

# BUSINESS AND FINANCIAL PLANNING FOR START UPS

# When to start a business

- You have a passion for your new venture
- You're a true believer in your idea
- You have a product or service with a good market
- You have a plan
- You have a good brand idea
- You're ready to learn -- a lot!
- You can face the fear of failure
- You can face the fear of success
- You have some cash available
- You know a lot about business itself
- You're good at managing your time
- You understand the risks of owning a business

# How to start a business

1. Write your business plan
2. Conduct Market research
3. Pick your business location
4. Choose your business name
- 5. Choose a business structure**
- 6. Register your business**
- 7. Fund your business**
- 8. Apply for licenses & permits**
9. Open a business bank
10. Grow your business

# COMPARISON TABLE

Basis of comparison	Sole Proprietor	Partnership firm	HUF	Private ltd Co.	Public ltd Co.
Formation	Minimal legal formalities	Easy formation	Easy formation	Lengthy & expensive formation process	Lengthy & expensive formation process
Registration	NA	Optional	Exempted	Mandatory	Mandatory
Name approval	Approval is not needed, avoid trademarked names	Approval is not needed, avoid trademarked names	Approval is not necessary	Must be approved by the ROC & end with words "Pvt Ltd"	Must be approved by the ROC & end with words "Ltd"
Members	Only proprietor	Min = 2 Max = 50	Min = 2 Max = No limit	Min = 2 Max = 200	Min = 7 Max = Unlimited
Separate legal entity	No	No	No	Yes	Yes
Capital requirement	Less capital is required to start	Relatively more capital is required	Ancestral property	Large financial resources are required	Large financial resources are required

Basis of comparison	Sole Proprietor	Partnership firm	HUF	Private ltd Co.	Public ltd Co.
<b>Document Governing</b>	NA	Partnership deed	NA	MOA & AOA	MOA & AOA
<b>Relevant Act governing the format</b>	NA	Indian Partnership Act, 1932	NA	Companies Act, 2013	Companies Act, 2013
<b>Liability</b>	Unlimited	Unlimited Jointly & severally liable	Karta = Unlimited Members =Limited	Limited	Limited
<b>Continuity</b>	Unstable, Owner's death = Business death	Relatively stable but affected by status of partners	Stable, business continues even after the death of Karta	Stable, has perpetual succession	Stable, has perpetual succession
<b>Decision making</b>	By proprietor	With the consent of all partners	By Karta	By BOD	By BOD

# Types of Investors

- Friends & Family
- Banks & Government Agencies
- Angel Investors
- Angel Groups
- Family Offices
- Venture Capital Firms
- Corporate Investors

# Valuation Methodology and Approach – Quick Overview

- Asset Approach
  - Net Asset Value Method (NAV)
- Market Approach
  - Comparable Company Market Multiple Method
  - Comparable Transactions Multiple Method
- Income Approach
  - Discounted Cash Flows -"DCF"

# Employee Stock Option Plan

An employee stock option plan (ESOP) is a type of employee benefit plan which is intended to encourage employees to acquire stocks or ownership in the company.

Under these plans, the employer gives certain stocks of the company to the employee for negligible or less costs which remain in the ESOP trust fund, until the options vests and the employee exercises them or the employee leaves/retires from the company or institution.

These plans are aimed at improving the performance of the company and increasing the value of the shares by involving stock holders, who are also the employees, in the working of the company. The ESOPs help in minimizing problems related to incentives.



# Advantages & Disadvantages of an ESOP

## •Advantages

- Ready market and buyer
- Lower marketability discount
- Retirement benefits
- Avoidance of integration plans
- Avoidance of giving out confidential information to a competitor
- Long-term financial investor

## •Disadvantages

- Retaining an independent trustee, financial advisor
- Engaging qualified ESOP counsel
- Increase in administrative, fiduciary and legal expenses
- Highly technical and complex
- Implementing the anti-abuse provision
- Monitoring who can participate in the ESOP

# Legal & Compliances to know

- ☐ The Shops & Establishment Act, 1948
- ☐ The Contract Labour Act, 1970
- ☐ The EPF Act, 1952
- ☐ The ESI Act, 1948
- ☐ The Professional Tax Act, 1975
- ☐ GST Registration
- ☐ Import Export Code (IEC) Registration
- ☐ Letter of Undertaking (LUT)
- ☐ Factory License
- ☐ Trade License
- ☐ Food License
- ☐ MSME / UDYAM Aadhaar Registration
- ☐ 24/7- Holiday Declaration
- ☐ APEDA Registration
- ☐ Contract Labour Registration
- ☐ Chit Fund Registration
- ☐ EPCG Registration
- ☐ PCB Registration
- ☐ DOT /OSP Registration
- ☐ Trademark Registration
- ☐ RCMC Registration
- ☐ Apprenticeship Registration
- ☐ RERA Registration
- ☐ ISO Registration

# Post Incorporation Compliances of the Company

- First Board Meeting within 30 Days from the date of Incorporation.
- Appointment of First Auditor within 30 days from the date of Incorporation.
- Disclosure of Director's Interest and Declaration Regarding Disqualification.
- Registered Office
- Opening of Bank Account for the Company.
- Letterhead & Statutory Registers.
- Developing of Accounting System for the Company.
- Allotment of the Securities
- Issue of share certificates within 60 days from the date of incorporation
- Payment of Stamp Duty
- File declaration for the commencement of business
- Form DPT-3(Annually), Form INC-20A (One time), MSME-I (half yearly), Form AOC-4 (Annually), Form MGT-7(Annually) should be filed.

