NFCG National Foundation for Corporate Governance

Confederation of Indian Industry

FINANCIAL RISK

in Valuation of Companies

Measures Required for Protecting Investors

A Report

December 2023

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Contents

Executive Summary

The burgeoning landscape of "new age" companies – encompassing disruptive sectors like Artificial Intelligence (AI), biotech, and blockchain – brings immense potential alongside inherent risks. This Research Report delves into the diverse financing methods fueling these ventures and proposes measures to safeguard investors navigating this dynamic terrain. Navigating the world of new age companies requires a balanced approach: embracing innovation while mitigating risks.

Start-up Valuation: A Balancing Act on Shifting Sands

Traditional valuation methods often stumble when applied to the fledgling world of startups. Their reliance on historical data and established metrics proves ill-suited for businesses defined by innovation and uncertainty. Even alternative methods, while more adaptable, are not without their limitations and challenges.

This intricate interplay between valuing potential and navigating subjectivity underscores the evolving nature of the startup ecosystem. Unusual valuation methodologies emerge to accommodate these unique scenarios, demanding thorough analysis, a balanced approach, and deep industry and target business insights.

Valuing a start-up requires thorough effort, a centered approach, and in-depth insight of industry and target business. Start-ups valuations pose many challenges for the valuer, making the exercise highly subjective. Variations in the external environment/ ecosystem and internal dynamics strongly impact a start-up, leading to severe shifts in valuation.

The valuer's task becomes even more daunting due to the inherent volatility of startups. Internal dynamics and external fluctuations – be it the economic climate or a sudden pivot in strategy – can dramatically shift their projected trajectory, causing significant swings in valuation.

The research further delves into the interplay between a startup's lifecycle stage and the appropriate valuation methods. It emphasizes the distinct approach needed for New Age Technology Companies (NATCs) compared to the more conventional profit-driven businesses. Their disruptive nature calls for a re-evaluation of traditional valuation tools, potentially necessitating a bespoke approach for each entity.

In conclusion, valuing startups is not a fixed formula, but a mix of art and science form constantly adapting to the dynamic canvas of the ecosystem. Embracing the inherent complexities and employing flexible methods are key to navigating this critical venture.

Emerging Technological Advancements and the Regulatory Landscape for Investors

Key Points:

- Recent advances in areas like AI, blockchain, and big data have amplified concerns around IP protection, data privacy, misinformation, and cybercrime.
- Regulators struggle to keep pace with rapid technological developments, creating a challenge to implement effective regulations without hindering innovation.
- Stricter regulations are emerging, with hefty penalties for violating tech companies, potentially crippling startups and impacting giants.
- Investors need to stay informed about relevant regulations and the target company's regulatory compliance history.
- Cyber due diligence is vital, investigating past data breaches, security controls, and potential attack targets.
- Understanding cyber vulnerabilities and maturity helps assess an investment's viability, value, and associated risks.
- Proactive cyber due diligence can inform investors about potential security threats and associated remediation costs.

Implications for Investors:

- Thorough due diligence, encompassing regulations and cyber security, is crucial before investing in technology companies.
- Understanding the regulatory landscape and a company's track record can identify potential risks and liabilities.
- Proactive cyber security measures can mitigate risks and potentially increase the value of an investment.
- Investors need to adapt their approach to navigate the evolving regulatory and security landscape in the tech space.

This summary captures the essence of the original text of the research, while offering concise takeaways and highlighting key points to pique further interest and highlighting the challenges and opportunities for investors in the face of new technologies and stricter regulations. It also provides a springboard for deeper exploration into the intricacies of valuing these innovative ventures. Further, it emphasizes the importance of due diligence for making informed investment decisions in the dynamic tech ecosystem.

CHAPTER

01

Digital businesses will lead the current pack of blue-chip heavyweights on the benchmark Nifty50 Index

Overview of New Age Technology Companies ('NATCs') in India

"Digital businesses will lead the current pack of blue-chip heavyweights on the benchmark Nifty50 Index", says Raamdeo Agrawal, Chairman and Co-founder of Motilal Oswal Financial Services, the market veteran. "In 10 years, we will see a lot of digital companies or digitally powered businesses forming the bulk of the stock index. They will come from behind, they will be 10-12 years old, but they will be much bigger and much more ferocious, fast growing, and much more profitable. They will be right on top of the current set of companies", he predicts.

Which companies classify as new-age technology companies is an ever-evolving definition. There is no standard definition, and the term has evolved with time as delineated by various scholars/ institutions.

Cho and McLean (2009)	Temporary organizations that create innovative products and/or services using high technology, but this type of companies are also known to be riddled with uncertainty and risky scenarios.
Ries (2011)	A human institution designed to create new products and services under conditions of extreme uncertainty.
India's Ministry of Commerce and Industry (2016)	An entity being a startup till up to five years from the date of incorporation and those working towards innovation, development, deployment, and commercialization of new products, processes, or services driven by technology or intellectual property.

Source: Defining a Startup – A critical analysis (SSRN Electronic Journal - April 2021)

During its G20 presidency, India has embarked upon creating a consensus-based definition framework for startups. The framework is based on the existing definitions of startups across the G20 countries, academic literature, and expert consultations. The key parameters that constitute the definitional framework of 'Startup' are defined by the acronym "LASSI":

- Legal entity (L)
- Age (A)
- Size (S)
- Scalability (S)
- Innovation (I)

The parameters together represent the key characteristics of startups i.e. they are young, independent entities with the potential to scale on the back of innovation. The scalability and innovation dimensions distinguish startups from their closest cousins, the Small and Medium Enterprises (SMEs). Other dimensions distinguish them from large private corporations, public sector entities and Non-governmental organisations (NGOs).

Scalability and innovation dimensions distinguish startups from their closest cousins, the SMEs.

Nations can choose to define these parameters as broadly/narrowly as they wish, giving them degrees of freedom to address their country's unique needs while adhering to a common framework. For instance, some countries define innovation narrowly as technological innovation, while others take a broader view to include technological, process and business

model innovations. In a lighter vein, it can be a plain LASSI or a mango LASSI. This framework is India's contribution to harmonizing startup ecosystems across the G20 world so that we can address our national and global priorities more effectively.

These contemporary new-age technology companies adopt various business models such as[1]:

01

Marketplace Model

This model positions the business as an intermediary between buyers and sellers, offering the advantage of not requiring inventory management. Businesses operating under this model do not manufacture goods, eliminating responsibilities for storage and sales, resulting in significant cost savings by avoiding overhead expenses. Example – Flipkart, Amazon, Myntra, etc.

02

On Demand Model

Geared toward catering to younger generations, this model delivers goods or services promptly upon buyer request, leveraging digital technologies. Notably, it optimizes cost-effectiveness by employing freelance labor and keeping operational costs low. Example – Swiggy & Zomato.

03

Disintermediation Model

Widely employed by wholesalers, manufacturers, and businesses, this standard model involves selling directly to customers. By eliminating intermediaries, this model achieves cost reduction, translating into lower prices for consumers. Particularly suitable for startups with the capacity to manufacture and distribute goods, it serves to attract a larger client base through competitive pricing. Example – Ikea and Alibaba.

04

Subscription Model

The subscription model is one of the most popular business models right now. Companies such as Spotify and Netflix are prominent examples of giving access to music, movies, and TV shows. In this model, companies are selling their services on a month-to-month or yearly subscription rather than making a one-off sale. By doing so, they establish recurring cash flows.

[1] *https://online.hbs.edu/blog/post/startup-business-models; https://www.universitylabpartners.org/blog/7-different-business-model-ideas-for-your-startup*

05

Freemium Model

This distribution model provides users with a free tier of the product and charge for the full or upgraded version. By allowing users to experience the product before purchase, the freemium model proves effective in enticing users to upgrade after experiencing the complimentary version. This would include companies such as Hotstar and Zee5.

06

Virtual Good Model

Predominantly used by game developers, this business model extends to various industries. It involves offering strictly virtual goods that exist solely in the digital realm, often as components of a game, such as extra lives or character upgrades.

Indian NATCs ecosystem

India has emerged as the 3rd largest ecosystem for startups globally as of 31st May 2023[2]. As of May 2023, India is home to 108 Unicorns with a total valuation of more than USD 300 billion. The rise of startups has paved the way for a distinctive category of enterprises known as New-age Technology Companies (NATCs). The last 10 years have seen the emergence of over 25,000 to 27,000 tech start-ups in India. These entities focus on new and innovative concepts, products, and services, utilizing cutting-edge technologies like artificial intelligence, the internet of things, data analytics, big data, robotics, etc. Automation and AI enable startups to streamline tasks, enhance efficiency and productivity hence freeing up time and resources allowing them to focus on what they do best: innovation.

Funding in the Indian start-up ecosystem continues with cautious optimism.

Approximately 70% of NATCs operate in IT or IT-enabled services, particularly in e-commerce, fintech, SaaS, foodtech, or edtech space.

Funding in the Indian start-up ecosystem continues with cautious optimism. As per PwC's Start-up Perspectives – India start-up deals tracker H1 CY23 publication[3], despite the significant funding resources earmarked for Indian start-ups, the ecosystem reported the lowest six-month funding trends in the last four years during H1 CY23 at ~USD 3.8 billion across 298 deals. In the current funding arid season, start-ups have demonstrated resilience to increase their funding runway by cutting down on discretionary expenses and tapping into capital like internal rounds and alternate financing options, like venture debt. During the last few quarters, investors have shown strong support for their investee companies by increasing supporting funding in

[2] *https://www.ibef.org/research/case-study/the-emergence-of-india-as-a-global-startup-hub*

[3] *https://www.pwc.in/assets/pdfs/services/startups/start-up-perspectives-india-start-up-deals-tracker-h1-cy23.pdf*

such companies that demonstrated positive growth. However, driven by the recent financial misreporting issues that have come to light in some start-ups, as well as the market conditions, an increasingly emerging trend has also been rigorous due diligence being carried out by investors before making investments, both in terms of detailing and coverage (from typical finance and legal, to now covering technology, Human Resources, and business processes). A noteworthy shift in the landscape is observed as an increasing number of start-ups redirect their focus from mere valuation to prioritizing profitability, where they build businesses with solid foundations – built to last.

Recent events in NATCs space such as Walmart's acquisition of further equity shares in Flipkart, mark-down in valuation of Biju's, surge in IPOs of new-age technology companies such as Zomato, Paytm, Nykaa, etc., the focus on "valuation" of NATCs has come to forefront.

NATCs are typically focused on developing and testing new business models with the use of technology that can disrupt or create markets, whereas traditional businesses usually operate in more established markets and rely on proven business models. Further, NATCs are often focused on rapid growth and scaling, while traditional businesses typically prioritize stability and sustainable free cashflows. Over the years, startups steadily lose money/ cash burn while focusing on the growth of their user base. It is only after these companies grow large that they almost became monopolies in their own fields that these companies decide to monetize their platforms. NATCs are often willing to take on higher levels of risk in pursuit of growth and innovation.

CHAPTER

02

The evolution of India's start-up landscape has been marked by the rapid ascent of numerous tech unicorns, reshaping industries ranging from food to travel and payment systems.

Recent Listings of NATCs on Indian Stock Exchanges and Investor Returns

India's burgeoning start-up ecosystem has witnessed a remarkable surge in new-age tech companies achieving unicorn status and subsequently listing on the stock market in recent years. The evolution of India's start-up landscape has been marked by the rapid ascent of numerous tech unicorns, reshaping industries ranging from food to travel and payment systems. Investors have eagerly participated in funding rounds, witnessing significant valuation escalations prior to these companies going public. However, post-listing, a recurrent trend of share price depreciation / fluctuation has been observed, resulting in wealth erosion for retail investors.

While these companies have played a pivotal role in transforming various sectors, the stock market performance post Initial Public Offer ('IPO') has raised

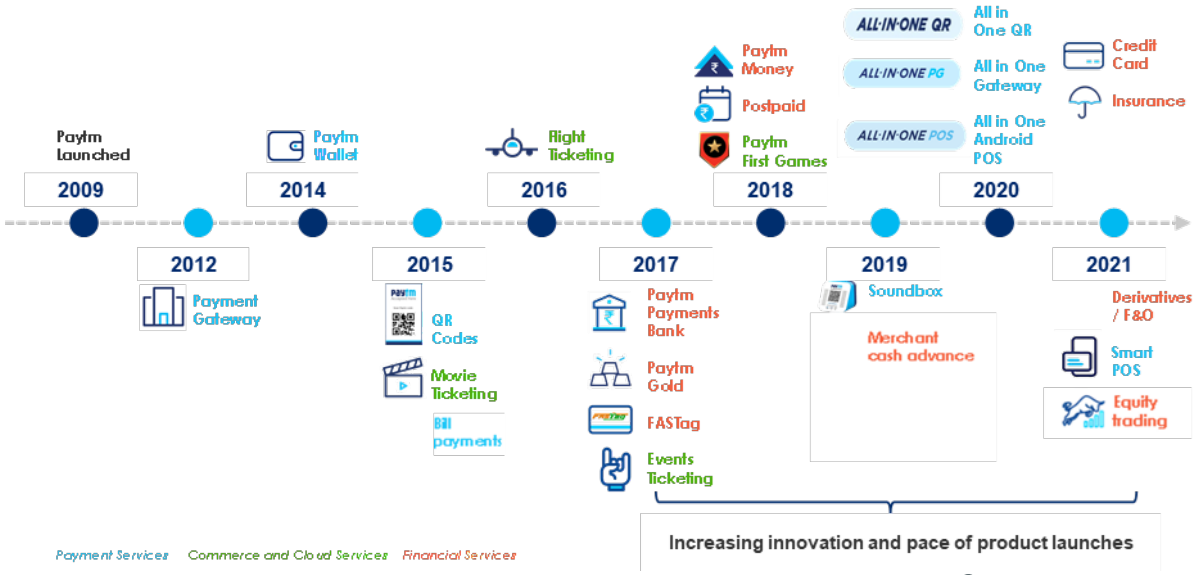
concerns, particularly for retail investors who have incurred financial losses due to decline in share prices in certain cases.

