Finlatics Investment Banking Experience Program Project 2

Based on the three proposals, I have chosen the **Education Technology Company** for investment assessment. Here's a comprehensive breakdown addressing all required questions:

Stage in Company Life Cycle & SWOT Analysis

The Education Technology Company is in the Ideation Stage of the company life cycle. This is evident from the fact that the product has only undergone pilot testing and no commercial traction or confirmed product-market fit has yet been established. Though the pilot showed a 40% improvement in learning outcomes, this remains an early validation and not a sign of maturity or scalability.

SWOT Matrix:

Strengths	Weaknesses
Enhances learning through immersive AR visuals	Requires compatible smartphones for all students
High potential in STEM education	High R&D and maintenance costs
Potential IP value in ed-tech space	Not suitable for low-income or rural education environments
Strong technical founding team	Privacy and data concerns with live AR use

Opportunities	Threats
Rising trend of digital learning tools	Competitors with better funding and reach
Government and CSR funding for education	Rapid tech obsolescence in AR
Partnership with schools and ed-tech platforms	Concerns from parents and institutions on screen exposure

Challenges & Potential Solutions

The education technology company faces four key challenges: hardware dependence, battery drainage, privacy issues, and revenue generation.

1. Hardware Dependence

The product relies on smartphones or tablets with AR capability. This excludes economically weaker students or schools in rural areas. Also, variation in hardware (e.g., screen size, camera quality) can result in inconsistent user experience.

Solution:

- Institution-Based Deployment: Partner with schools that already use tablets or smartboards (like Kendriya Vidyalayas or CBSE smart classrooms).
- Instructor Mode: Offer a "demo mode" for teachers to project AR content on smartboards, reducing the burden on individual devices.
- Example: *Byju's* overcame hardware barriers by introducing low-bandwidth modes and device-agnostic solutions.

2. Battery Drainage

AR apps are power-intensive. Like *Pokémon Go*, continuous use of the camera and rendering 3D graphics can quickly drain device batteries.

Solution:

- Provide adaptive resolution settings for energy savings.
- Enable pre-rendered AR experiences to reduce real-time processing load.
- Offer lite versions of lessons, with static AR elements and minimal animation.

3. Privacy Concerns

The app uses cameras in live classroom settings, potentially capturing non-consenting individuals and sensitive environments.

Solution:

- Build in privacy-first features, e.g., no data storage unless authorized, blur faces, and restrict recording.
- Ensure GDPR/IT Act compliance and integrate school administrator controls.
- *Snapchat* limits post-use data storage, and a similar model could be followed here.

4. Monetization Strategy

The app lacks a revenue model. Traditional ed-tech monetization (ads or freemium) may not suit its B2B nature.

Solution:

- Use a subscription-based pricing model for schools.
- Offer institution-level licenses instead of individual pricing.

- Provide value-based tiered pricing, e.g., basic anatomy modules vs full curriculum packages.
- *Toppr* and *Vedantu* successfully transitioned from freemium models to school-integrated SaaS partnerships.

By addressing these challenges methodically, the company can establish a sustainable business model and scale meaningfully in the growing ed-tech market.

Convertible Notes: Milestones & Conversion Rates

I propose investing Rs. 50 lakhs using convertible notes, with milestone-based conversion rates designed to protect investor interest and motivate the startup to scale.

Milestone Framework:

Milestone	Target	Timeframe	Conversion Rate
M1	5 institutional tie-ups, 100 students per school	1st year	24%
M2	Additional 10 schools, maintain 100 students per school	2nd year	16%
M3	Cumulative 3500 students across 20+ schools	3rd year	10%
M4	9500 students across 40+ schools, includes expansion to higher grades	5th year	6%

Why Convertible Notes?

At ideation stage, valuation is highly speculative. Convertible notes allow deferring valuation decisions until Series A, while giving early investors favorable terms for their risk.

Conversion Triggers:

- If M1 is not met in 2 years, default interest of 12% annually applies.
- If a company raises a qualified funding round (Series A, >Rs. 3 crores), conversion occurs at a 20% discount to next valuation or milestone rate whichever is better for the investor.

Investor Protection:

- **Cap on valuation:** E.g., Rs. 10 crore cap for conversion, to avoid dilution.

- **Downside protection**: If a company fails to hit M1 in 5 years, investors get 2x liquidation preference.

CLV vs CAC Analysis

Customer Acquisition Cost (CAC):

Based on initial projections:

- Marketing spend to onboard 500 students: Rs. 7,50,000
- CAC = Rs. 7,50,000 / 500 = Rs. 1,500 per student

Customer Lifetime Value (CLV):

- Subscription Price: Rs. 600/year
- Assuming 1 purchase/year, CLV = 600 × Number of Years Retained

Years Retained	CLV (₹)	Net Value (CLV - CAC)
1	600	-900
2	1200	-300
3	1800	300
4	2400	900
5	3000	1500

Break-Even Point:

- CLV exceeds CAC in the 3rd year.
- To be profitable, the company must retain a customer for at least 3 years.

Strategies for Retention:

- Provide year-wise curriculum updates.
- Offer progress tracking, gamification, and certificates to retain students.
- Introduce loyalty rewards for school partners and bulk license discounts.

By ensuring long-term engagement and institutional partnerships, the startup can improve retention and ensure a strong ROI on CAC.