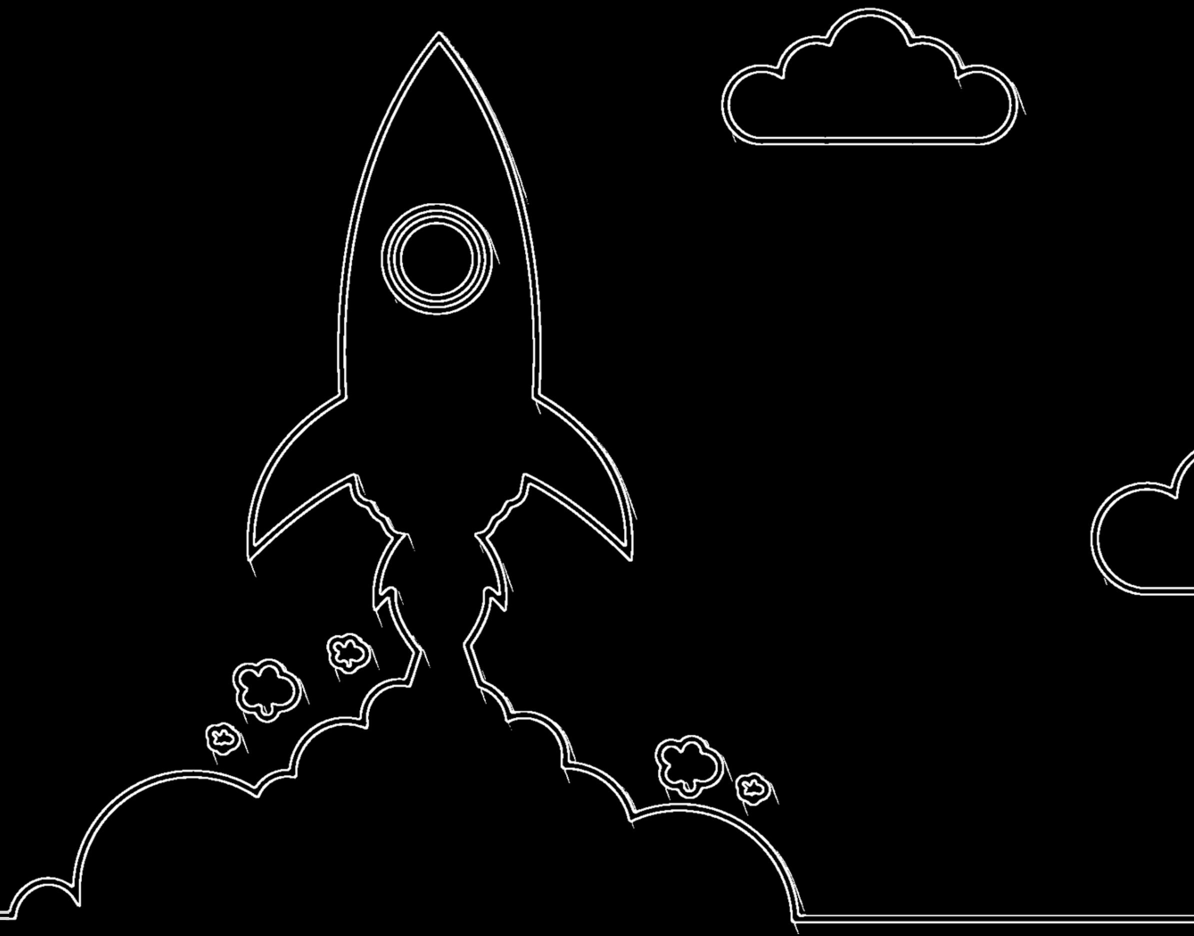
RIGHT NOW ©

THE STARTUP NEWSLETTER

FEB'20

In this Issue:



CHUNDER KHATOR & ASSOCIATES | KOLKATA | MUMBAI
CREATING VALUE & CONFIDENCE | CHENNAI | NCR

Confession: The entire editorial board of this newsletter loves food!
Bigger confession: Due to our unapologetic craze for startups, what we love even more is the tireless efforts by entrepreneurs to find new ways of getting us more food, tastier food and easier access to food.

