



PREQUATE

strategic finance *for* business impact



# Emerging Funding Avenues

Oct 2018

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“ Wealth is the product  
of a man’s capacity to  
think. ”

- Ayn Rand

In today’s highly competitive world, the playing field has levelled. This has opened a new world of possibilities for the medium sized companies but has also allowed larger companies to become real competition. Larger companies have internally, aided by available resources, have tweaked their business models to allow them to be more competitive to SME clientele. More and more businesses are accessing Private Equity to take on the big guns.

So we thought of putting these thoughts together in an instructional bible to help SMBs ease up and look at alternate options to raising capital.

*Disclaimer:* Please note that these are our views are based on our experience in being advisors and working with various organizations. They are for the limited purpose of educating the officers of a company. The rationale and the procedure to be followed can vary significantly based on the context, exact nature & size of the business.

# Traditionally speaking,

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*Mantra*

**“Building a business is a 30 year life story. Grow slowly, carefully and cautiously”.**

Funding was **dumb money** which ended with cash in the bank and nothing more.

**Risk accepted is specific.** No business or operational risk please.

**In short, you needed to have money (*read assets*) to borrow money.**

## Non-Equity/ Debt

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*Long-term*

Asset backed financing

*Short-term*

WC financing with CA collateral

## Equity

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Small savings and investments

Wealthy friends and family

## Debt/ Mezzanine

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*Long-term*  
Convertible  
instruments

*Short-term*  
Non-tangible asset  
financing

## Equity

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Venture capital,  
Private Equity

IPO, Strategic  
Investment

## From mid 2000s,

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*Mantra*

**“Building a business is about planting a flag.  
Plant it quickly, fearlessly and intelligently”.**

Funding was now **smart money** – active role beyond cash, appreciation through collaboration.

Risk accepted can be **business or operational risk also, at the right price.**

**You need to be the right person** (*read talent, team, ability, large problem*) **to attract money.**

# ...leading to the birth of a new asset class.

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## Birth of alternate financing *to* it's imminent explosion.

Birth of technology as a viable business



Birth of the internet as a channel

Low barriers to entry other than scale



Threshold limits and critical mass

R&D as an asset category



Emergence of data as an asset class

## Non-Equity

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Overdrafts/ Cash advances  
Term Loans  
Asset purchase financing  
LC Discounting/ PO finance  
Warehouse financing  
Debenture issues



Equity grants  
Community platforms  
Off-balance sheet financing  
LRDs/ Sale-lease backs  
Invoice financing  
Securitisation

## Equity-led

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Angel investments  
Venture Capital  
Private Equity  
IPO



SME IPO  
Strategic investments  
MBO/ LBO  
ICO

## Traditional, but still in vogue

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Overdrafts

WC Term Loans

Term Loans

Asset purchase financing

LC Discounting

Warehouse financing

Debenture issues

PO Financing

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## Non-Equity financing

### Equity grants

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Various government agencies and not-for-profits provide equity grants that are working on solving BOP problems if the SMEs are able to showcase that:

- They are able to create employment
- Solve a problem of national importance (poverty eradication, upskilling, education, women empowerment, aids eradication etc.,)
- Working with renewable energy or conserving energy
- Protecting the environment or animals
- Other similar causes

### Community platforms

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Community platforms allow pre-booking or order booking of products before commercial launch providing much needed access to capital. Regulators are still uncertain.





## Traditional, but still in vogue

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Overdrafts

WC Term Loans

Term Loans

Asset purchase financing

LC Discounting

Warehouse financing

Debenture issues

PO Financing

## Non-Equity financing

### Factoring/ Invoice financing

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Traditionally a banker's business for larger corporates, a large number of FinTech players have emerged since 2016

- Use AI to study payment history and credit
- Evaluate credit history through software tools
- Analyse banking patterns
- Source credit information of customers
- Low documentation & quick turnaround

### LRDs/ HPAs/ Sale & lease-back

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Financing fixed income assets or by SLBs providing credit to companies to avoid short-term use of long-term capital by banks and FIIs.



kredX



CASHIFY

indifi

## Traditional, but still in vogue

---

Overdrafts

WC Term Loans

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Debenture issues

PO Financing

## Non-Equity financing

### Securitisation

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Various companies that are in the nature of SaaS or on deferred payment/ rental models use securitisation actively.

