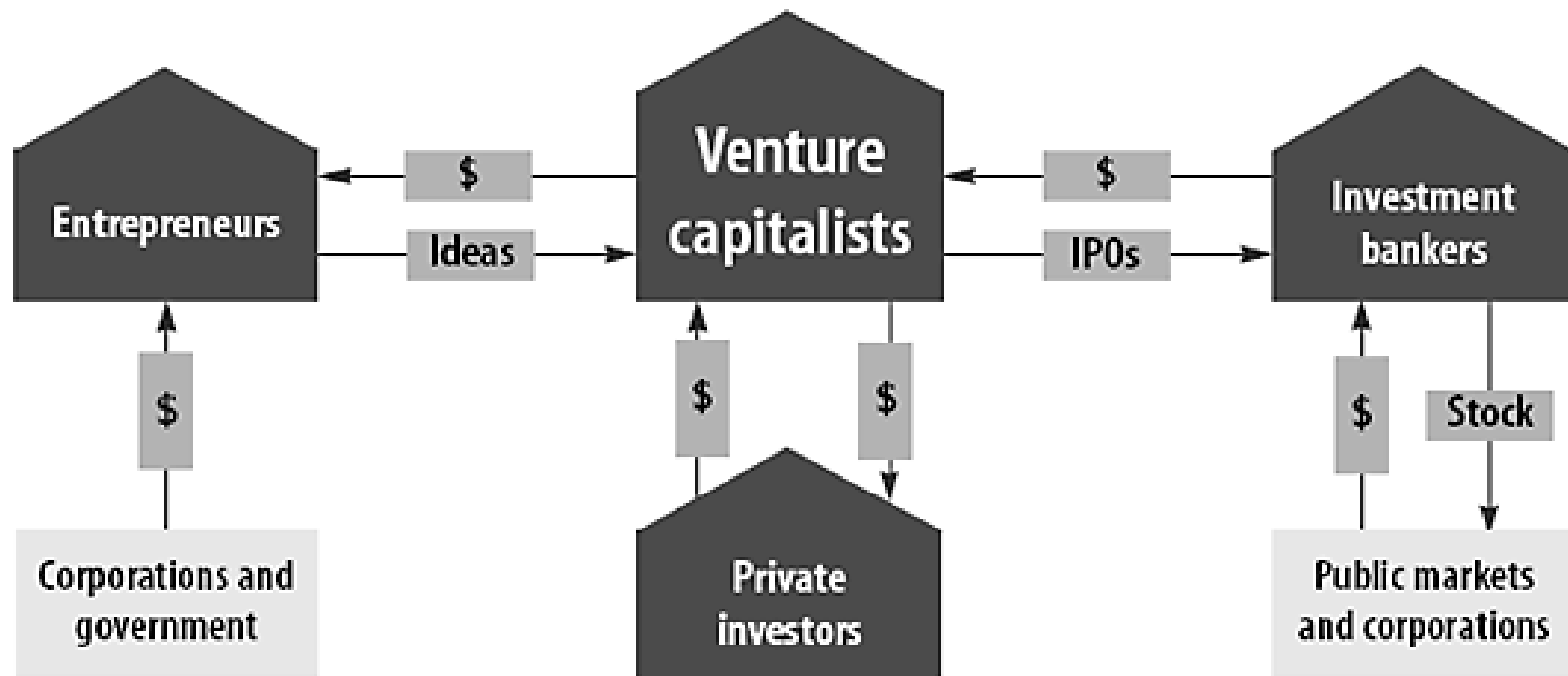
What is PE / VC

- Pool of fund
- Managed by fund managers
- Can further be segregated into Market, segment and stage focused funds
- Real investors
 - HNI's, hedge funds, endowment funds - called as LP's
 - Alternative investment for LP's – other than equity, gold, real estate, business and term deposits
 - Forms around 5 – 15% of their total portfolio
 - Objective is to earn decent return and diversification of portfolio
 - Highly illiquid – term varies from 7 – 10 years