The Consultation Paper for Disclosures for 'Basis of Issue Price' section in offer document under SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018 (hereafter referred to as 'Consultation Paper') (discussed in Chapter 3 in detail) elucidates that the determination of issue price should be grounded in non-traditional key performance indicators ('KPIs'). This departure from conventional metrics is prompted by the observation that traditional KPIs such as return on equity, net worth, and profit margins reflect negative values for NATCs.

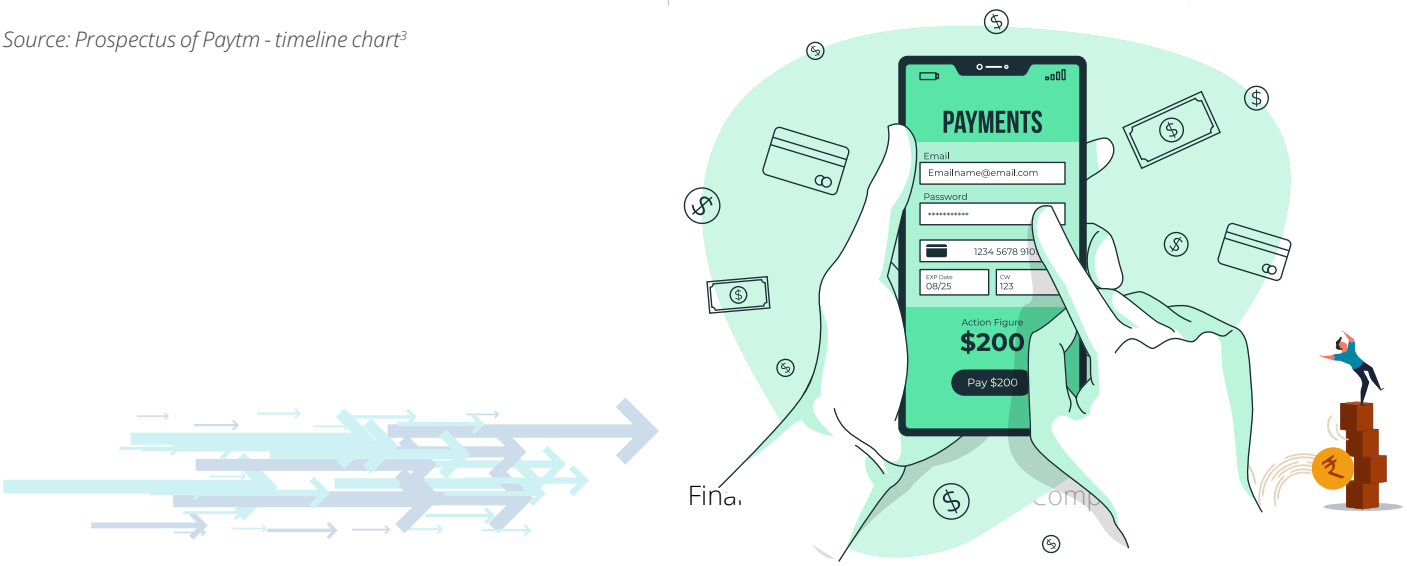
Analysis of the prospectuses of these companies reveals opacity in articulating the basis for deriving the offer price. It mentions reliance on precedent funding rounds; however, this does not provide retail investors with a comprehensive understanding of the valuation methodology for deriving the issue price. This causes information asymmetry between retail and institutional investors. We have analyzed the funding story of a few NATCs and have noted our observations below.

1. PayTM - Navigating the digital payment landscape.

Paytm was founded in August 2010 with an initial investment of US$2 million by its founder Vijay Shekhar Sharma. It started off as a prepaid mobile and DTH recharge platform and went on to become the leading digital payment platform of India (refer chart below). Paytm has adapted its offerings throughout its journey and has pivoted its business model to play a leading role in the digital payment domain in India.

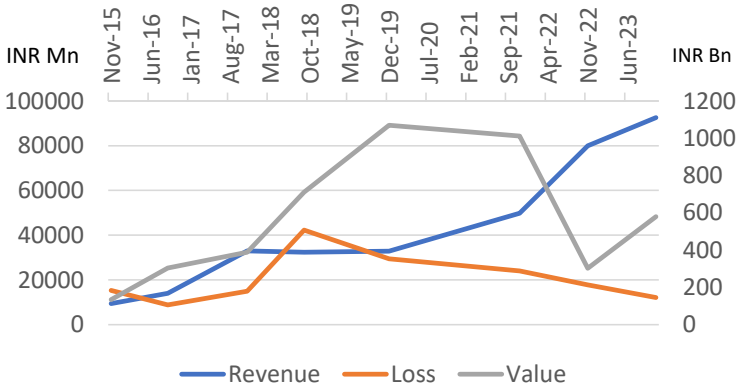


Source: Prospectus of Paytm - timeline chart[3]



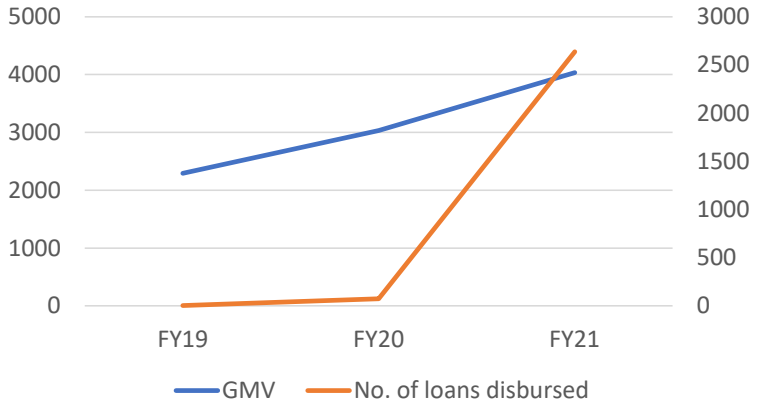
[4]The "Paytm Funding Story" chart shows a representative overview of pre-IPO funding rounds, spanning from the inaugural round in September 2011 to December 2019 and post IPO market capital movement. The Financial metrics and KPI charts (refer charts (2) and (3)) reveal an upward trajectory in both revenue and non-traditional KPIs. Concurrently, there is a parallel ascent in losses. Notably, Paytm has consistently experienced an escalation in valuation throughout the pre-IPO period, notwithstanding substantial financial losses. According to information from publicly available sources, this valuation surge was primarily ascribed to non-financial KPIs and Paytm's perceived future potential.

Financial metrics (2)



Source: S&P Capital IQ, Zerodha and Private Circle

Non traditional KPI (3)



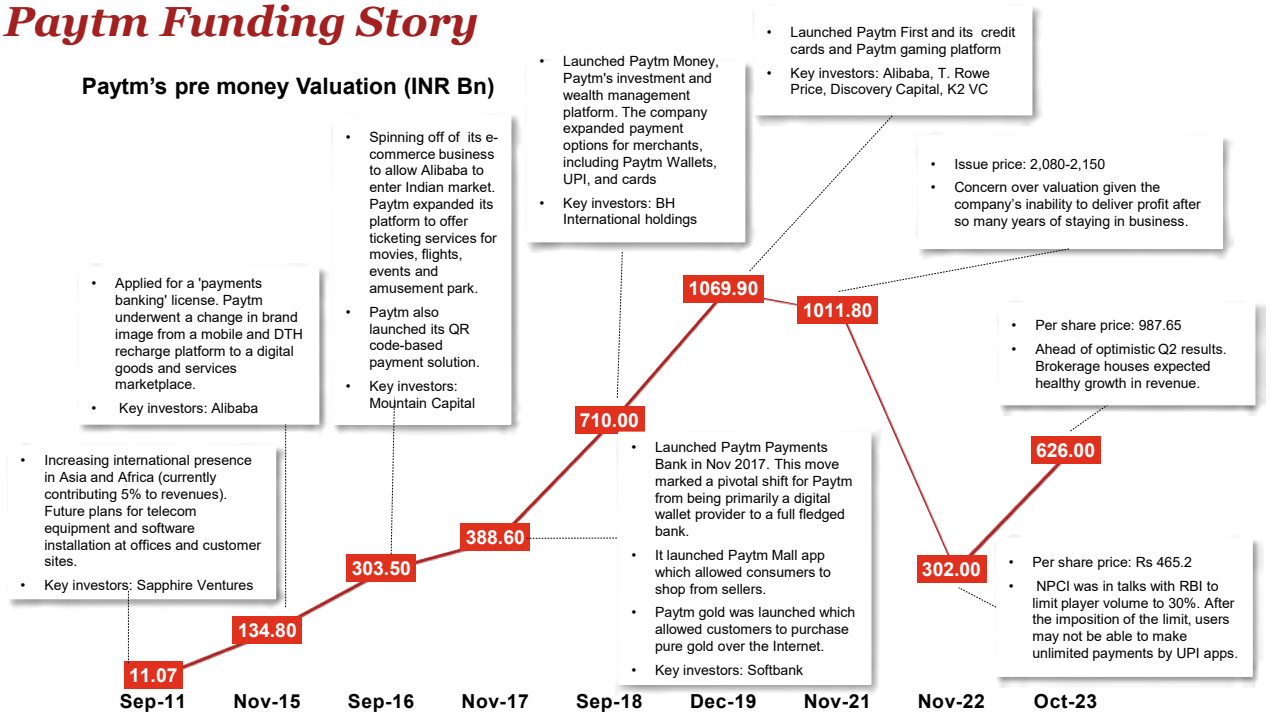
Source: Prospectus of Paytm

> Conversely, retail investors experienced an immediate price depreciation of ~27% on the first day of listing. Subsequently, over the year, despite an increase in revenue, Paytm witnessed a decline in share price.

[4] During Paytm's IPO, institutional investors (whose equity shares were sold pursuant to the offer for sale under the IPO) divested their stakes at ~3x to ~140x of their initial investments. Conversely, retail investors experienced an immediate price depreciation of ~27% on the first day of listing. Subsequently, over the year, despite an increase in revenue, Paytm witnessed a decline in share price. Noteworthy shifts emerged in November 2022, marked by a reduction in Paytm's losses and a concurrent upswing in share prices. However, despite these positive developments, the share price has yet to reach the IPO issue price, indicating a relatively higher weightage being accorded by the market participants to the company's fundamental performance vis a vis general growth optimism.

[4] *https://paytm.com/document/ir/ipo-documents/paytm-red-herring-prospectus.pdf*

Paytm Funding Story



[5] *Source: VCC Edge, Private Circle and S&P Capital IQ*

2. ZOMATO – hungry anyone?

Zomato was founded in 2008 by Deepinder Goyal and Pankaj Chaddha in Delhi, India. Originally named "Foodiebay," the platform started as an online restaurant discovery. Over the years, it expanded its services globally, becoming one of the leading food aggregators and delivery platforms. Zomato's end-to-end food services approach combines the offerings of platforms such as Yelp (lets user

[6] *Source: Apptunix website article (timeline chart)*

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[5] *VCC Edge, Private circle, S&P Capital IQ and sources listed below:*

1. *https://www.vccircle.com/sap-ventures-invests-10m-one97-communications*
2. *https://economictimes.indiatimes.com/small-biz/startups/paytm-plans-to-spin-off-its-marketplace-to-allow-alibaba-group-establish-a-direct-presence-in-india/articleshow/51486393.cms?from=mdr*
3. *https://www.firstpost.com/tech/news-analysis/paytm-launched-paytm-mall-e-commerce-app-3698435.html*

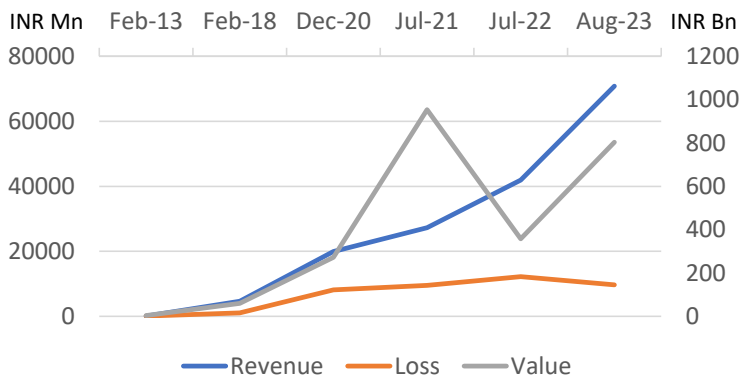
[6] *https://www.apptunix.com/blog/business-model-of-zomato-history-revenue-and-competitors/*

post reviews and rate business), DoorDash (online platform for food order and delivery) and OpenTable (restaurants table reservation) in a single mobile app (refer chart above).

The "Zomato Funding Story" chart shows an indicative overview of pre-IPO funding rounds and post IPO market capital movement. The Financial metrics and KPIs chart (refer charts (6) and (7)) show an upward trajectory in both revenue and value till IPO (on 23 July 2021 i.e., the listing date). Concurrently, there is a parallel ascent in losses. Notably, the company has consistently experienced an escalation in valuation throughout pre-IPO period, notwithstanding substantial financial losses. This valuation surge in pre-IPO rounds is primarily ascribed to non-financial KPIs (such as gross order value (GOV) and average monthly transacting users (MTU)) and Zomato's perceived future potential.