Most FinTech/ P2P lending platforms package are using this to allow for accessing capital quickly with FII.

Assets are packaged and seconded to a financial investor with certain rental/ IRR yield on the portfolio.

### Other off balance sheet funding

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- Shared credit lines of a larger company
- Secondary collaterals for banking facilities
- Secondary guarantees for discounting/ financing
- Extended credit periods

# Non-Equity

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Overdrafts/ Cash advances  
Term Loans  
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LC Discounting/ PO finance  
Warehouse financing  
Debenture issues



Equity grants  
Community platforms  
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LRDs/ Sale-lease backs  
Invoice financing  
Securitisation

# Equity-led

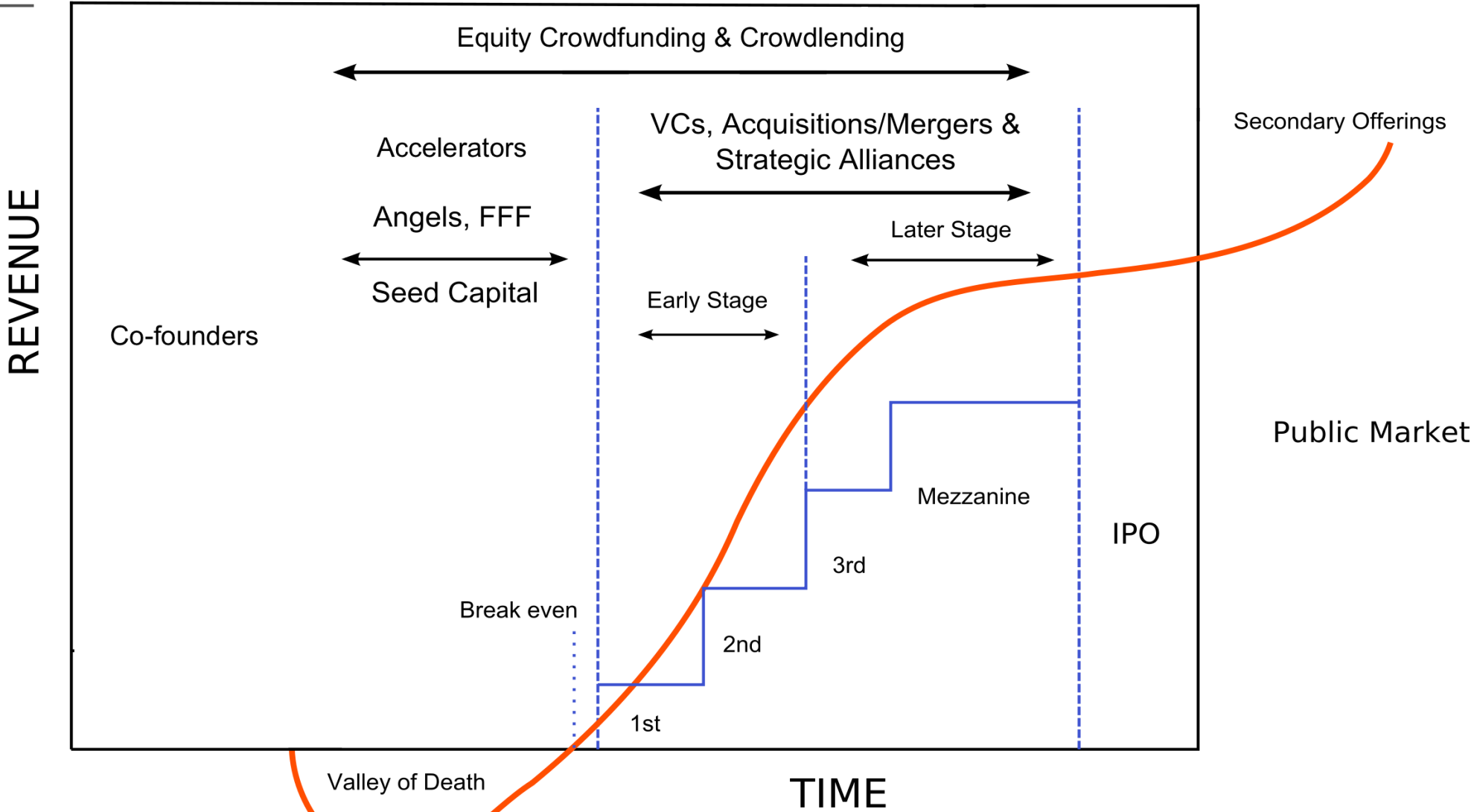
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Angel investments  
Venture Capital  
Private Equity  
IPO