Broad Process

HOW THE VENTURE CAPITAL INDUSTRY WORKS

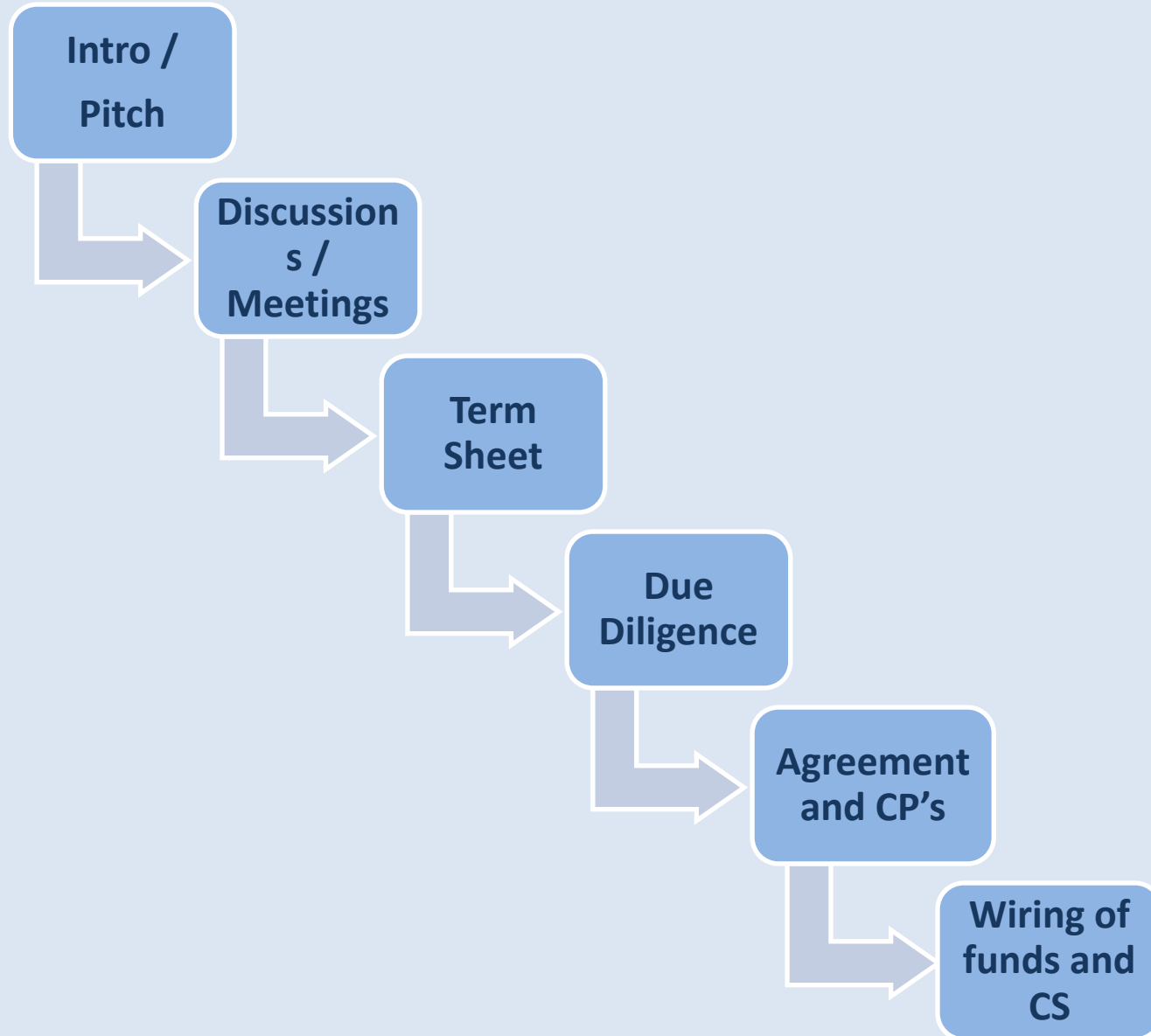
The venture capital industry has four main players: entrepreneurs who need funding, investors who want high returns, investment bankers who need companies to sell, and the venture capitalists who make money for themselves by making a market for the other three.



Fund Categorisation

- Seed Fund – Capital by family and friends / insiders, very early stage
- Angel Fund – External funding, at early stage. Pre series A Funding
- Venture Capital – Investment in young, high growth, high risk companies (Series A onwards)
- Private Equity – Investment in more mature companies
- Debt Funds – Provide debt to PE / VC funded entities
- Incubators – provides human, physical and financial resources at early stage

Fund Raise Process



Where do the PE / VC's invest – Evaluation Criterion

- Problem statement
- Is the size of the problem is large enough to create value
- Team – Adaptability and execution
- Legal and regulatory environment
- Financial indicators including monetisation and achieving profitability
- Exit route
- Other points
 - Competition
 - International players and success stories
 - Past experience
 - Timing and so on

Fund Raise Process – Term Sheet

Term sheet is a document covering significant terms of the deal.