That's why we got super excited when we heard that the Future Group, famous for its hypermarket chain Big Bazaar, announced that it's diversifying into the Cloud Kitchen business. Cloud Kitchens, also known as **Ghost Kitchens** or Dark Kitchens are pure delivery units with no facility of dine-out, often dependent on the logistics network created by food delivery companies like Swiggy and Zomato. The founder and CEO of Future Group, Kishore Biyani disclosed some mouth-watering insights to Economic Times:
The group plans to sell **rice-based meals** at a finger-licking-cheap rate of **₹40** only. The CEO expressed that the food industry is shadowed by thin margins but let's admit it, if there is anyone who knows how to master survival in the face of thin margins, it is the Future Group that also runs affordable garment brands like fbb and Brand Factory. The only way to achieve such rates, as Biyani explained was by leveraging the existing value chains of the group. The group owns rice and flour mills, factories and logistics companies. If all the value chains are used well, Biyani might as well be able to create a sizable dent in the food industry.

While we're at it: In November'19, co-founder and ex-CEO of Uber, Travis Kalanick's, 'CloudKitchens' raised USD 400 million dollars from Saudi Arabia's sovereign-wealth fund, leading to a post-money valuation of USD 5 billion dollars. As reported by Economic Times, the 4 years old company is also making an entry in India, currently working in 'stealth mode'. Earlier this year, it was also reported by YourStory.com that Kalanick has invested in Pune based Rebel Foods, the largest cloud kitchen in India, operating 222 cloud kitchens including Faasos and Behrouz Biryani.

Word: Kalanick also loves food. We know this for sure because Uber's 'gold-mine' UberEats, one of the world's largest food delivery businesses, is also his brainchild.

The big picture: The Foodtech startups in India have raised as much as USD 2.93 billion till date. The sector has witnessed exponential growth in the last 3 years and is projected to grow from USD 44 Billion in 2016 to USD 86 Billion by 2023.
With the big players finally making inroads, the development of the sector in the coming months will be exciting to observe. And of-course among all this, it is our pursuit for more food, tastier food and easier access to food, that just becomes easier.

ARE STARTUPS OVERVALUED? YES, BUT WHY AND WHEN?

To quote Paul Buchheit, the founder of Gmail, “If the company has 1% chance of being a $100 billion company, then it’s worth about a billion dollars”.

One of the primary differences between investing in a public stock vs betting on private ventures is the lack of documented history of the latter. You have no trend or price trajectory that can define expectations but just the idea and execution strategy of the team. The DCF valuation falls soft and perhaps it is the user base growth that defines the expectations for future cash flows. As this landscape of private equity valuations is relatively new and unconventional, the numbers quoted sometimes go haywire and paint an extravagant picture.

But the question still persists, why and when are these unicorns overvalued?

More often than not, startups are seen to magnify their value as they inch closer to being listed. Well, there are 2 schools of thought: while one side believes that as the company becomes a better proxy of existing public companies the valuations get better, the other side bases their valuation on the security of returns guaranteed at exit. Ratios of Valuations before and after the public listing, can be a good measure to check the transparency in VC valuations. As the company faces reality check and undergoes regulators’ litmus test to be listed, it offers investors better access to qualified information, just like in case of WeWork.

As the caveats to exit and failure of the venture are too high, it makes the investments virtually riskless, and VCs see it as an opportunity to ride the next unicorn story. One such provision frequently afforded to investors is called a liquidation preference: It guarantees a minimum pay out in the event of an acquisition or other exit.

