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Venture Capital Financing

INTRODUCTION

Venture capital financing is a type of private equity investing specific to earlier-stage businesses that require capital. In return, the investor receives an equity stake in the business through the issuance of some type of security instrument.

Venture capital firms have a variety of different securities they use depending on the nature of the investment. The most common securities are convertible debt (often called convertible debentures), SAFE notes, and preferred stock.

The kind of instrument an investor chooses depends on a variety of factors related to the company and the investor's own risk tolerance.

KEY HIGHLIGHTS

Venture Capital firms make private equity investments in disruptive companies with high potential returns over a long time horizon.
The three most common securities used by venture capital investors are convertible notes, SAFE notes, and preferred equity.
The securities a venture capital investor chooses will depend on the stage of the business and its specific capital requirements.
Different securities present different levels of risk for investors depending on their position in the capital stack.

Equity Instruments

To understand the securities used by venture capital investors, it is important to understand the distinction between Debt and Equity.

From a business' perspective**:**

Equity: Refers to issuing stock to finance the business, meaning that the company gives up some ownership and control of the company.
Debt: Means the business is borrowing money, either by issuing bonds to finance the business or by taking a more conventional-looking loan.
The equity versus debt decision relies on a number of factors such as the current economic climate, the business' existing capital structure, and the business' life cycle stage, to name a few.

Venture capital investors are tasked with determining what securities are most fitting for a given company – either debt or equity instruments.

RATIONAL

The project is motivated by the imperative for SUGAR Cosmetics Company to secure venture capital financing, a pivotal step in fueling its growth trajectory. By strategically leveraging this funding, SUGAR Cosmetics can expedite market expansion, drive innovation, and establish key partnerships, ensuring its competitiveness and long-term sustainability in the ever-evolving landscape of the Cosmetics industry.

STAGES IN VENTURE CAPITAL FINANCING

Seed Stage

In the seed stage, the company is only an idea for a product or service, and the entrepreneur must convince the venture capitalist that their idea is a viable investment opportunity. If the business shows potential for growth, the investor will provide funding to finance early product or service development, market research, business plan development, and setting up a management team. Seed-stage venture capitalists participate in other investment rounds alongside other investors.

Existing makeup brands, whether international or local, failed to adequately cater to Indian skin tones or align with the Indian way of life. This left women with limited options, either resorting to importing expensive makeup products or settling for shades that didn't complement their complexion.

This realisation ignited a spark of inspiration in Vineeta and Kaushik, leading them to conceive the idea of launching SUGAR: a range of makeup products that not only catered to local preferences but also boasted long-lasting, transfer-proof formulations.

Startup Stage

The startup stage requires a significant cash infusion to help in advertising and marketing of new products or services to new customers. At this stage, the company has completed market research, has a business plan in place, and has a prototype of its products to show investors. The company brings in other investors at this stage to provide additional financing.
In this stage IndiaQuotient along with RB Investments Pvt. Ltd. Funded a amount of 2.5 Million Dollar.

First Stage

The company is now ready to go into actual manufacturing and sales, and this requires a higher amount of capital than the previous stages. What set SUGAR apart from the competition was its decision to manufacture the product in Germany. This 'Made in Germany' tag created a strong appeal at the time and drew attention to the quality and craftsmanship of the product.
Mar 8, 2019 company received Series B funding round of 12 Million Dollar from A91 Partners, Anicut Capital and India Quotient.

Expansion Stage

The business has already started selling its products or services and needs additional capital to support the demand. It requires this funding to support market expansion and introducing other products. Company decided to create their own liquid lipstick product manufactured in India.SUGAR launched its own liquid lipstick, and it quickly became a favourite among customers.
Oct 21, 2020 sugar got investment from Series-C round. Funding amount was 21 Million dollars. Investors were A91 Partners, Elevation Capital, India Quotient, Stride Ventures.

Bridge Stage

The bridge stage represents the transition to a public company. The business has reached maturity, and it requires financing to support acquisitions, mergers, and IPOs. The venture capitalist can exit the company at this stage, sell off his shares, and earn a huge return on his investments in the company. The exit of the venture capitalist allows other investors to come in, hoping to gain from the IPO.
Currently the company is not a Public company but the company has shown an interest in an IPO.

CONCLUSION

In conclusion, the journey of SUGAR, from its inception as a solution to an unmet need in the Indian makeup market to its current status as a burgeoning brand, exemplifies the crucial role venture capital financing plays in the growth and development of early-stage businesses. At each stage of its evolution, SUGAR strategically leveraged funding from venture capitalists to propel its vision forward, from refining its product offerings to expanding its market reach.
The strategic decisions made by SUGAR, such as manufacturing in Germany to uphold quality standards and introducing new products like its own liquid lipstick, not only distinguished it from competitors but also attracted significant investment interest. The successive funding rounds from a diverse range of venture capital firms, including IndiaQuotient, A91 Partners, Elevation Capital, and others, underscored the confidence in SUGAR's potential and contributed to its expansion and success.As SUGAR continues to grow and innovate, its journey serves as a testament to the symbiotic relationship between entrepreneurs and venture capitalists. By securing vital funding and support, SUGAR has not only transformed an idea into a thriving business but has also paved the way for future entrepreneurs to realise their visions and make impactful contributions to their industries. With the possibility of an IPO on the horizon, SUGAR stands poised to enter a new chapter of growth and market leadership, fueled by the foundation laid through strategic venture capital financing.