[7,8] Institutional investors like Info edge and Sequoia Capital clocked a return of ~65x and ~12.5x, respectively, through Zomato's IPO. Zomato's shares got listed at a 60% premium. However, over the year the share price has reduced by ~62%. Zomato has been trying to increase profits in the delivery and quick commerce business. It reported its 1st profitable performance in the quarter ended 30 June 2023. As the losses have reduced in the post IPO period, a parallel increase in the value/ market capitalization can be observed, indicating relatively higher weightage being accorded by the market to the company's financial performance vis a vis general growth optimism.

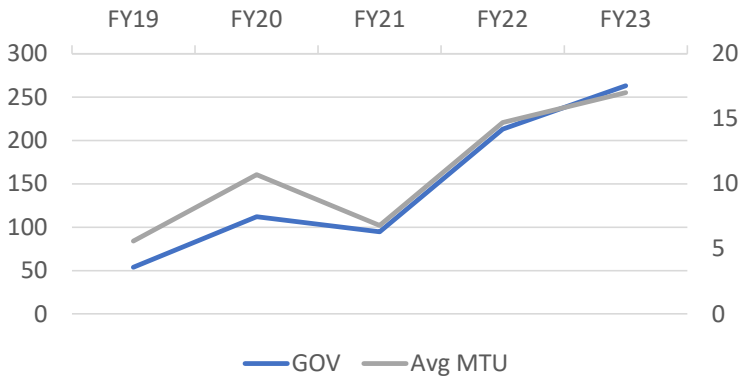
Financial metrics (6)



Source: S&P Capital IQ, Zomato's website VCC Edge

However, over the year the share price has reduced by ~62%.

Non traditional KPI (7)



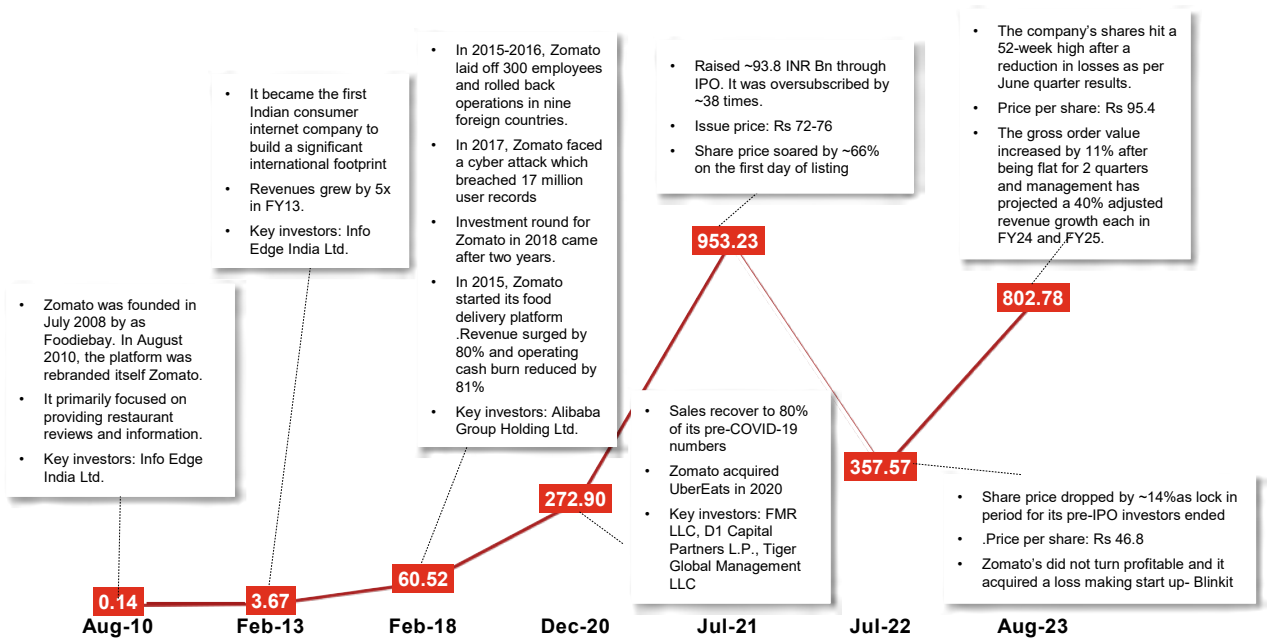
Source: Zomato's website

[7] *https://www.scribd.com/document/292041721/Zomato-Audited-Financial-Statements-Mar13 and FY14 onwards from S&P Capital IQ and VCC Edge*

[8] *https://www.zomato.com/investor-relations/financials*

Zomato Funding Story

Zomato's Pre-money Valuation (INR Bn)



[9] *Source: VCC Edge, S&P Capital IQ and news articles*

3. NYKAA- Revolutionizing beauty industry

[10] Nykaa is a prominent Indian e-commerce platform founded in 2012 by Falguni Nayar. Specializing in beauty and wellness products, Nykaa offers a diverse range of cosmetics, skincare, haircare, and fragrances. It is India's leading lifestyle focused consumer technology platform.

Source: Code brew labs website article- timeline chart

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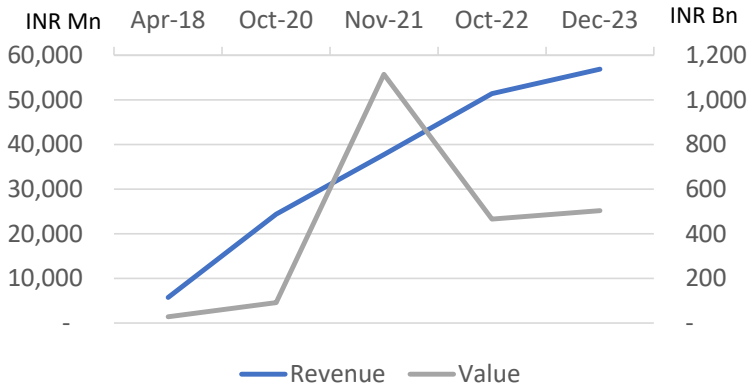
[9] *VCC Edge, S&P Capital IQ and sources listed below:*

1. *https://techcrunch.com/2015/10/16/restaurant-search-app-zomato-lays-off-300-10-of-staff-in-shift-away-from-live-data-collection/*
2. *https://blog.zomato.com/uber-eats-india*
3. *https://www.zeebiz.com/markets/stocks/news-zomato-share-price-nse-today-q1-quarterly-results-target-news-zoom-nearly-14-to-hit-52-week-high-after-reporting-profit-for-the-first-time-since-listing-247481*

[10] *https://www.code-brew.com/how-to-build-an-on-demand-app-like-nykaa-nykaa-business-model-features-cost/*

[11] The "Nykaa Funding Story" chart shows an indicative overview of pre-IPO funding rounds and post IPO market capital movement. The Financial metrics and KPI charts (refer charts (10) and (11)) show an upward trajectory in revenue and KPIs. Nykaa has consistently experienced an escalation in valuation till pre-IPO. According to information from publicly available sources, this valuation surge is primarily ascribed to non-financial KPIs (such as gross merchandise value (GMV) and annual unique transacting customers) and the company's perceived future potential.

Financial metrics (10a)

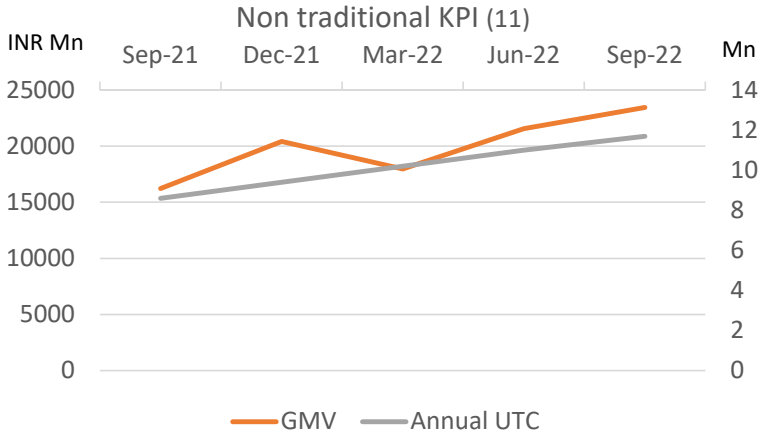


Source: S&P Capital IQ, Screener and VCC Edge

Financial metrics (10b)

Source: S&P Capital IQ, Screener and VCC Edge

Non traditional KPI (11)



Source: Investor presentation (Q2 2022)

[11,12] Source

[11] https://www.screener.in/company/NYKAA/consolidated/ and FY19 onwards from S&P Capital IQ and VCC Edge.

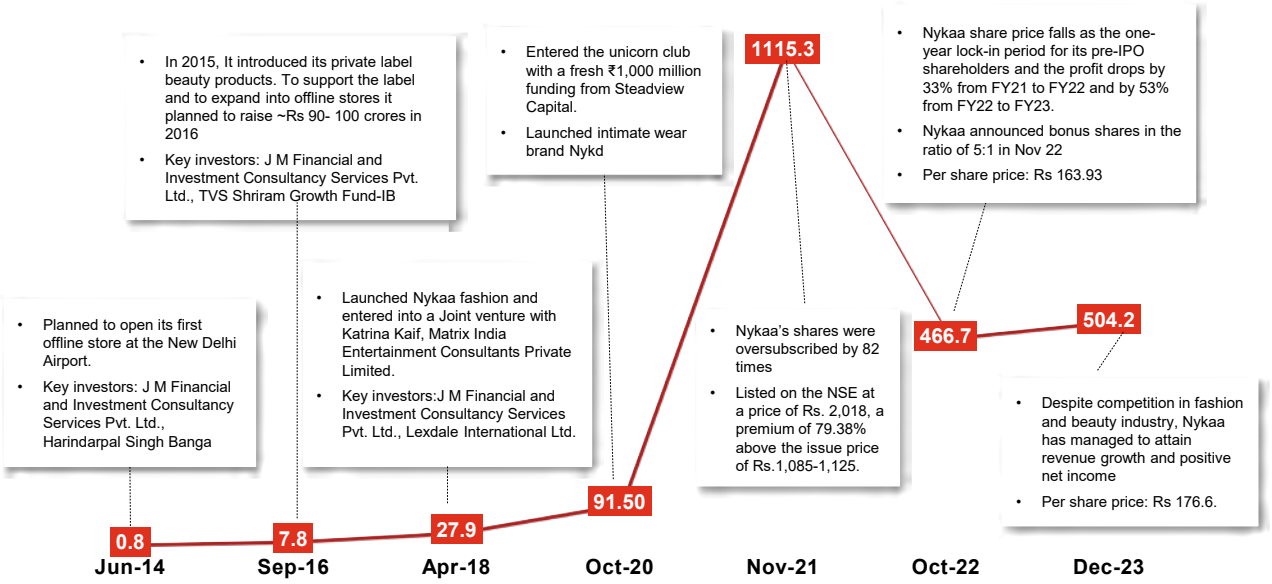
[12] https://www.nykaa.com/media/wysiwyg/2021/Investors-Relations/pdfs/presentation/Investor-Presentation-Q2.pdf

Over 88% of the IPO was offered for sale indicating that it was primarily aimed to provide exits to early-stage investors. TPG Capital made ~16x return on its initial investment. Other institutional investors like Lighthouse Advisors made close to ~23x and Steadview Capital made ~13x returns. Nykaa recorded its first and highest profit in the financial year immediately before it got listed (being FY 2021). Subsequently, its profits have decreased by ~33% from FY21 to FY22 and ~53% from FY22 to FY23 (Source: Outlook India, Economic Times and CapitalIQ).

Listing at a valuation of ₹111,530 crore in November 2021, Nykaa's current market capitalization stands at ₹42,074.09 crore as on 26 December 2023. The exact percentage decline on which market capitalization stands somewhere between 55% and 63%. from its listing valuation leading to erosion of investor wealth.

Nykaa Funding Story

Nykaa's Pre-money Valuation (INR Bn)



[13] *Source: VCC Edge, S&P Capita IQ, news articles*

[13] *VCC Edge, S&P Capital IQ and sources listed below:*

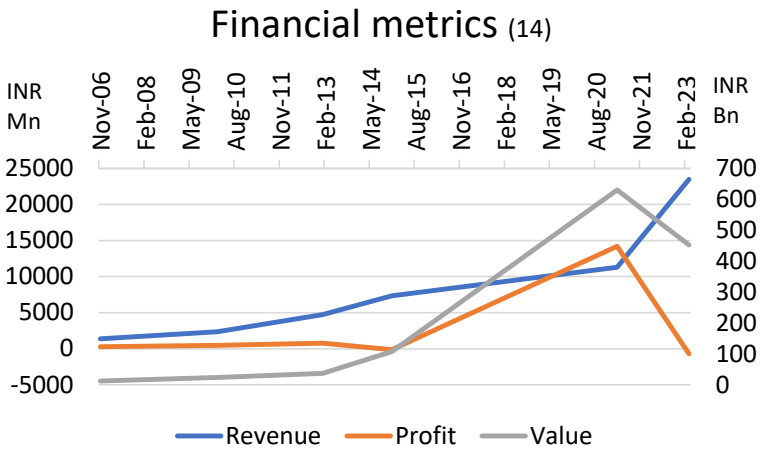
1. *https://www.livemint.com/Companies/LM5XPiYTUKunXMlskVrjML/Nykaa-looks-to-raise-Rs-100-crore-expand-private-label-offe.html*
2. *https://yourstory.com/2014/07/nykaa-com-raises-3-5-million-for-expansion*

4. INFOEDGE- Trailblazer in Indian tech space

[14] Info Edge India Limited, founded in 1995 by Sanjeev Bikhchandani, is a trailblazer in the Indian online space. The company started with a focus on creating a platform for job seekers and recruiters, giving birth to Naukri.com. Over the years, Info Edge diversified its portfolio, into various sectors such as real estate (99acres.com), matrimony (Jeevansathi.com), edu cation (Shiksha.com), etc. It has emerged as a key player, continually adapting to market dynamics. The company's strategic investments in promising startups, such as Zomato, PolicyBazaar, and others, showcases its foresight.