# Director's Duties & Responsibilities

- To act in accordance with the articles of the company.
- To act in good faith in order to promote the objects of the company.
- To exercise his duties with due and reasonable care, skill, diligence, and independent judgment.
- Not to involve in a situation in which he may have a direct or indirect interest that conflicts, or possibly may conflict, with the interest of the company.
- Not to achieve or attempt to achieve any undue gain or advantage either to himself or to his relatives, partners, or associates.
- Not to assign his office to any other person

# Shareholder v/s Director

## Shareholder

- Also known as members
- Minimum age requirement of 18
- Normally have a right to any surplus capital if the company is wound up
- Proportion of ownership of the company depends on the number, value, and class of shares held
- Can choose which powers and rights are granted to directors
- Receive a portion of company profits in relation to their shareholdings
- Liability is limited to the nominal value of their shares.

## Director

- Also known as officers
- Director appointments are authorised by shareholders
- Required to run the business within the scope of powers prescribed by the Articles
- Legally responsible for delivering annual accounts, Confirmation Statements, and Company Tax Returns by the statutory filing deadlines
- Can be held personally liable and prosecuted if they fail to uphold their legal responsibilities and duties

- **Few Successful Start-ups**

- Paytm
- Flipkart
- Ola Cabs
- Make My Trip
- Shop Clues
- OYO Rooms
- Zomato
- RedBus

- **Failure of Well Know Start-ups**

- Viu
- Abibas
- Kingfisher
- Aditya Birla Idea Payments Bank
- Vodafone M- Pesa
- Bisleri Pop
- Loanmeet
- Air India

# Ongoing Support & Compliances- key things to know

- Services regarding registration, transactional accounting, audit and assurance, Business Advisory & financial planning, Statutory Compliances, Taxation related matters and corporate compliances.
- Thorough checklist to complete all legal and compliance requirements by various Statutory Authorities.
- Remedial measures and advisory to fill any gap which may arise due to previous and changed business structure which affects compliance and incorporation.

# Financial Planning for Start Ups

- **What is Financial Planning for Startups?**
- A financial plan is like a financial game plan for your startup. It outlines your company's current financial state, your goals for the future, the actions you'll take to reach those goals, and how much it's going to cost.
- Financial planning is the process of putting your "game plan" together and documenting it. Using data, you make assumptions about revenue, expenses, and other financial parts of your business to forecast the financial trajectory of your business.



# Why is Financial Planning Important for Startups?

- It costs money to grow a business, and most people don't have unlimited resources. If you don't plan for how you're going to grow and how much it's going to cost, you can easily waste your two most precious resources—time and money.
- On top of that, if you plan on pitching investors, they're going to expect to see a financial plan. They need to know that once they give you hundreds of thousands or millions of dollars to grow your startup, you have a plan for exactly how you're going to use the money.

Essentially, financial planning forces you to think strategically about how to best use your resources and what your expected results are. Throughout the process, you'll have to answer questions like:

- How much revenue will we generate?
- What will our churn rate look like?
- How many months of runway will we have?
- How much do we have to spend on sales and marketing?
- How many people can we afford to hire?
- By answering these types of questions with data and numbers and turning it into a financial plan, you'll have a clearer picture of what growth looks like, how much it'll cost, and how to measure success.

# How to manage Financial Risk when starting and growing a Business?

1. Develop a capital strategy to reduce financial risk
2. Seek diverse funding channels & opportunities
3. Do background checks and enter a shareholder agreement to manage financial risk
4. Choose the right investor
5. Do your market research and develop a solid business plan
6. Be ambitious and move fast through the commercialization phase
7. Manage your currency risk
8. Manage your interest rate risk
9. Professionalize the CFO role as early as possible
10. Act in good time to secure sufficient financing

# **BASIC EXCEL BASED P & L – HANDS ON**

# Books that every start up founder should read

- The Start-up Owner's Manual - by Steve Blank, Bob Village
- Tools of Titans - by Tim Ferriss
- The Hard Thing About Hard Things - by Ben Horowitz
- Zero to One - by Peter Thiel with Blake Masters
- Who - by Geoff Smart, Randy Street
- The Lean Start-up - by Eric Ries
- The Ideal Executive - by Ichak Kalderon Adizes
- Rework - by Jason Fried, David Heinemeier Hansson
- The 7 Habits of Highly Effective People - by Stephen Covey
- Leading at the Speed of Growth - by Katherine Catlin and Jana Matthews

THANK YOU