

→ Valuation of Startups

Challenges in Valuation of Startups :-

- Operation history lacking
- Revenue generation lacking @ High Customer acquisition Costs (cash burn)
- Truncation risk

Start up's



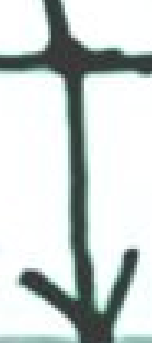
Valuation



Challenging



Lack of operating history



Truncation risk



Investors are not holding diversified portfolios

• Methods of Valuation of Startups

Ia. Venture Capital Method

Case Study II

$$\text{Cum prob of Success} = 0.7 \times 0.75 \times 0.8 \times 0.82 \times 0.85$$

$$P(\text{Success}) = 29.274\%$$

$$P(\text{failure}) = 70.726\%$$

$$\text{NPV (Success)} = \left[\overset{\text{PV of}}{(600 \times 29.274\%) - 80} \right]$$

$$= 116.68 \text{ cr}$$

$$\text{NPV (failure)} = 0 - 80 = -80 \text{ cr}$$

$$\text{Expected NPV} = [116.68 \times 29.274\%] + [-80 \times 70.726\%]$$

$$= -22.44 \text{ cr approx}$$

∴ Not Viable

Eg:- Startup $\rightarrow$ approached Blackstone (V.C) for 200 crores

Founder
10,000 Shares
(100% ownership)

5 years

8PO

Valuation @ 8 times of EBITDA
(No debt)

Investment Horizon = 5 years

EBITDA = 220 cr

$\therefore$ Exit value = 220×8

= 1760 crores

Re of Blackstone = 22% p.a.

Post money valuation = 651.2 cr i.e. $\left[\text{P.V of 1760 disc @ 22\% for 5 years} \right]$

$\therefore (-)$

200 cr

= pre money valuation = 451.2 cr

Ownership percentage (F) = $\frac{\text{Investment Amount}}{\text{Post money valuation}} \times 100$