Source: InfoEdge Website: timeline chart

The "InfoEdge Funding Story" chart shows a representative overview of pre-IPO funding rounds and post IPO change in market value of Info Edge, spanning from the inaugural round in April 2000 to Oct 2023. Notably, the company has consistently experienced an escalation in valuation till October 2021 due to its upward trend in traditional KPIs and non-financial KPIs and its perceived future potential. The Financial metrics chart (refer charts (14) and (15)) shows an upward trajectory in revenues, profit and value. Non-traditional KPIs i.e., market share and traffic share for the period January 2005-July 2006 (refer charts 15[15,16]) demonstrate growth potential in the initial years. Concurrently, there is a subsequent ascent in the value of the company from November 2006 to August 2020. Baring a couple of months in 2009, Info Edge's share price has not fallen below its listing price i.e. InfoEdge's share price has had an upward trajectory in tandem with its revenue and profits (refer charts 14 and 15).



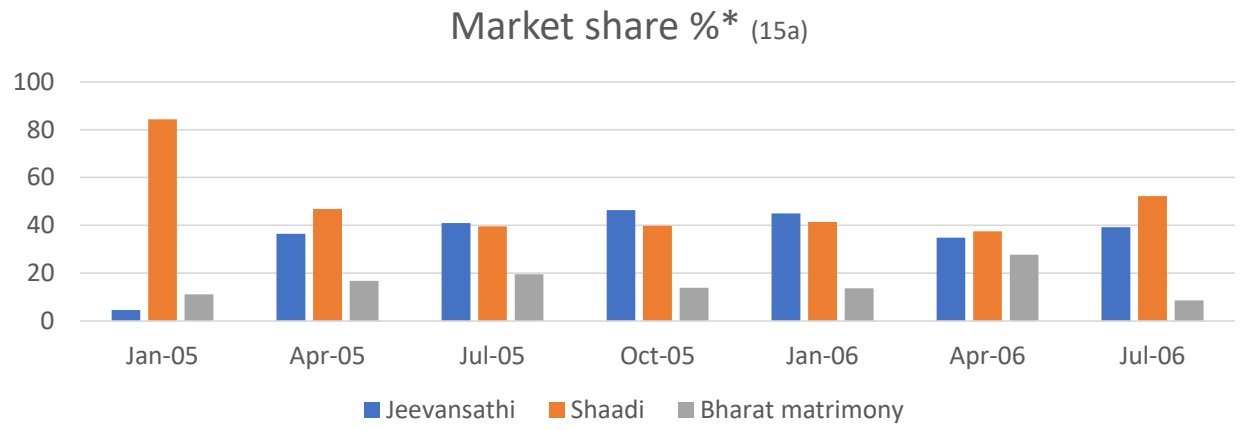
Source: S&P Capital IQ and VCC Edge

[14] *https://www.infoedge.in/About/Milestones*

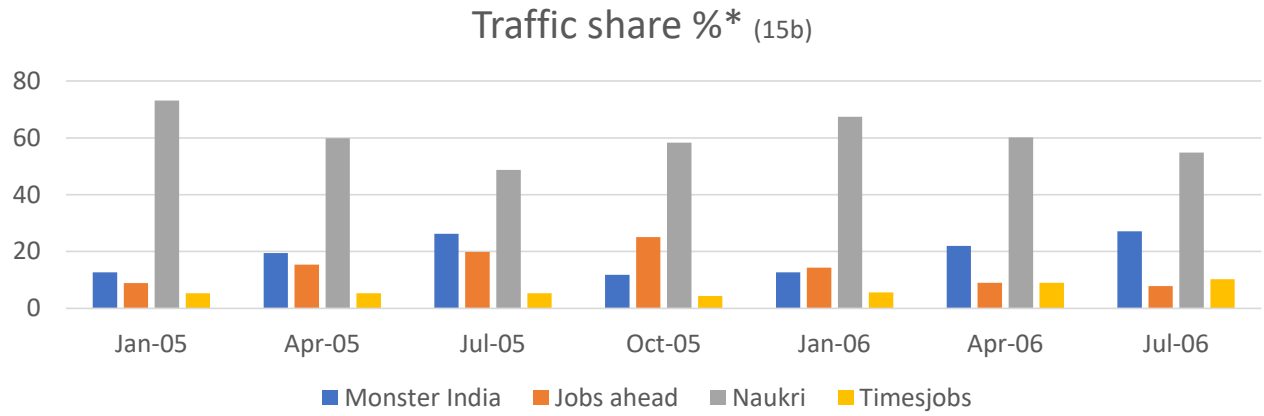
[15] *S&P Capital IQ and VCC Edge*

[16] *https://www.online.citibank.co.in/portal/co/InfoEdge_DRHP.pdf*

As can be observed, InfoEdge's market capital reduced post 2021. This was attributed to losses incurred by InfoEdge due to write downs of its investments in start-ups.

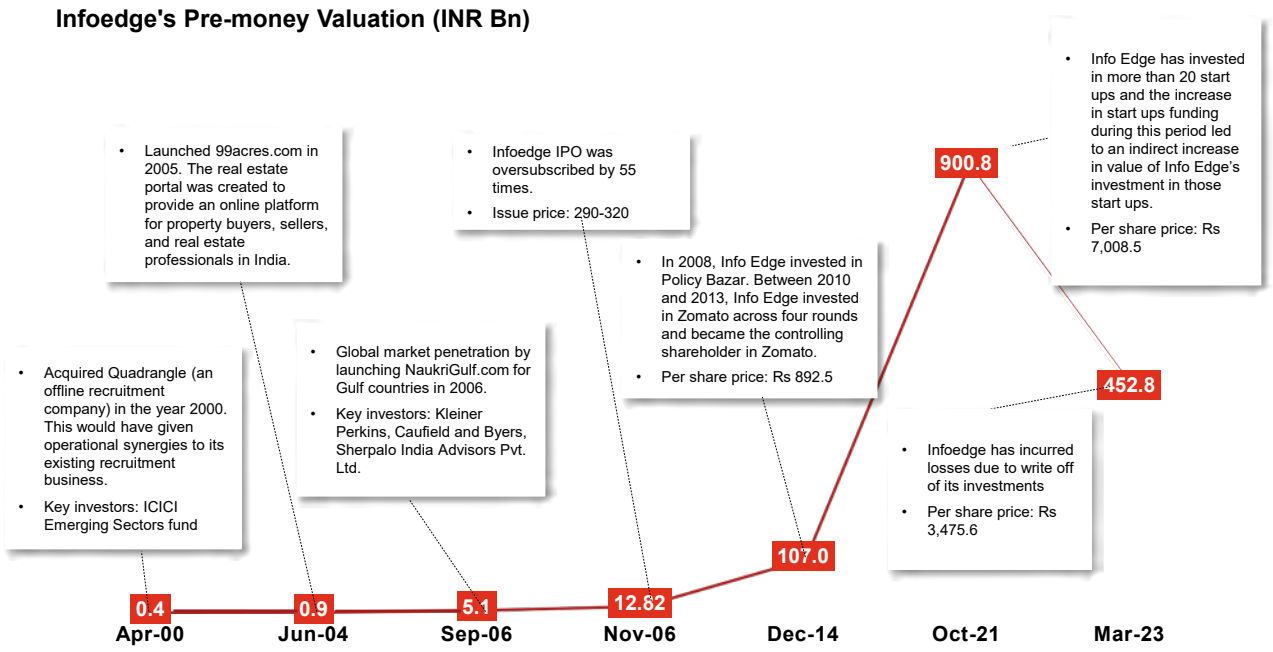


**Market share (%) of average number of web pages visited by unique visitors during a month*
Source: Prospectus of Infoedge



**Traffic share (%) – Average page views of unique visitors during a month*
Source: Prospectus of Infoedge

Infoedge – Funding story



[17] *Sources: VCC Edge, S&P Capital IQ, and news articles*

5. Emerging themes

Based on the case studies presented above and the information available in the public domain we observe the following:

Key emerging trends

General upward trend/ escalation in value pre-IPO

It is observed that institutional investors are often drawn to invest in startups, driven by the desire to partake in India's growth narrative. Consequently, the reliance on industry estimates and the prevailing optimism regarding the growth potential assumes a crucial role in the successive valuation increments observed in each funding round. This results in escalation of value in pre-IPO funding rounds which is primarily attributed to non-traditional KPIs such as website traffic, GMV, no. of active customers/ users, expected revenue growth, development/ ownership of intellectual property, achievement of key milestones, etc. However, the acquisition cost of customers and cost of achieving revenue growth is very high, due to which even though the revenue increases, the bottom line continues to stay in the red.

[17] *VCC Edge, S&P Capital IQ and sources listed below:*

1. *https://www.indiainfoline.com/company/info-edge-india-ltd/summary/18844*
2. *https://en.wikipedia.org/wiki/Info_Edge*

Higher weightage to fundamental performance and turnaround of key traditional KPIs

As can be observed from the various charts above:

- **Trends pre-IPO**: Escalation of value, high growth in revenue and improvement in non-traditional KPIs, increasing trend in losses.
- **Trend post IPO**: Despite similar trend in revenue and improvement in non-traditional KPIs as pre-IPO, NATCs which have no clear visibility / foresight of profit have witnessed reduction in value. Improvement in value / market capitalization was witnessed only with improvement in profitability and overall fundamental performance

This emphasizes the inherent risks associated with investing in high-growth, loss-making ventures and the relatively higher weightage being accorded by the market participants to the NATC's fundamental performance/ traditional key performance indicators despite aggressive growth optimism.

Basis for IPO price

The prospectuses of these NATCs state that the offer price is determined based on prior funding rounds but do not provide information on the price and underlying terms of these previous valuation rounds. Further, there does not appear to be sufficient basis disclosed for arriving at the proposed price band for listing such as details of prior funding rounds, comparable market transactions, company's key financial and non-financial metrics considered while arriving at the price band, company's expected performance in terms of growth, expected period for breakeven, etc. This lack of detail introduces opacity for retail investors. Enhancing transparency in the prospectus by elucidating the basis underlying the proposed price band, would better inform the retail investors and bridge the information disparity gap for retail investors.

CHAPTER

03

"The evolution of India's start-up landscape has been marked by the rapid ascent of numerous tech unicorns, reshaping industries ranging from food to travel and payment systems."

Consultation Paper for Disclosures for 'Basis of Issue Price' Section in Offer Document Under SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018

(HEREAFTER REFERRED TO AS 'CONSULTATION PAPER')

Objective 01

In February 2022, Securities and Exchange Board of India issued a Consultation Paper on disclosures for "basis of issue price" section in offer documents. The Consultation Paper was published with the intent of having better transparency and understanding of the basis of determining issue price by companies with limited financial or profitable track record.

Current Regulatory Framework

02

As per the Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) Regulations, para 9(K) of Schedule VI, an issuer is required to make disclosure of critical accounting ratios such as:

i. Earnings Per Share and Adjusted Diluted Earnings Per Share, pre-issue, for the last three years (as adjusted for changes in capital).

ii. Price to Earnings ratio in relation to the issue price.

iii. Average Return on Net Worth in the last three years.

iv. Net Asset Value per share based on the last balance sheet.

v. Net Asset Value per share after the issue and comparison thereof with the issue price.

An illustrative format of disclosure in respect of the basis for issue price as per the regulation is given hereunder:

01 Adjusted Earnings Per Share (EPS) and Adjusted Diluted EPS

a) Financial Year 1
b) Financial Year 2
c) Financial Year 3
d) Weighted Average

02 Price to Earnings Ratio (P/E) in relation to Issue Price

Based on Financial Year 3 EPS
Industry P/E

a. Highest
b. Lowest
c. Average

03 Return on Net Worth

a) Financial Year 1
b) Financial Year 2
c) Financial Year 3
d) Weighted Average

04 Net Assets Value

a) As at last day of Financial Year 3
b) After issue
c) Issue price

Formula or the basis for calculation of these financial ratios should also be disclosed.

a. A comparison of the financial and accounting ratios between the issuer and its peer companies operating in the same industry and of similar size should be provided. The financial information of the peer companies should be extracted from their regulatory filings. One should maintain consistency in the comparison of the financial and accounting ratios between the issuer and the peer companies. For example, if consolidated financial statements are considered for the issuer, then consolidated financial statements of peer companies should be considered. The sources of obtaining the financial information of peer companies should be indicated.

b. The accounting ratios should be calculated considering the expanded capital base resulting from compulsory conversion of financial instruments outstanding and options yet to be exercised. A justification of the issue price should be provided after considering the impact of dilution on the financial and accounting ratios.

c. In case of a book-built issue, the following statement shall be added:

> *"The price band/floor price/issue price has been determined by the issuer in consultation with the lead manager(s), on the basis of book-building."*

d. In case of a fixed price issue, the following statement shall be added

> *"The issue price has been determined by the issuer in consultation with the lead manager(s) and justified by the issuer in consultation with the lead manager(s) on the basis of the above information."*

Though traditional factors as mentioned above are relevant for companies with strong financial track record, for the NATCs these parameters for 'basis for issue price' seemed to fall short. Thus, these parameters may not aid investors in taking investment decision w.r.t. loss making issuers.