- Valuation (Pre and Post money valuation)
- Investment amount
- Cap table
- CP's
- Reserved matters with investors
- Drag along - ROFR
- Board composition
- Liquidation preference
- Appointment of auditors
- Exclusivity and validity

Contd

Fund Raise Process – Valuation Methods

- Discounted cash flow
 - Expected growth rate
 - Cost of capital
 - Free cash flow
- Market Valuations
- Comparable Transaction Method
- Multiples Method
- Asset Replacement Cost

Fund Raise Process – Sample Cap Table

Cap Table - Fully Diluted Basis - Cumulative Shares					
Shareholder	Type of Shares	Incorporation	Series A	Series B	Series C
Founder 1	Equity	50,000	50,000	50,000	50,000
Founder 2	Equity	50,000	50,000	50,000	50,000
Investor 1	Preference		22,500	35,000	55,000
Investor 2	Preference		22,500	35,000	55,000
Investor 3	Preference			35,000	55,000
Total		1,00,000	1,45,000	2,05,000	2,65,000
Founder 1	Equity	50%	34%	24%	19%
Founder 2	Equity	50%	34%	24%	19%
Investor 1	Preference	0%	16%	17%	21%
Investor 2	Preference	0%	16%	17%	21%
Investor 3	Preference	0%	0%	17%	21%
Total		100%	100%	100%	100%

Fund Raise Process – Due Diligence

➤ Financial DD

- MIS and Financials comparison
- Review of Audited Financial Statements
- Tax compliance
- Accounting policies - Revenue recognition, Capitalisation etc
- Customer / Vendor analysis
- Cash & bank balance etc

➤ Legal DD

- Corporate and secretariat law, board meeting minutes etc
- RBI, FEMA, FDI
- Labour Law
- Key agreements, ESOP, employment contracts, MOA / AOA
- IP, IT related issues
- Local, state laws and national laws

Fund Raise Process – Key agreements

➤ SHA & SSA or Investment agreement

- Share price
- Reserved matters
- Board composition
- Cap table – current and fully diluted
- ROFR
- Liquidation preference
- Share sale restrictions etc

➤ ESOP policy

➤ Employment contracts

➤ Condition precedents

- Secretariat compliance
- Long stop date
- Payment of stamp duty etc

Fund Raise Process – Wiring of money, CS and forward path

- Wiring of Money
- Condition Subsequent
 - Secretariat compliance including allotment of shares
 - RBI compliance (FIRC, FCGPRS filing with help of AD etc)
 - Other CS
- Forward path

Sector wise FDI limits

Automatic		Government	
49%	100%	49%	100%
Insurance	Agriculture	Broadcasting (FM)	Telecom
Retail (Single Brand)	Plantation		Retail (Single Brand)
Defence	Airports		Defence
Note:- Multi brand retail trading is allowed upto 51% under govt route.			
<u>Prohibited:-</u>			
Real estate business			
Gambling and lottery business			

➤ B2B / B2C structuring in India – Point up for discussion

Exit ways for PE / VC

- IPO – sale of shares to public
- Merger / Acquisition / Sale – Sale to another PE / company
- Buyback by the company

How PE / VC makes money

- Management Fees – Vary from 2 -3% of capital commitments
- Carry – Share in profit – Vary from 15 – 25% of the profits

Various Active Funds in India

Series A/B/C

Accel Partners | Catamaran Ventures | Helion Venture Partners | IDG Ventures | Matrix Partners | Nexus Venture Partners | Sequoia Capital | Tiger Global

Early Stage

Blume Ventures | Kae Capital |
Kalaari Capital | Orios Venture Partners

Seed Funds

Ah Ventures | India Quotient | Jungle Ventures

Angels

Alok Kejriwal | Haresh Chawla | Rajan Anandan

Incubators

GSF India
Morpheus

Other points

- How founder's make money
- Bank loan v/s PE:-

Point of difference	Bank Loan	PE / VC
Appropriateness	Conventional	New age, high growth
Cost	Low	High
Management	Don't interfere	Active participation
Collateral	High collateral	Not required
Return	Interest	Share in ownership

Open House – Any questions?

Thank You!

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