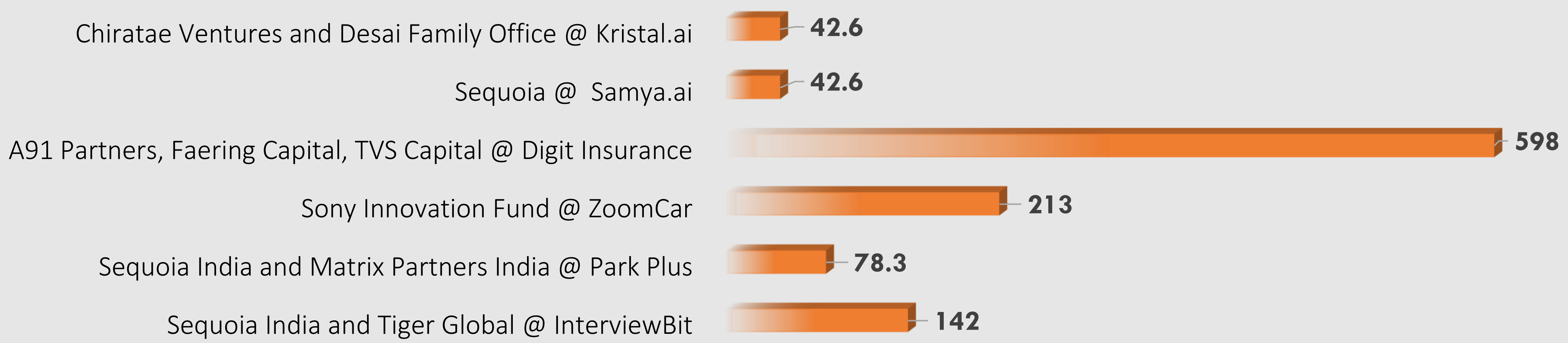
AppNexus, a digital advertising startup sold shares with a liquidation preference that guaranteed new backers at least double the amount they put in if AppNexus is acquired. The study found that it can exaggerate a company’s valuation by as much as 94 percent.

Contd...

…Another common tool used by the industry is known as a ratchet: It is a tool by which the VC investors are guaranteed a minimum return on the IPO of the company. Here is some maths around the concept: From Square's S-1, we know that its Series E investors paid $15.46 per share for Series E Preferred Stock. The ratchet in Square's Series E provides that if the IPO price is less than $18.56 per share, the IPO conversion formula is adjusted such that the Series E investors would receive a number of common shares equivalent to a number if the IPO price had been $18.56. What does this mean? Square's Series E investors were guaranteed a 20 percent return through an IPO. Other incentives that are widely used include the acquisition protections, which typically means last money in, first money out.

These elaborate provisions give investors in unicorn investments significantly more downside protection than public-company common-stock investors. We suggest that more attention should be paid to the contractual terms between investors and companies. Applying a discount factor for each class of securities in the capital structure, one can sum up the costs for all classes of securities and arrive at a more nuanced valuation. So next time you see a headline flash some million dollars of fresh funding, look for what the startup is offering than what it was offered.

RECENT INVESTMENTS IN INDIAN STARTUPS



Entrepreneurs are like leopards, patiently observing at first (a.k.a. ‘stalking’): the rising ailments of traditional businesses and then making their disruptive entry (a.k.a. ‘pouncing’) at just the right moment. The only difference: they don’t pounce to take lives but only to ‘put them out of their misery’. In this fast moving world, ‘Entrepards’, as we like to call them, are everywhere! Some searching for their prey, some stalking, and some who finally made the pounce.

The latest stalk-chase-pounce by Entrepards that we’ve caught our hands on is unfolding in the Financial Sector. Microfinance, a financing tool that provides short-term credit breath to micro, small and medium enterprises (MSMEs) as well as nascent entrepreneurial setups, has picked up pace in recent years and rightly so at a time, when the Indian credit market is not at the best of its mood. As the space witnesses traction and opportunity, Flipkart’s ex-CTO, Ravi Garikipati along with Raj Vattikuti has come up with a microfinance company, Davinta Financial Services, primarily focusing on three segments; rural, urban and micro entrepreneurs. Davinta, which caters to both rural and urban populations, has built a unique underwriting model based on an artificial intelligence engine that in ‘near’ real time creates specific customer profiles based on a proprietary list of variables. With an ambitious goal of keeping the venture at zero-percent NPAs, the founders seem to be confident about the prospects and claim that the rural segment will contribute to the extent of 75% of overall lending business.

Our favorite Entrepard, Sachin Bansal probably also saw what Garikapati and Vattikuti did and that’s how we know that the buzz is real. In an interview with Business Standard, Bansal expressed his bullish stance on the microfinance sector. This was further verified through his recent investment move of acquiring 94% stake in Chaitanya India Fin Credit (an NBFC catering to the financial service needs of the rural masses), at INR 739 crores, in September’19. Bansal’s, Navi Technologies is closely working with the NBFC to come up with a digitized product suite for microfinancing. If this is not enough to make you believe that these ex-Flipkart colleagues are probably headed for a bull fight, this surely will: On 28 January’20, Bansal also resigned as Independent director of Ujjivan Small Finance Bank “in the interest of propriety and to prevent conflict of interest”, as he puts it, arising out of the fact that his wholly owned firm Navi Technologies has applied for a banking license.