Therefore, the need for additional disclosures in the "Basis of Issue Price" section, for companies with limited financial track record is required.

3. Issues and deliberations:

Investors have shown a keen interest in the Initial Public Offerings ('IPOs') under Regulation 6(2) of ICDR Regulations for companies not having track record / not having operating profit in preceding three years.

The NATCs generally remain loss making for a longer period before achieving break-even as these companies focus on scaling quickly rather than on profitability in their growth phase.

Investors typically invest in these NATCs taking into consideration that the profitability in the short run will be sacrificed in the quest to scale up the operations and eventually dominate the industry segment in which the issuer is operating. NATCs typically scale up operations by expanding in the micro markets, acquiring new customers/companies/technologies. These companies expect to become profitable after they have been able to gather critical mass.

It has been observed that globally, IPOs follow a disclosure-based regime and prohibit any future projections for marketing of the issue. Thus, basis of issue price is based on following factors:

a. Traditional financial parameters such as Price to Earnings ratio, Net Asset Value etc.;

b. Trends in Key Performance Indicators ('KPIs') over the past years;

c. Valuations done at the earlier rounds of fund raising;

d. Market conditions.

The current requirements of the 'Basis of Issue Price' mainly focus on the traditional financial and accounting ratios. NATCs rely on unconventional KPIs during private placements to provide an insight to potential investors on their prospective growth opportunities. Therefore, the need for additional disclosures in the "Basis of Issue Price" section, by NATCs to provide additional insights to retail and institutional investors.

Accordingly, the above issues were examined & deliberated by a sub-group of the Primary Market Advisory Committee ('PMAC') of SEBI. Subsequently, the PMAC proposed the recommendations as mentioned below which could be considered by SEBI pursuant to a public consultation.

4. Disclosures for 'Basis of Issue Price' Section in Offer Document (As Set Out in the Consultation Paper)

4.1. Basis of Issue Price - Key Performance Indicators (KPIs):

Apart from disclosing the financial ratios as per the requirements, the issuer company shall also make the disclosures on the KPIs of its business that have been considered / have a bearing for arriving at the basis of issue price.

The issuer shall provide:

i. Disclosure of the KPIs typically considered by investors to evaluate companies like the issuer including the KPIs prevailing during three years prior to the IPO along with explanation on how they have been historically used to analyze, track, and monitor performance.

ii. The disclosure of the KPIs should be for the same periods as the financial statements included in the offer document.

iii. If the issuer considers some KPIs as irrelevant, then the issuer shall provide adequate explanation for considering those KPIs as not relevant with proper cross reference to a table disclosing the said KPIs.

iv. KPIs stated by issuer company shall be described and defined clearly, consistently and precisely. KPIs should not be misleading.

v. All KPIs to be certified / audited by statutory auditors.

vi. Comparison of KPIs with Indian listed peer companies and/ or global listed peer companies (wherever available), with explanations where comparison is not possible.

vii. Issuers must disclose updates, i.e. comparison over period for KPIs disclosed in the "Basis of Offer Price" section, with explanations for changes.

4.2. Basis of Issue Price - Past transfer(s) / allotment(s):

Disclosure may be required for the following:

1. Valuation of issuer company in case of secondary sale/ acquisition of shares (equity / convertible instruments) carried out 18 months prior to the date of filing of the Draft Red

Herring Prospectus/Red Herring Prospectus (DRHP/RHP), where the acquisition or sale was for more than 5% of the fully diluted share capital of the issuer in a single transaction or a group of transactions in short period of time.

2. Valuation of issuer company in case of primary / new issue of shares (equity / convertible instruments) carried out 18 months prior to the date of filing of the DRHP/RHP, where the *issue of shares was 5% or more of the fully diluted paid up share capital of the issuer (calculated on the pre-issue capital on the date of allotment) in a single transaction or a group of transactions in short period of time.

The disclosure of floor price and cap price being [■] times the weighted average cost of acquisition (WACA) based on primary/ secondary transaction(s) may be disclosed in the following manner:

Particulars	Floor Price Rs. [•]	Cap Price Rs. [•]
WACA* of Primary issuance in last 18 months#	[•] times	[•] times
WACA*of Secondary transactions in last 18 months#	[•] times	[•] times

*WACA – Weighted average cost of acquisition
#Equivalent or more than 5% of the fully diluted paid-up share capital [excluding employee stock options granted but not vested]

A detailed explanation would be required for offer price / cap price being [■] times of the primary issuance price / secondary transaction price (as stated in table above), as the case may be.

Scalability and innovation dimensions distinguish startups from their closest cousins, the SMEs.

The issue shall also provide a comparison of the Issuer's KPIs and financials ratios viz. EPS, P/E Ratio, return on net worth, Net asset value etc. for the last two full financial year and interim period (if any) included in the offer document which would enable the investors to have a comparative view of the KPIs and other financial ratios for the same period.

5. List of issues'

Transparency and understanding of the basis of determining issue price are of paramount importance to the investor community. Considering the implications on issuer company, investors and other market participants, public comments on the following matters are solicited via the Consultation Paper:

a) Is there a need for disclosure of KPIs in" Basis for Issue Price" section in offer documents by the issuer company?

b) If yes, whether KPIs should be certified / audited by: (a) statutory auditors only or (b) KPIs can also be certified / audited by independent Charted Accountant?

c) Whether a 3 year look back period for KPIs is adequate? Any suggestions on increasing / decreasing this look back period? Any other suggestions on this point?

d) Whether comparison with global peers would be appropriate as some of the KPIs would be relevant for that country/ economy they operate in. If yes, whether issuer should make comparison with global peers with appropriate notes to explain such differences?

e) Whether 18 months look back period for past transactions and disclosure of valuation based on such transactions adequate? Any suggestions on increasing / decreasing this look back period?

It will be worthwhile to note that the conclusion on this matter is pending and SEBI is yet to formally notify the outcome of the Consultation Paper in any public forum. At the same time, the public interest in listing/ investing of NATCs is at an all-time high and the need of the hour is public guidance retail/ institutional investors. This needs wider public deliberation before implementation.

CHAPTER

04

Once again, startup valuations take the center stage amidst globally uncertain and turbulent macroeconomic times.

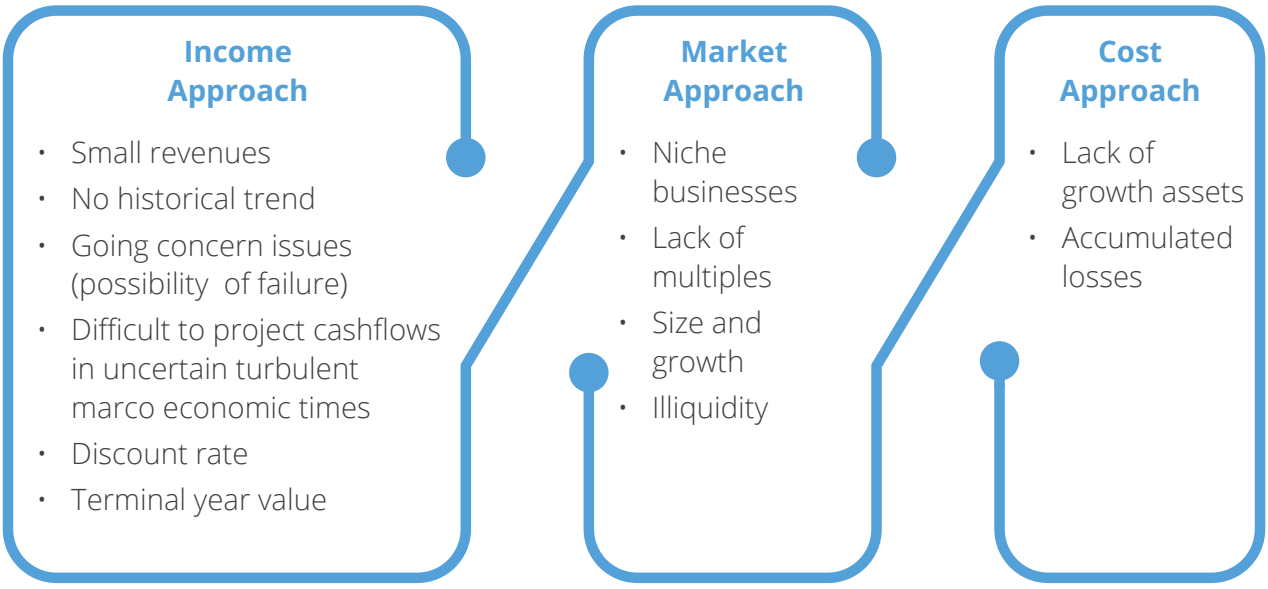
Valuation of New Age Technology Companies (NATCs)

Traditional Valuation Approaches & Methodologies and Challenges in Valuing NATCs

The entrepreneurial bug seems to have bitten India hard. "Valuations", "startups", "equity", "funding", "run rate", etc. are terminology used and understood with ease by folks from all walks of life and not only finance or management professionals.

Since the funding winter had worsened in 2023, it becomes increasing interesting to see how many more new unicorns are minted in 2024, in India and globally, and how investors reevaluate their parameters to gauge the startups' valuations. Once again, startup valuations take the center stage amidst globally uncertain and turbulent macroeconomic times.

By its very nature, valuation is not an exact science, and more so for valuation of startups, which have their own set of challenges as set out below.



In the early stages, NATCs as such usually have negative but growing cash flows, limited or no historical financial data and forecasts, and often their proof of concept has not been developed yet. For that reason, the traditional approaches such as income approach, market approach or net assets approach, which are used in determining the business value/the equity value, are not helpful because the early-stage companies do not have the financial performance indicators necessary for the application of those traditional approaches.

NATCs as such usually have negative but growing cash flows, limited or no historical financial data and forecasts, and often their proof of concept has not been developed yet.

Hence, the non-traditional approaches and methods of valuation as described below may be used for the valuation of NATCs. It is pertinent to note that in practice, these methods may have to be considered in corroboration with the traditional methods of valuation.

Non-traditional Valuation Approaches & Methodologies and Their Impact

An important consideration in deciding the valuation approach to be used for the valuation of NATCs is the "stage of development" of the NATCs. Below are the various stages of development a company goes through:

Characteristics	Idea/ seed	Seed/ start-up	Early growth	Expansion	Sustainable growth
Cash flows	NA	Only negative	Negative (but increasing)	Positive (growing at a decreasing rate)	Stable
Proof of concept	x	x	✓	✓	✓
Historical data	x	x	Limited	✓	✓
Forecast data	x	Limited	Limited	✓	✓

With limited historical financial information and uncertain forecasts, qualitative elements play a significant role in startup valuations. Indicators as management experience, customers and revenue, defined target group or a viable product are taken into account in the valuation process.

There are the following valuation methods, which are often used in practice and applied to value startups at different stages of lifecycle. Valuation practitioners may often use a combination of these methods, based on the stage of development, availability of data and considering other practical limitations:

1. Berkus Method

Developed in the early 1990's by David Berkus, an American angel investor and venture capitalist, the Berkus method of valuation may be used to value pre-revenue start-up companies, particularly technology companies. The Berkus method does not require an analysis of the projected cashflows of the company except to the extent that the valuer believes in the potential of the company to reach a revenue of over USD 20 million by the fifth year of its business.

The Berkus method is based on a detailed analysis 5 critical elements of a start-up:

a. **Soundness of the business idea:** An evaluation of the basic premise of the products and services the company plans to offer, their utility and the probability of acceptance by the market. The following is an illustrative list of factors which may be considered for the evaluation of the soundness of the business idea of a NATCs valued using the Berkus method:

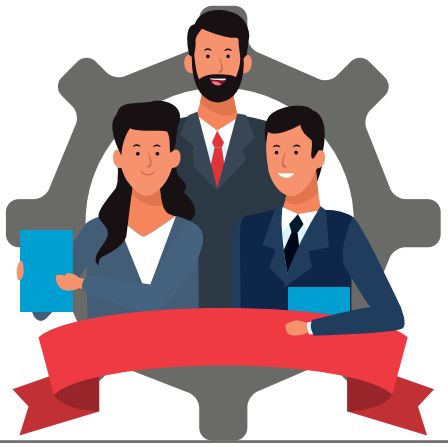
- Uniqueness of the products/ services offered vis-à-vis the products and services existing in the market;
- Expected market sentiment;
- Acceptance and utility of the products and services by the ultimate users;
- Total addressable market for the products and services;
- Scalability of the business idea;
- Potential to increase the product/ service line in the future;
- Strategy for customer acquisition and monetization of the products and services, including the path to profitability;
- Impact and sustainable development goals.

b. **Prototype:** An evaluation of the prototype product/ service developed by the company before it is rolled out to the end users. This evaluation enables valuers/ investors to evaluate the technological risk of the NATCs through the understanding of the identified problems in the products and services. An illustrative list of the factors that may be considered for the evaluation of the prototype of a NATCs are as under:

- Evaluating the functionality of the product/service considering the core features, reliability, and integration with other products/ services;
- Feedback received during the beta test by developers;
- Data privacy, compliance and cybersecurity assessment, with existing regulations;
- Adaptability to change, including the costs involved for change;
- Availability of solutions to the identified problems with the prototype;
- Data accessibility and potential to use big data for insights, decision-making, and creating value for its customers and stakeholders;
- Regression testing.

c. **Quality management team:** An evaluation of the management team of the company to evaluate the execution risk of the company. An illustrative list of factors that may be considered for the evaluation of the quality of the management team of a NATCs is as follows:

- Industry experience and domain knowledge of every member of the management team;
- Track record of the management;
- Decision making abilities;
- Risk and crisis management abilities;
- Corporate governance practices;
- Transparency of communication with the stakeholders.



d. Strategic relationships: An evaluation of the relationship of the company with the overall market and the competition. An illustrative list of factors that may be considered for evaluating the strategic relationships of a NATCs are as under:

- Evaluation of the competition, its products, and its eventual impact on the business of the target NATCs;
- Collaboration of the NATC's products/ services with the other companies operating in the market;
- Digital synergies and integration of the products/services with the broader ecosystem;
- Impact of the company's products and services in social network and other communities and the perceived image of the company;
- Supply chain integration includes the partnerships with manufacturers, distributors, and logistics providers, and the impact on operational efficiency.

e. Product rollout and sales: An evaluation of the plan for the rollout of the final products/services to the users and the sales strategy of the company. It is an evaluation of the financial and production risk of the company. An illustrative list of factors that may be considered for evaluating the product rollout and sales strategy for a NATCs are as under:

- Customer acquisition strategy;
- Marketing strategy;
- Pricing strategy;
- Target audience.