SME IPO  
Strategic investments  
MBO/ LBO  
ICO

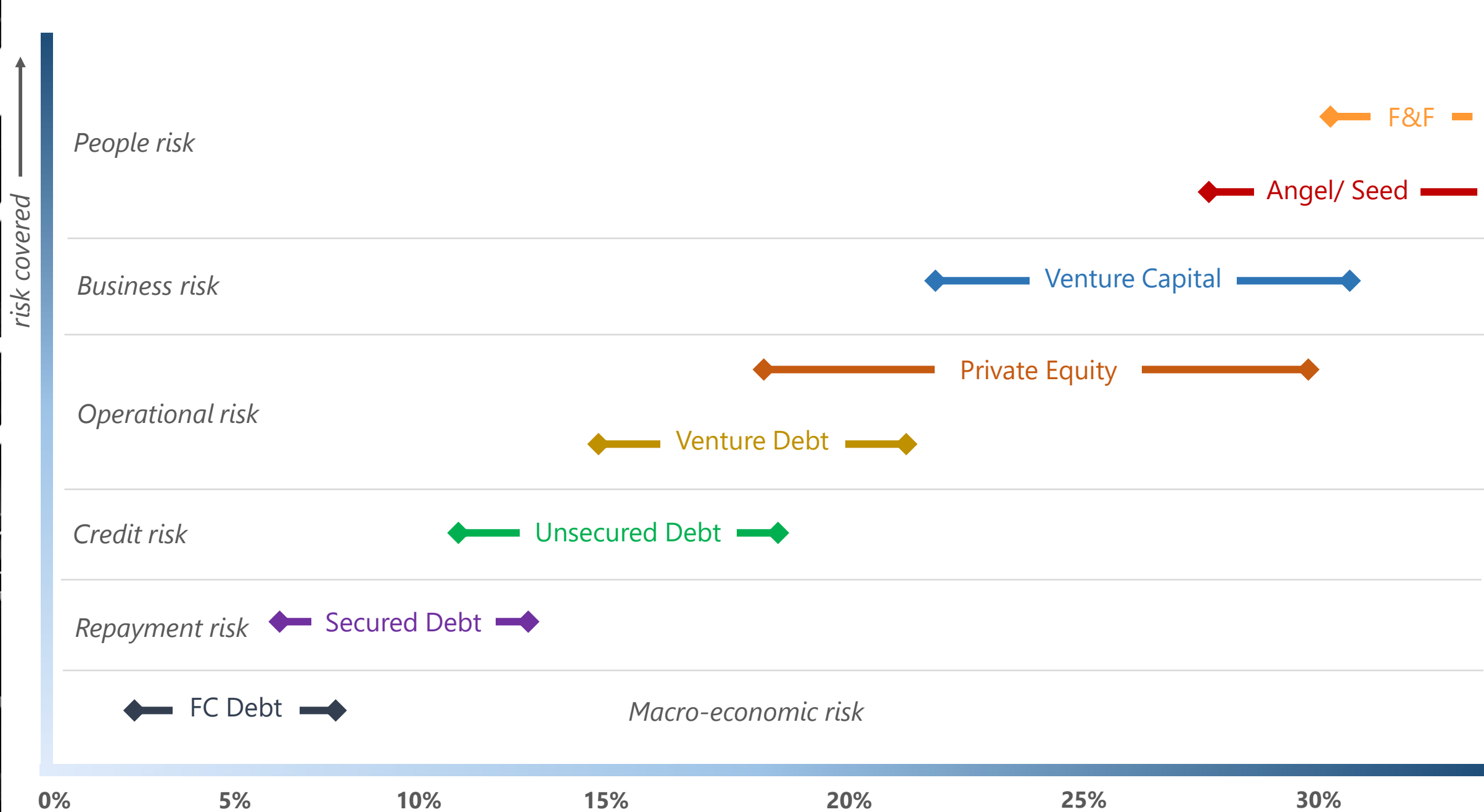
# Equity-led



*by stage of business*

CC BY-SA 3.0, Kmuehmel, VC20, Diagram of the typical financing cycle for a start-up company.





**by risk to cost of funds / IRR expectation**

IRR expectation →

# Equity-led

- #1 Internet + mobile take lion's share
- #2 Early stage deals are concentrating
- #3 GreenTech is on the upswing
- #4 Series A is moving beyond Tech

Stage	Seed / Angel	Series A	Series B	Series C	Series D	Series E+
% of deals	65.29%	16.12%	9.52%	5.06%	2.04%	1.98%
Avg deal size	\$0.83M	\$6.14M	\$15.6M	\$28.13M	\$40.91M	\$226.53M
Median deal size	\$0.4M	\$3.75M	\$10M	\$20M	\$24M	\$90M
Deal growth (yoy)	-9.98%	8.64%	12.09%	13.62%	21.14%	25.99%

Stage	Internet	Mobile	Software	Healthcare	Green Tech	Other
% of deals	45.95%	17.98%	2.81%	4.91%	1.67%	26.67%
Avg deal size	\$13.12M	\$18.88M	\$2.86M	\$19.63M	\$34.76M	\$31.09M
Median deal size	\$1M	\$0.74M	\$0.26M	\$2.45M	\$1.05M	\$4.64M
Deal growth (yoy)	10.64%	-26.56%	36.36%	-28.30%	81.82%	27.65%

64% #1

#2

#3

#4

Idea MVP Team Market Rev LTV Scale

Pitch Deck MIS FS

Formulated a great idea that is an interruption



Friends & Family

Testing the product hypothesis



Assembled a team to help convert vision to reality

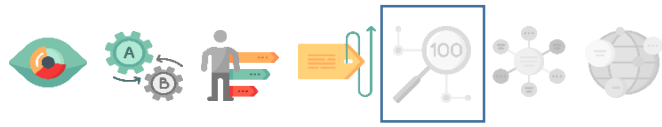


Angel/Seed

Creating a quality user product



I have been able to establish where my customers are



Venture Capital Series A

Testing the market hypothesis



My customers are using me and are engaged = valuation is real



Venture Capital Series B

Testing the user value hypothesis



My idea is now a business that is ready for scale but needs to hit thresholds



Venture Capital Series C/ D/ E...

For ensuring Exponential expansion



My idea is now a business that is ready for scale but needs to hit thresholds



Private Equity + IPO

For achieving geometric expansion



When to approach?

At what stage?

Who to approach?

To fund what?

With what resources?

**Traditional, but  
still in vogue**

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Angel Investors

Venture Capital

Private Equity

# Equity financing

## SME IPO

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Stock exchanges to ensure that SMEs are provided access to raise money from public and provide liquidity to investors and promoters, when they have not yet qualified for a full fledged public offer, have enabled the machinery for SMEs to have an IPOs. *(OTC markets outside India; In India: BSE SME, NSE Emerge)*

### Criteria:

#### NSE Emerge

- Post issue PUC < INR 25 Crores
- 3 years of existence
- 2 out of last 3 years should have positive cash accruals
- No change in promoters in last 12 months
- Cost (incl. I-bankers and merchant bankers): INR 25L
- Time: 4-6 months