$$= \frac{200}{651.2} \times 100 = 30.72\%$$

$\therefore$ Founder's ownership = 69.28%

No of Shares issued to Blackstone = $\frac{10,000 \times 30.72}{69.28}$

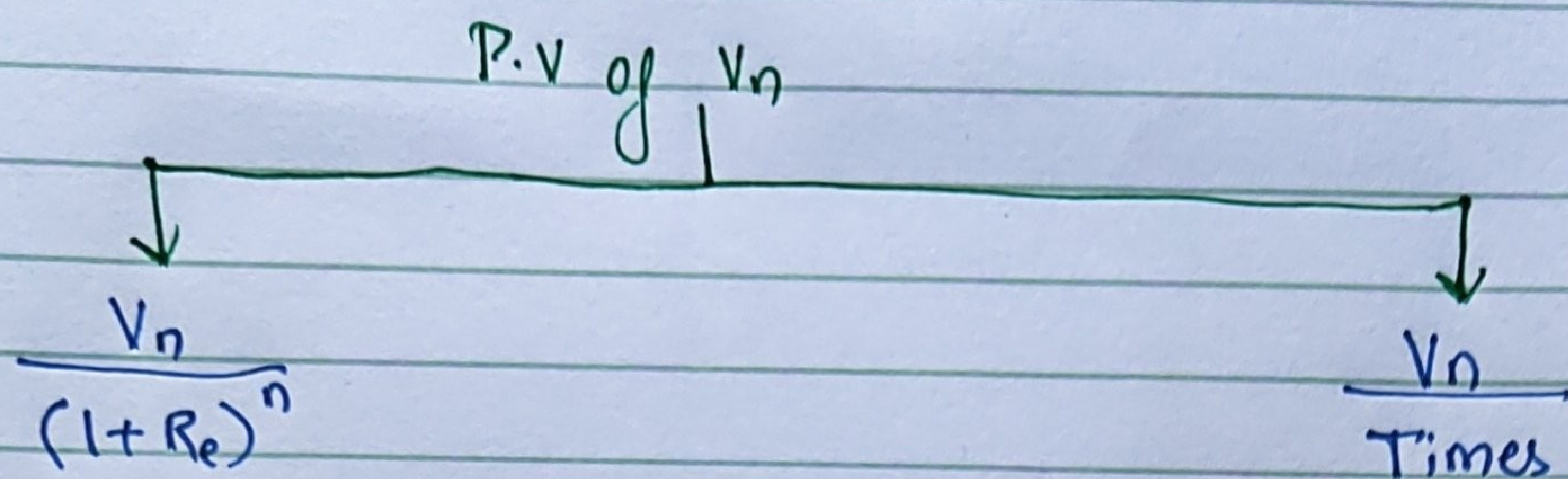
= 4434 Shares

Issue price per Share = $\frac{200 \text{ cr}}{4434}$

= 4,51,060

Step 1:- Exit Value $V_n = \text{Multiple} \times \text{Driver}$

Step 2:- Post money valuation = P.V of V_n



Eg:- Blackstone wants 10x

Step 3 :- Pre Money Valuation = Post money valuation - Investment

Step 4 :- Ownership position percentage (F) = $\frac{\text{Investment}}{\text{Post money valuation}} \times 100$

Step 5 :- No of Shares to be Issued = $\frac{\text{Shares of founder} \times F}{1-F}$

Step 6 :- Issue price = $\frac{\text{Investment amount}}{\text{No of Shares issued}}$

Case Study 8 :- GAZA Capital

$$V_n = 6 \times 60 = 360 \text{ cr}$$

a) Post money Valuation :- $\frac{360}{(1.25)^5} = 117.96 \text{ cr}$

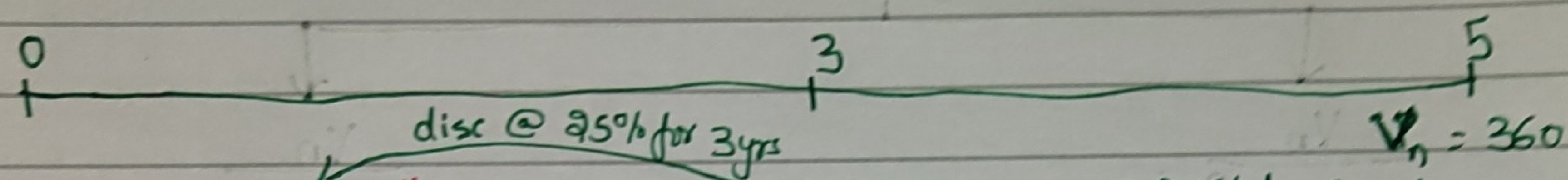
b) Pre Money Valuation = $117.96 - 15 = 102.96 \text{ cr}$

c) Ownership position percentage = $\frac{15}{117.96} \times 100 = 12.72\%$

d) No of Shares to be issued = $\frac{2,50,000 \times 12.72}{87.28} = 36,434 \text{ Shares}$

e) Issue price = $\frac{15 \text{ cr}}{36,434} = 417.03 \text{ per Share.}$

Type 2



Post Money V = 112.84

Pre money V = 107.84

Post money V = 230.4

Pre Money V = 220.4

$F = \frac{5}{112.84} \times 100 = 4.43\%$

$F = \frac{10}{230.4} \times 100 = 4.34\%$

No of Sh = $\frac{2,50,000}{95.57} \times 4.43$
= 11,588

No of Shares = $\frac{2,161,588}{95.66} \times 4.34$
= 11,868 Shares

Issue price = $\frac{5 \text{ cr}}{11588} = 4314.84$

Issue price = $\frac{10 \text{ cr}}{11868}$

Total Shares = 2,50,000 + 11,588
= 2,61,588

= 8426.02

Total Shares = 2,61,588 + 11,868
= 2,73,456