The Berkus method assigns a maximum value of USD 500,000 for each of the 5 elements listed above. Accordingly, a perfect score for each of the elements listed above would yield a value of USD 2.5 million for the start-up.

While the original matrix of the Berkus method considered the above-mentioned critical elements with a value cap for each element, David Berkus has updated the Berkus method

Berkus method is not applicable once the company has earned revenue.

to mention that the original matrix is a suggestion rather than a rigid form. Hence, the Berkus method is flexible enough for its users to use a maximum valuation they are willing to accept in a perfect situation. The method further allows for updating the above-mentioned critical elements to adapt to the target company. For example, a medical device startup might replace product and rollout and sales with regulatory approval risk.

It is pertinent to note that the Berkus method is not applicable once the company has earned revenue.

Below is an illustration of the application of the Berkus method:

Consider a hypothetical entity, XYZ Limited, a pre-revenue start-up NATCs which plans to roll out its own AI-based chat bot. Subject to the expectation of XYZ Limited achieving a revenue of USD 20 million by the fifth year of its business, an investor/ valuer will value XYZ Limited using criteria mentioned above as under:

Criteria	Maximum value attributable (USD) *	Value attributed (USD)
Soundness of the business idea	500,000	400,000
Prototype	500,000	250,000
Quality management team	500,000	350,000
Strategic relationships	500,000	300,000
Product rollout and sales	500,000	300,000
Total	2,500,000	1,600,000

**Flexible based on industry and geography of the target*

The Berkus method can be used in the valuation of NATCs because of the following factors:

a. It emphasizes and captures the value of the technology which is foundation for the success of any NATCs start-up.

b. It is applicable to the pre-revenue start-ups where no financial history is available.

c. It considers the critical value drivers/ factors which determine the value of a NATCs start-up which cannot be captured through the traditional approaches of valuation.

d. It can be applied to companies operating in niche market segments with limited/ no comparable companies.

e. It can be used to complement other methods of valuation, including the traditional methods of valuation and give a more comprehensive view of the valuation.

In summary, the Berkus Method is a simple yet effective tool for early-stage start-up valuation. While it may not be suitable for mature companies with extensive financial histories, it provides a structured approach for assessing the potential of new-age startups, especially those in industries driven by innovation and intellectual property. However, it is important to use this method in corroboration with the other methods of valuation since this method involves a high level of judgement in assigning value to the parameters and unique characteristics of the target company for the valuation.

2. Cost-to-duplicate approach

The cost-to-duplicate approach method looks at the costs and expenses of a startup and the development of its products and calculates how much it would cost to replicate the same business. To use this method to determine the value of a NATCs, you add up the fair market value of a company's tangible assets. All such costs are considered to determine the startup's fair market value since an investor will not invest more than what it will take to duplicate the startup.

For example, you may include the costs for a software company's prototype development and research, to value the software company under cost-to-duplicate method.

This approach considers all resources, at fair value, which are required to commence a similar business as the startup. It is suitable for valuation of cases where future financial performance is difficult to forecast.

This method doesn't consider the company's future earnings potential and growth or critical intangible assets, such as brand value, goodwill and intellectual property.

Consider combining it with other qualitative methods for optimal results in valuation.

3. Scorecard method

Developed by Bill Payne, the Scorecard method values a company by an evaluation of the value drivers of the target company relative to the similarly funded companies. The following are the steps involved in the valuation of a target company using the Scorecard method:

Step 1: Compute the average pre-money valuation of comparable companies in the same geographical region and industry as the target company.

Step 2: Evaluate the weights to be allocated to the target NATCs (being valued) for the value drivers. Below are the value drivers to be evaluated together with the weights for each value driver, as recommended by Bill Payne:

Value driver	Weight
Strength of the management team	Up to 30%
Size of the opportunity	Up to 25%
Product or service	Up to 15%
Competitive environment	Up to 10%
Marketing, sales channels, and partnerships	Up to 10%
Need for additional investment	Up to 5%
Others (as may be defined on a case-to-case basis)	Up to 5%

Step 3: Assign a score/ comparison percentage for every value driver mentioned in step 2 above relative to the comparable companies considered in step 1. If the target company is at par with the comparable companies, a factor of 100% is assigned. If the target company is relatively disadvantaged to the comparable companies, a score of less than 100% is assigned. If the target company has an advantage vis-à-vis the comparable companies, a score of more than 100% is assigned.

Step 4: Calculate the sum of the product of the score assigned to each value driver and its weight and multiply the sum with the average pre-money value derived in step 1, to arrive at the pre-money value of the target NATCs.

Below is an illustration of the Scorecard method of valuation:

Consider a hypothetical start-up NATCs, ABC Limited, a company provides financial services, including mobile payment solutions and point-of-sale hardware and software. An investor/ valuer would value ABC Limited using the Scorecard method as below:

Step 1: Compute the pre-money valuation of comparable companies.

Comparable companies	Valuation (USD)
L Limited	3,000,000
M Limited	5,000,000
N Limited	6,000,000
O Limited	4,000,000
P Limited	1,000,000
Q Limited	5,000,000
Average (USD)	**4,000,000**

Step 2: Determine the weights for the value drivers.

Value driver	Weight
Strength of the management team	30%
Size of the opportunity	25%
Product or service	15%
Competitive environment	10%
Marketing, sales channels, and partnerships	10%
Need for additional investment	5%
Others (Regulatory framework and possible changes)	5%

Step 3: Assign a score for every value driver.

Value driver	Score
Strength of the management team	150%
Size of the opportunity	100%
Product or service	120%
Competitive environment	80%
Marketing, sales channels, and partnerships	75%
Need for additional investment	80%
Others (Regulatory framework and possible changes)	100%

Step 4: Compute the value of the ABC Limited

Value driver	Weights (A)	Score (B)	(A) x (B)
Strength of the management team	30%	150%	45.0%
Size of the opportunity	25%	100%	25.0%
Product or service	15%	120%	18.0%
Competitive environment	10%	80%	8.0%
Marketing, sales channels, and partnerships	10%	75%	7.5%
Need for additional investment	5%	80%	4.0%
Others (Regulatory framework and possible changes)	5%	100%	5.0%
Total (C)			**112.5%**
Average pre-money value of peer companies (as computed in step 1) (USD) (D)			4,000,000
Value of ABC Limited (C*D)			**4,500,000**

The scorecard method of valuation of NATCs can be used because of the following factors:

a. Given the global nature of the NATCs and the adoption of business models by entrepreneurs that are successful in other countries, the Scorecard method can be applied to NATCs which have business models that are unique to a particular nation but have been successful in other countries.

To the strength of the management team, size of the opportunity and product or service, technology innovation, market trends, competitive landscape, and regulatory environment, strategic partnerships and alliances

b. The weights recommended by Bill Payne enable a valuer to assign a weight of up to 65% to the strength of the management team, size of the opportunity and product or service, technology innovation, market trends, competitive landscape, and regulatory environment, strategic partnerships and alliances, which are the most critical factors driving the value of a start-up NATCs given the unique nature of the business where an investor invests on the potential of a NATCs start-up entrepreneur. A valuer may use the factors impacting the valuation of NATCs as mentioned in the earlier section to analyze the position of the target company relative to the comparable companies.

High judgement is required not only in determining the weights to be assigned for qualitative value drivers, but also those required in assigning comparison percentage to determine advantageous or disadvantageous position of subject startup versus other peer funded startups. It can be used to complement the other methods of valuation, including the traditional methods of valuation and give a more comprehensive view of the valuation.

4. Risk Factor Summation Method

Developed by Ohio Tech Angels, the Risk Factor Summation ('RFS') Approach involves similar analysis as the Scorecard Valuation Method, with a differentiation that RFS Approach considers a deeper and holistic risk factor evaluation and comparison vis-à-vis peer companies making the analysis more nuanced.

The RFS method involves assessing various risk factors associated with a business or investment and assigning a numerical score or weight to each factor. These factors are then summed up to arrive at a total risk score, which can be used to inform investment decisions or valuations. The idea is to quantify and incorporate the impact of risk into the valuation process. The higher the risk score, the higher the perceived risk, and potentially the lower the valuation. The following are the steps involved in the valuation of a target company using the RFS method:

Step 1: Compute the average pre-money valuation of comparable companies in the same geographical region and industry as the target company.

Step 2: Consider the standardized list of risk factors as mentioned below in relation to the target, its peers, and the industry:

- i — Management
- ii — Stage of business
- iii — Political risk
- iv — Supply chain or manufacturing risk

Assign a score/ rating to each of the risk factors mentioned above for the target company relative to the comparable companies within a range of -2 to +2, both inclusive. A positive score indicates a higher risk mitigation by the target company relative to the comparable companies and hence a higher value, and vice versa. A nil/ zero score indicates the same level of risk as the comparable/ peer companies. Every unit of score requires an adjustment of USD 250,000 to the pre-money valuation of the comparable companies derived in step 1.

Step 3: Sum up all the scores to derive the total risk score. Multiply the total risk score by USD 250,000 to arrive at the total adjustment required. Add/ subtract the total adjustment derived to/ from the pre-money valuation arrived at in step 1 to arrive at the value of the target company.

Below is an illustration of the RFS method of valuation:

Consider the hypothetical start-up NATCs, ABC Limited considered in the illustration for the Scorecard method of valuation. An investor/ valuer would value ABC Limited using the RFS method as below:

Step 1: Compute the pre-money valuation of comparable companies.

Comparable companies	Valuation (USD)
L Limited	3,000,000
M Limited	5,000,000
N Limited	6,000,000
O Limited	4,000,000
P Limited	1,000,000
Q Limited	5,000,000
Average (USD)	**4,000,000**

Step 2: Assign a score to the standardized set of risk factors relative to the peers.

Risk factor	Score
Management	+1.5
Stage of business	0.5
Political risk	0
Supply chain or manufacturing risk	-0.5
Sales and marketing risk	-0.5
Funding risk	0
Competition risk	0
Technology risk	1.0
Litigation risk	-1.0
International risk	1.0

Reputation risk	0.5
Exit value risk	-1.0
Risk factor summation (Total)	1.5

Step 3: Compute the value of the ABC Limited

Particulars	Score
Average pre-money value of peer companies (as computed in step 1) (USD)	30%
Risk factor summation (as computed in step 2)	25%
Value of ABC Limited	6,000,000

The meritorious and demeritorious aspects of this method are keenly similar to those of the Scorecard method of valuation. The RFS method encourages a systematic and comprehensive consideration of various risk factors. In the context of NATCs, this can be valuable as technology companies often face a wide range of risks, including technological obsolescence, regulatory changes, market competition, and intellectual property concerns.

However, due to the high judgement in determining the scores to be assigned for qualitative value drivers this method should be used as a complement to the other methods of valuation, including the traditional methods of valuation for a more comprehensive view of the valuation.

5. Venture Capital Method

The Venture Capital Method ('VC Method') is a widely used method for the valuation of early-stage companies, especially in the context of venture capital investments. The VC Method considers the exit value of the investment and the expected rate of return from the investment as the primary basis for the valuation. Hence, the VC Method can also be applied to the valuation of start-up NATCs which are at a pre-revenue stage. Following are the steps involved in VC Method of valuation:

Step 1: Estimating the exit value/ terminal value of the investment

The VC Method requires a valuer/investor to determine the year of exit (through IPOs, M&A, secondary transactions, etc.). The exit value is determined by capitalizing a financial metric (e.g. earnings, revenue, EBITDA, etc.) for the industry of the target company. The expected revenue/

earnings/EBITDA at the time of exit are capitalized using the valuation multiples for the peer companies.

The valuation multiples of the listed peer companies and those of the unlisted peers are used to determine the exit value. However, it is essential to consider appropriate adjustments to the multiples of the peer companies to account for the differences in the size, risk profile and growth rate of the target company relative to the peers.

Step 2: Determination of the expected rate of return/ discount rate

The VC method uses the expected rate of return of an investor to discount the exit value/ terminal value computed in step 1 above to arrive at the post-money value of the target company. The expected rate of return is directly proportional to the risk of the target's business perceived by an investor.