#### BSE SME

- Post issue PUC < INR 25 Crores
- 3 years of existence
- 2 out of last 3 years should have positive cash accruals
- No change in promoters in last 12 months
- Cost (incl. I-bankers and merchant bankers): INR 17L
- Time: 4-6 months



**Traditional, but  
still in vogue**

---

Angel Investors

Venture Capital

Private Equity

## Equity financing

### ICO

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Current regulations are not clear + Regulators are not sure of dealing with Cryptocurrency + Not legal tender for many and still under evaluation for effect on Forex Reserves

- Issue of a token to public at large
- Token can be a:
  - A right to use (utility token)
  - A share of the business (asset/ security token)
  - A payment token
  - A hybrid token (combination of one or more of above)
- Limited number is issued (pool set aside for stakeholders)
- Few countries have legislations governing ICOs (Singapore, Indonesia, US, Switzerland)
- Few governments have banned them altogether
- Stakeholder safety has been a large concern

**Traditional, but  
still in vogue**

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Angel Investors

Venture Capital

Private Equity

## **Equity financing**

### **Strategic investments & MBOs**

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Investments by larger players in auxiliary/ ancillary start-ups for upstream or downstream integration.

#### **THE GOOD**

- + Access to intangibles, such as customer segments or markets
- + Retain talent and entrepreneurial spirit
- + Symbiotic relationship
- + Lower cost of failure (lower CTC)
- + Can have inbuilt buy-out terms

#### **THE BAD**

- Locking in market due to conflict
- More control =/ more return
- Overpromise but underdeliver
- Artificial dependence on other portfolio businesses
- Lowered flexibility of operations

## Now, where can Prequate help?



### Buy-side



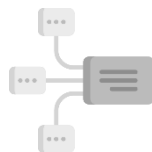
**Search**  
*profiling & advisory*



**Overviews**  
*reporting & reviews*



**Diligences**  
*mgmt., fin & ops*



**Post Integration**  
*PMO Fin, Mgmt.*

### Sell-side



**Prep**  
*modeling with strategy*



**Valuations**  
*variable based*



**Cap-raise**  
*\$2M & upward*



**Negotiations**  
*value based structures*

# Investment Banking, Mergers & Acquisitions

**Prequate's** IB, M&A practice relies on the core skill-set of having a deeper understanding of business and management. A special advantage of being partners than task based partners. Great deals happen when synergies are established and focused effort to capitalise on them are instituted.

**Prequate's** approach is to first work with the fundamentals of the business and rather than look at a transaction as an event. Fund-raising, M&A are growth steps in the business roadmap of every organization and potentially very valuable for every business if correctly executed.



**BUSINESS  
MODELLING**



**BUSINESS  
SIMULATIONS**



**BUSINESS  
PLAN**



**INFORMATION  
MEMORANDUM**



**INVESTOR  
RELATIONS**



**FINANCIAL  
MODELLING**



**FINANCIAL  
SIMULATIONS**



**VALUATION  
STUDY**



**TRANSACTION  
NEGOTIATION**



**CAPITAL  
RAISES**



**FUND DECK  
BUILDING**



**TARGET  
PROFILING**



**DUE  
DILIGENCE**



**ASSET  
VALUATION**



**INVESTEE  
REPORTING**



**SEARCH  
ADVISORY**



**POST  
TRANSACTION  
INTEGRATION**



**CAP-TABLE  
MANAGEMENT**



**SPECIAL  
SITUATIONS**



**REVERSE  
IB**

**SELL SIDE**

**BUY SIDE**

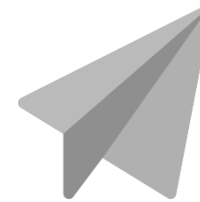


**IB, M&A  
initiatives**

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The best way to understand how we can engage with your organization, is to speak with us.

A single click can go a long way.



*To write to us by email,  
< click*

[connect@prequate.in](mailto:connect@prequate.in)



*To set up a quick discovery talk/  
request more information  
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