Private equity and venture capital funds target rates of return that generally exceed the target rates of return expected to be generated by investments in publicly traded equity investments. This higher target rate of return is intended to compensate the fund for the relative illiquidity associated with holding a position in a portfolio company for which no active market exists, and in turn to compensate the limited partner investors in the fund for the lack of liquidity of their investment, which often involves committing to a 10–12 year liquidation period or potentially even longer.

Venture capital funds, which tend to focus on earlier stage companies, may require an even higher target rate of return, which is intended to compensate the fund for the higher failure rates of earlier stage enterprises and the risks associated with developing a product or service and reaching a suitable market that can sustain a profitable a profitable business. Given the probability of experiencing losses across the portfolio, most venture capital investors focus on target rates of return rather than actual rates of return. Unless a venture investor operates with a sufficiently high target rate of return, the overall rate of return on the portfolio will not be sufficiently high to compensate for the many situations in which substantially all the investors' capital receives no return.

As a successful portfolio company advances through the various stages of development and the associated risk declines as milestones are achieved or as progress is made towards executing on a business plan, the target rates of return for an investment in a portfolio company would likely decline. The extent to which these return expectations would be adjusted over time would depend on many factors, including the industry, the competitive environment, the degree of technological or obsolescence risk, the track record of the portfolio company's management team and many other considerations.

Since most start-ups are equity funded, the expected rate of return will be the cost of equity of the company. However, where a start-up has also issued debt instruments, the expected rate of return should include the interest rate on debt instruments and be adjusted using the gearing/ leverage ratio of the startup.

Step 3: Discount the terminal value/ exit value using the expected rate of return.

The terminal value as computed in step 1 above is discounted using the expected rate of return as determined in step 2 above to arrive at the post-money value of the target company. The

expected investment by an investor is subtracted from the post-money value to arrive at the pre-money value of the target company.

Below is an illustration of the application of the VC method of valuation:

Consider a hypothetical start-up NATCs, LMN Limited, which develops batteries for electric vehicles with a potential for higher energy density and improved performance. An investor/ valuer would value LMN Limited using the VC method as below:

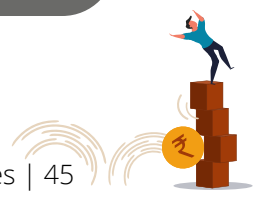
Step1: Determination of exit value for LMN Limited

Below are the expected equity value/ multiples of the comparable companies of LMN Limited as at the valuation date:

Comparable company	Equity value/ Revenue multiple (x)
A Limited	30%
B Limited	25%
C Limited	6,000,000
D Limited	6,000,000
E Limited	6,000,000
F Limited	6,000,000
Average multiple	6,000,000

Add/(less): Adjustments	
Expected growth of LMN Limited	6,000,000
Stage of business	6,000,000
Size of business	6,000,000
Adjusted average equity value/ revenue multiple	20.0x

Considering an investment horizon of 7 years and assuming a revenue of USD 30 million at the time of exit, the exit value is arrived at USD 600 million at the exit date.



Particulars	USD
Expected revenue at the exit date	30,000,000
Adjusted average equity value/ revenue multiple	20.0x
Exit value	600,000,000

Step 2: Determination of the expected rate of return/ discount rate

An investor/ valuer would use the expected rate of return on the investment for LMN Limited considering the expected risk perceived in this NATCs. Let us assume a hypothetical investor in LMN Limited would expect a return of 30% as compensation for the risk undertaken.

Step 3: Computation of the value of LMN Limited

Particulars	USD
Exit value (as determined in step 1)	600,000,000
Discount rate (as determined in step 2)	30%
Post-money value as at the valuation date	95,619,789.7

The VC Method can be used for the valuation of a NATCs because:

a. It can be applied to pre-revenue/ early stage NATCs companies with a detailed plan for revenue and profit generation. Many new age technology companies have non-traditional revenue models, such as freemium models, subscription-based services, or platform-based revenue. The VC method can adapt to these non-traditional models and evaluate their sustainability and growth potential.

b. The VC Method acknowledges the inherent risk and uncertainty associated with a company. Many new age technology companies operate with unconventional business models that may not fit neatly into traditional valuation frameworks. The VC method's adaptability allows for a more customized approach to capture the nuances of these unique business models.

c. The venture capital method aligns with the entrepreneurial and risk-taking culture of many technology start-ups. It acknowledges that these companies may prioritize market share and innovation over short-term profitability, and it values their potential to disrupt industries and create long-term value.

d. As technology companies progress through different growth stages, the VC method can be adapted to suit each stage, from early-stage startups to more mature growth companies. This adaptability makes it a versatile tool for valuing companies at various points in their lifecycle.

e. Key Performance Indicators (KPIs) that go beyond financial metrics, such as technology milestones, product development timelines, and market penetration goals, can be integrated into the VC method. This helps in assessing the company's progress and potential for achieving its strategic objectives.

A hybrid method which combines the discounted cashflow approach and the venture capital method.

While this method involves subjective assessment of a projected financial metric and the investor's ROI, it fails to consider some important non-financial value drivers such as strength of management team, level of competition, product scalability, etc.

6. First Chicago Method

The First Chicago Method of valuation is a hybrid method which combines the discounted cashflow approach and the venture capital method for the valuation of a company. The First Chicago Method can be used the valuation of early growth stage start-up companies having some operational history.

The First Chicago method considers three scenarios for the valuation of a target company:

Best case: a scenario in which the performance of the target company exceeds expectations.

Base case: a scenario in which the target company meets expectations.

Worst case: a scenario in which the performance of the target company is below expectations.

The steps involved in using the First Chicago method for the valuation of a company are as under:

Step 1: Determine the value of the target.

Determine the value of the company under the base case, best case and worst-case scenarios using the following process:

- Determine the expected cashflows in the explicit forecast period for the 3 scenarios.
- Determine the expected terminal value using the VC Method for the 3 scenarios.
- Determine the present value of the expected cashflows for the explicit forecast period and the terminal value, using an appropriate discount rate that captures the riskiness of the projections.

Step 2: Determine the weights for each scenario.

Determine the weightage to be given to each scenario based on its probability of occurrence.

Step 3: Compute the weighted average.

Determined the value of the target company by computing a weighted average value considering the weights for each scenario determined in step 2 and their corresponding values arrived at in step 1 above.

Below is an illustration of the First Chicago method of valuation:

Consider a hypothetical NATCs, PQR Limited, which is an aggregator of restaurants and provides food delivery services that connect customers with restaurants. An investor/valuer would value PQR Limited using the First Chicago Method as below:

Step 1: Determination of the value of PQR Limited

Expected cashflows	Year 1 (USD Million)	Year 2 (USD Million)	Year 3 (USD Million)	Year 4 (USD Million)	Terminal Value (using VC method) (USD Million)
Worst case	100.0	120.0	150.0	175.0	2,000.0
Base case	150.0	180.0	225.0	262.5	3,000.0
Best case	225.0	270.0	337.5	393.8	4,500.0

Particulars	Discount rate for explicit forecast period	Discount rate for terminal value
Worst case	15%	25%
Base case	20%	35%
Best case	25%	45%

Particulars	Sum of present value of cashflows in the explicit forecast period (USD Million) (A)	Present value of terminal value (USD Million) (B)	Total equity value (USD Million) (A+B)
Worst case	403.6	732.7	1,136.3
Base case	555.2	777.4	1,332.5
Best case	768.0	845.4	1,613.3

Step 2: Determined the weights for each scenario.

Based on the expected probability for the occurrence of each scenario, determine the weights to be given for each scenario.

Particulars	Weight
Worst case	20%
Base case	50%
Best case	30%

Step 3: Computation of the weighted average value

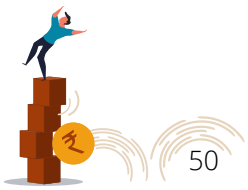
Scenario	Value (USD Million) (A)	Weights (B)	(A) x (B)
Worst case	1,136.3	20%	227.3
Base case	1,332.5	50%	666.3
Best case	1,613.3	30%	484.0
Value of PQR Limited (USD Million)			**1,377.5**

Given that the First Chicago method is hybrid approach which uses the discounted cash flows and the VC method of valuation, the First Chicago method can be used for the valuation of a NATCs start-up as it passes through the various stages of operations.

4.1 Practical aspect of valuation of NATCs

One may note that in practice traditional methods of valuation are typically adopted more often than not to value NATCs, despite unique challenges their adoption poses for the valuer.

Valua Comparable Transactions' Multiple Approach	Overview of method	Stage of operations	Merits	Demerits
Discounted Cash Flows (DCF) Approach	Fraught with challenges to forecast cash flows, this traditional valuation method is often used to value startups. Before adopting DCF for valuation purposes, some of the questions to be resolved are: • For how long the high growth period is expected to last? • Is there sufficient data to support the growth % projected in the forecast? • What will be the margins in the long term? • What discount rate shall the valuer adopt in the interim high/ moderate growth period vs that in perpetuity? In spite of the challenges listed above, valuers often adopt DCF for startup valuations by carrying out additional procedures to draw comfort on projected performance and make substantial modifications to discount rate and terminal growth rate.	Early growth, expansion phase and sustainable growth	Since this is a traditional valuation method, it is more widely accepted and has limited subjectivity. Additional procedures carried out by valuers on forecast give increased confidence on valuation outcome.	When forecasting gets difficult due to dynamic and ever-evolving startup ecosystem, this method may have limited relevance for valuation purposes.



Valua Comparable Transactions' Multiple Approach	Overview of method	Stage of operations	Merits	Demerits
Comparable Transactions' Multiple Approach	This traditional valuation approach is one the most commonly adopted valuation methods to value startups since it is based on some precedent benchmark. This method is effective only when there are other comparable startups operating in similar geography or industry segment as the target startup. Since these comparable companies operate in early growth or expansion phase or sustainable growth phase, they may attract VC/ PE investment and the multiples implied in such transactions can be a useful benchmark to value the target startup.	Expansion phase and sustainable growth	Since this is a traditional valuation method, it is more widely accepted and has limited subjectivity. It is most appropriate to adopt this valuation method when there are similar peer startup companies operating in market with measurable performance metrics.	When minimal operating comparable companies or transactions therein are available, this traditional method cannot be applied for startup valuations.

It will be imperative to note that negotiations play a significant role in eventual valuation of the target startup and valuation attributable to different investments categories may differ depending upon characteristics such as liquidation preference, participation rights, conversion terms, etc.

The First Chicago method can be used for the valuation of a NATCs start-up as it passes through the various stages of operations

Risk-return expectations of investors lead to higher discount rates for start-ups

Stage of development	Plummer	Scherlis & Sahlman	Sahlman, Stevenson, & Bhide
Startup	50%-70%	50%-70%	50%-100%
First stage or early development	40%-60%	40%-60%	40%-60%
Second stage or expansion	35%-50%	30%-50%	30%-40%
Bridge/ IPO	25%-35%	20%-35%	20-30%

- Start-up-stage investments typically are made in enterprises that are less than one year old. The venture funding is to be used substantially for product development, prototype testing, and test marketing.
- Early development-stage investments are made in enterprises that have developed prototypes that appear viable and for which further technical risk is deemed minimal, although commercial risk may be significant.
- Enterprises in the expansion stage usually have shipped some product to consumers (including beta versions).
- Bridge/IPO-stage financing covers such activities as pilot plant construction, production design, and production testing, as well as bridge financing in anticipation of a later IPO.

Source: Valuation of Privately Held Company Equity Securities Issued as Compensation - Accounting and Valuation Guide, 2013, published by AICPA

4.2 Factors Impacting Valuation of NATCs

Because traditional approaches may be problematic, where feasible, valuations of start-up entities are often based on transactions in the equity instruments of the subject company. Such transactions can include financing transactions in which the company sells shares directly to the investor(s) and secondary transactions in which existing shareholders sell shares. Financing transactions frequently involve more significant dollar amounts and a larger number of investors compared to transactions between shareholders. Financing transactions, particularly arm's length transactions that involve new investors, are generally viewed as better evidence for establishing fair value estimates because

transactions between shareholders are infrequent, and the motivations for these transactions may not be known.

A prior transaction may be used to establish the value of the overall business enterprise and the interests in the enterprise by calibrating the transaction price. Although developing assumptions for use in a guideline public company or transaction model or a DCF model for a pre-revenue company may be challenging, the development of and calibration of these valuation models (or other relevant techniques) at the time of a financing transaction can assist in assessing future changes in the fair value. At the time of a subsequent valuation, the model inputs can be revised to capture the impact of interim value events on revenue and cash flow projections and risk expectations for the entity.

The development of and calibration of these valuation models (or other relevant techniques) at the time of a financing transaction can assist in assessing future changes in the fair value.

For early-stage companies without a recent financing round, the best choice will very likely involve a technique that "rolls forward" the value obtained from a previous (now stale) financing round that reflected fair value at initial recognition. Before pursuing this course of action or before relying solely on this technique, however, a variety of factors should be considered. Each valuation will depend on specific facts and circumstances; significant judgment is required.

Hence, careful consideration of recent transactions, as well as the changes in the company and the markets over the period since the transaction, provides a reasonable basis for valuation. Unless the circumstances suggest that nothing of significance has occurred since that previous transaction, the updated value should be carefully tested for reasonableness and supplemented with additional scenarios as necessary. The selection of additional analyses and scenarios is, as always, a matter of professional judgment.

Selection and application of an appropriate valuation methodology will require answers to the following questions:

a. **Is the entity performing in accordance with its business plan?** Conceptually, for pre-revenue companies, successful execution of a business plan in the absence of other significant value events would suggest an increase in value. All other things held constant, shortening of the expected time to a successful exit would produce an increase in value, as the firm is moving closer to generating positive cash flows and a self-sustaining operating position. In this case, updating the valuation model developed at the time of the previous financing event would be a reasonable choice to estimate fair value, subject to any additional analysis or tests of reasonableness deemed prudent. Note, however, that value accretion for early-stage companies is rarely linear, and that in the absence of some objective determination of "progress," market participants would be unlikely to pay more simply due to the passage of time or the company's expenditure/ cash burn or efforts.

b. Have any significant value events (internal or external) occurred since the previous financing round? Value events can be either favorable (for example, achievement of a significant milestone) or unfavorable. Value events are typically viewed as internal developments achieved by an entity. However, value events may also include industry or general economic developments external to the entity. Both internal and external value events that have occurred since the previous financing round should be considered.

Examples of internal value events for pre-revenue firms include the following:

- Assembly of key members of management team
- Delivering a proof of concept or prototype
- Obtaining regulatory approvals
- Establishing ongoing relationships with strategic partners
- Executing contracts with key customers.

External factors may also affect the company. For example, if the company is developing a new pathbreaking technology to address a particular market need, and the industry evolves in a way that obviates that market need, the company may be forced to retrench. In such a case, the previous financing round would not be relevant, and the valuation would consider the company as if it were a brand-new start-up, given its management team, workforce, and any other useful assets. Industry and general stock market movements should also be considered in the valuation of a pre-revenue entity.

As with industry price movements, small movements in the overall stock market may be less meaningful for pre-revenue companies. Large movements could reflect a change in the investment climate that would affect the value of an investment in a pre-revenue firm. The financial crisis beginning in 2008 adversely affected security prices and capital availability. Valuations across the general market, as well as within the VC sector, declined as a result of the financial distress.

When available, transactions in "similar" early-stage companies may also be considered. In assessing these transactions, the reliability of information is an important consideration. Information is typically private and subject to limited public disclosure requirements, if any. Also, as discussed, the comparability of the firms at a pre-revenue stage may present significant valuation challenges.

Subject to changes in the company's strategy and considering the nature of any intervening value events, the starting point for the valuation process would be the valuation model used to calibrate to the previous round. However, given that one or more of these events is significant, adjustments to model assumptions and inputs may produce meaningful changes to the measurement, requiring the development of reasonableness tests based on factors outside of model parameters.

c. **Does the entity need additional financing to survive until a successful exit event?** This question addresses the issue of viability: will the company be able to continue pursuing its original strategy? Liquidity and capital adequacy are important considerations in the valuation of pre-revenue firms.

If the company's viability is in question, then a simple update of the calibrated valuation model may produce a value that is not properly adjusted for the risk of failure.

Another important influence on the availability, pricing, and terms for future financing rounds is the cash runway of the company, considering the resources on hand and the company's burn rate. Early-stage entities with limited cash resources may experience lower future valuations due to. a weaker negotiating position. Reduction in cash resources and absence of new financing activity could suggest a lack of value creation, an increasing risk of financial distress, and a reduced time period until cash resources are fully expended. These factors contribute to reduced strategic options and lower valuations. In advance of the financing, the valuation would consider the greater risk profile for the company. These factors can affect the decision regarding the selection of a valuation model and its key inputs. If the company's viability is in question, then a simple update of the calibrated valuation model may produce a value that is not properly adjusted for the risk of failure. In such circumstances, it may be necessary to develop additional scenarios to capture the increased risk of failure that may not have been present at the time of the previous financing round.

d. **Is the entity attempting to raise additional financing as of the measurement date?** Valuation discussions at or prior to a valuation date should be considered in the development of fair value estimates. A negotiated price for a transaction that has not yet closed, with appropriate adjustments for the uncertainty associated with the pending transaction, may be considered, along with a revised DCF model or other methods, or both, in determining an updated valuation.

e. **Was a calibrated valuation model developed at the time of the previous financing?** If a calibrated valuation model exists, then its usefulness for the current valuation, as well as the identification of changes in key assumptions and model inputs, can be determined by the answers to additional questions. If a calibrated valuation model does not exist, the fund may begin by performing an analysis as of the most recent financing date to ensure that the starting assumptions used in the valuation model are consistent with market participant assumptions for the transaction.

CHAPTER

05

> Valuing a start-up requires thorough effort, a centered approach, and in-depth insight of industry and target business.

Conclusion

Is Valuation of Startups an Art, Science or Conjecture?

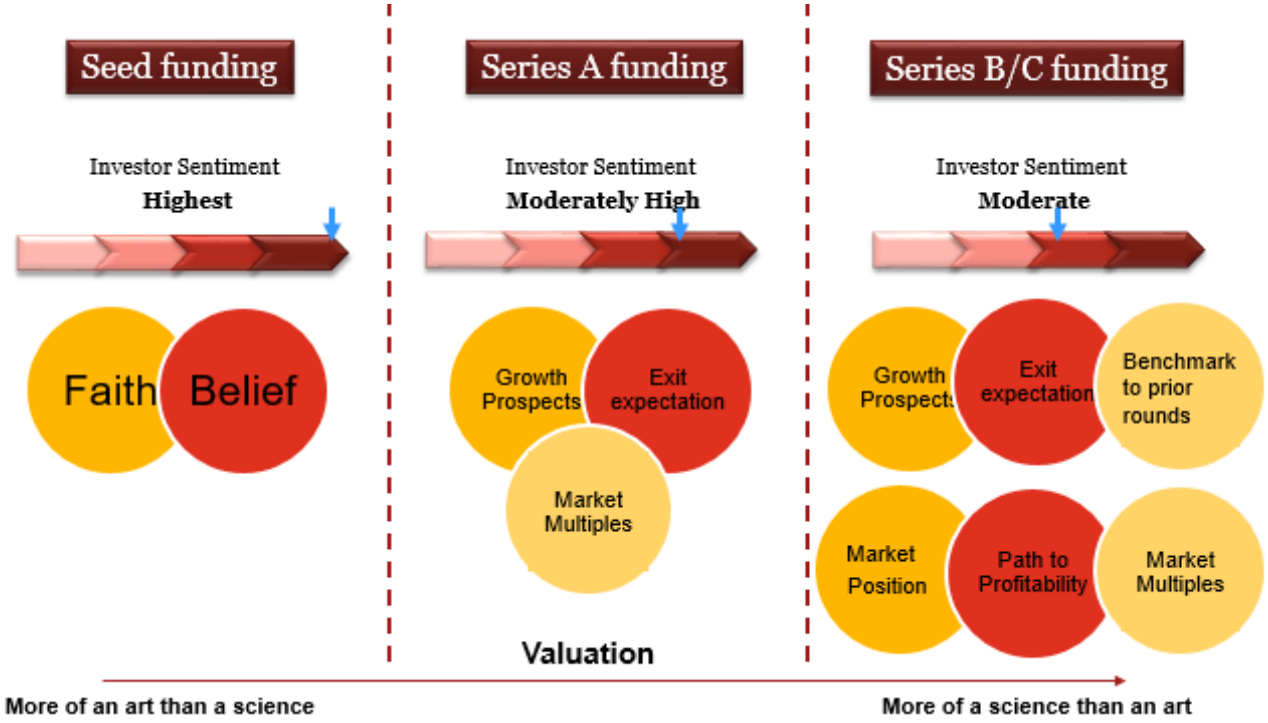
Traditional valuation methods find limited application in startup valuations. Other methods (discussed earlier) adopted to value startups are fraught with limitations and challenges. In a dynamic startup ecosystem with newer business models, startup valuation is an evolving process and unusual valuation methods are resultant thereto.

Valuing a start-up requires thorough effort, a centered approach, and in-depth insight of industry and target business. Start-ups valuations pose many challenges for the valuer, making the exercise highly subjective. Variations in the external environment/ ecosystem and internal dynamics strongly impact a start-up, leading to severe shifts in valuation.

Lifecycle stage and appropriate method of valuation

Parameter	Idea or seed	Rapid expansion	High growth	Mature growth	Decline
Revenues	Negligible or low	Exponential growth	High growth	Stable/ slowing growth	De-growth
Historical data	None	Limited	Some historical data available	Substantial historical data available	
No. of comparable peer companies	None	Some	More	Large	
Forecasted data	Entire value from future growth	Mostly value from future growth	Partially from existing business and growth prospects		Mainly from existing business
	Scorecard method and Cost-to-duplicate method		***Venture capital method, Comparable transactions method and DCF***	***Venture capital method, Comparable transactions method and DCF***	

Investor sentiment, stage of operational lifecycle, level of funding and valuations



Investor sentiment, stage of operational lifecycle, level of funding and valuations are very closely intertwined. An investor may value a pre-revenue stage startup purely on a "gut feel" considering faith and confidence in the product/ service and founder team. As the startup matures in its lifecycle and progressively raises funding, valuations take on a "science" approach based on measurable key performance metrics. Hence, startup valuations run the entire spectrum of "art" to "science" in an ever-evolving startup ecosystem and may seem like conjecture sometimes.

Measures for protecting investors

In recent years, we have witnessed significant developments in areas such as generative artificial intelligence (AI), distributed ledger technology and big data technologies. This in turn has deepened concerns among corporations, investors, legal teams and consumers regarding issues such as intellectual property (IP) protection, data privacy and security, dis- and misinformation, cybercrime and fraud.

Implementing comprehensive, concrete and relevant regulatory regimes without stymying innovation is the perennial challenge for regulators, who have often struggled to keep pace with technology advancements. Nevertheless, there has been a push for stronger regulation in the technology space in recent years. Recent trends suggest technology companies violating regulations may expect hefty penalties. For start-ups and scale-ups, such penalties may singlehandedly cripple operations, whereas for tech giants they no longer represent mere slaps on the wrist.

It is imperative that investment teams stay abreast of evolving regulations – and the corollary obligations and penalties – surrounding their technologies of interest and across different jurisdictions. Additionally, when conducting due diligence on an investment target, it is crucial

to have a clear picture of its regulatory track record and positioning, keeping in mind its historical responsiveness to regulatory changes and whether there are potential legacy issues, vulnerabilities or operational deficiencies that may cast a long shadow well after the investment has been finalised. If there are, investment teams must endeavour to resolve them or lay out mitigation strategies as soon as possible.

Pre-investment cyber due diligence can inform investors of the threat facing a target acquisition and give an understanding of the time and cost of implementing effective security controls and mitigation measures.

In addition to stronger regulations, increased targeting of sensitive technology companies – from high impact ransomware campaigns targeting semiconductor companies to data breaches impacting market-leading pharmaceutical research organisations – has also driven an uptick in interest in integrating cyber due diligence into the investment decision making process. From a cyber security standpoint, it is critical to examine whether the investment target has suffered data breaches in the past or is an attractive target for such operations and understand the controls in place to mitigate data breaches and cyber-attacks. Not only could such breaches and attacks bring regulatory penalties and litigation, it could also impact an organisation's reputation and the value of its IP.

For investors, understanding the target's exposures to past, current and future cyber incidents – as well as its cyber security maturity and preparedness to respond to and recover from an attack – are critical metrics to evaluate the viability, value and risks associated with a potential investment. Pre-investment cyber due diligence can inform investors of the threat facing a target acquisition and give an understanding of the time and cost of implementing effective security controls and mitigation measures.[18]

[18] *https://www.sec.gov/about/secpar/secparsumm04.pdf*

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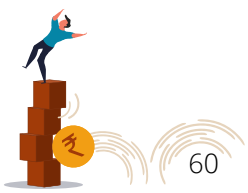

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Confederation of Indian Industry

The Confederation of Indian Industry (CII) works to create and sustain an environment conducive to the development of India, partnering Industry, Government and civil society, through advisory and consultative processes.

For more than 125 years, CII has been engaged in shaping India's development journey and works proactively on transforming Indian Industry's engagement in national development. CII charts change by working closely with Government on policy issues, interfacing with thought leaders, and enhancing efficiency, competitiveness and business opportunities for industry through a range of specialized services and strategic global linkages. It also provides a platform for consensus-building and networking on key issues.

As India strategizes for the next 25 years to India@100, Indian industry must scale the competitiveness ladder to drive growth. It must also internalize the tenets of sustainability and climate action and accelerate its globalisation journey for leadership in a changing world. The role played by Indian industry will be central to the country's progress and success as a nation. CII, with the Theme for 2023-24 as 'Towards a Competitive and Sustainable India@100: Growth, Livelihood, Globalisation, Building Trust' has prioritized 6 action themes that will catalyze the journey of the country towards the vision of India@100.

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In 2003, the Ministry of Corporate Affairs (MCA) led a unique PPP model to set up the National Foundation for Corporate Governance in partnership with the Confederation of Indian Industry, the Institute of Company Secretaries of India and the Institute of Chartered Accountants of India. Subsequently, the Institute of Cost Accountants of India, National Stock Exchange and the Indian Institute of Corporate Affairs also joined with an objective to promote good Corporate Governance practices both at the level of individual corporates and Industry as a whole.

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Be the Key Facilitator and Reference Point for highest standards of Corporate Governance in India.

Mission

- To foster a culture of good corporate governance
- To create a framework of best practices, structure, processes and ethics
- To reduce the existing gap between Corporate Governance framework & actual compliance by corporates
- To facilitate effective participation of different stakeholders
- To catalyze capacity building in emerging areas of corporate governance