Zoom Out: Before you think that the fall of the financial sector is alone going to take credit for attracting the entrepreneurs into the sector, we beg to tell you that equal credit also goes to the rising importance of MSMEs and Startups in the Indian ecosystem.

Even N R Narayana Murthy, co-founder of Infosys who chairs a Sebi Panel on Alternate Investment Policy Advisory called out for policy changes in the financial sector by allowing Pension funds, Corporations and Banks to invest in startups.

Jeff Bezos, founder and CEO of Amazon, on his recent visit to India also promised to pump in a whopping USD 1 billion in the economy by extending aid to the small Indian businesses to come online. Amazon aims to digitize 10 million MSMEs with the investment.

Even the Budget '20 reverberated the importance of MSMEs and startups in the Indian economy as the finance minister allocated a record high INR 7,572 crore (8% y-o-y increase) to the MSME Ministry.

The Government’s move to enable NBFCs to extend an app based invoice financing to the MSMEs through TReDS (Trade Receivables Discounting System) was well received by the industry.

To further address the working capital credit issues of MSMEs, a scheme has also been proposed to provide subordinate debt for entrepreneurs of MSMEs. This subordinate debt to be provided by banks would count as quasi-equity and would be fully guaranteed through the 27 Credit Guarantee Trust for Medium and Small Entrepreneurs (CGTMSE).

As the hon’ble finance minister Mrs. Nirmala Sitharaman puts it, “MSMEs are vital to keep the wheels of economy moving.”

With inflation rising, real interest rates falling, clingy NPAs, lethargic credit flow, failing NBFCs & weakened consumer sentiments, the financial world is crying! And we believe, somewhere out there, the entrepreneurs have heard the calling. Hold tight, because they’re coming!

UNION BUDGET 2020 – Startup snippets

1 ESOP Tax payment deferment

01 Feb’20

Budget speech

Vide Insertion of a new section: 156(2), Employees of IMB (Inter Ministerial Board) certified startups can now defer tax payment on ESOPs by:
> 5 years or
> till they leave the company or
> when they sell their shares, whichever is earliest.
(applicable from 1/4/20)
(Requirement to deduct TDS also deferred accordingly)

Currently, ESOPs are taxable as perquisites at the time of exercise leading to cash flow crunch for the employees who do not sell the shares immediately, resulting into tax on unrealized profit.

The catch: There are less than 500 startups that are IMB certified, while the total DPIIT (Department for Promotion of Industry and Internal Trade) recognized startups are 28,087 (as reported by the Economic Times). Which essentially means that only 2% startups will be able to avail the benefits of this amendment.

17 Feb’20

Press Conference in Bengaluru

Finance Minister, Nirmala Sitharaman has been conducting conferences throughout the country to get feedbacks on the budget from industry experts. At the conference in Bengaluru, Sitharaman mentioned that the startups had been asked to make a representation to the IMB in relation to their grievances surrounding the above amendment.

18 Feb’20

Economic Times reported

A proposal by DPIIT to extend the above amendment to all DPIIT recognized startups got turned down by Central Board of Direct Taxes (CBDT). Instead, CBDT is mulling changes in the IMB framework (probably by making it more liberal). Concrete updates can be expected by the end of Feb’20.

2 Turnover and Time threshold relaxed

Vide amendment of section 80-IAC, Definition of startups has been widened by increasing the turnover threshold from 25 crore to 100 crore. Moreover, the period of eligibility for claiming exemption also increased from 7 years to 10 years.

3 Digital Platform for IPRs

To facilitate seamless application and capture of Intellectual Property Rights (IPRs) (e.g. Patents).

4 Seed Funding

The Government will provide early life funding, including a seed fund to support ideation and development of early stage Startups.

5 Involve Start-ups in Infrastructure development

All infrastructure agencies of the government will be directed to involve youth-power in start-ups with an expectation of help in rolling out value added services in quality public infrastructure for citizens.

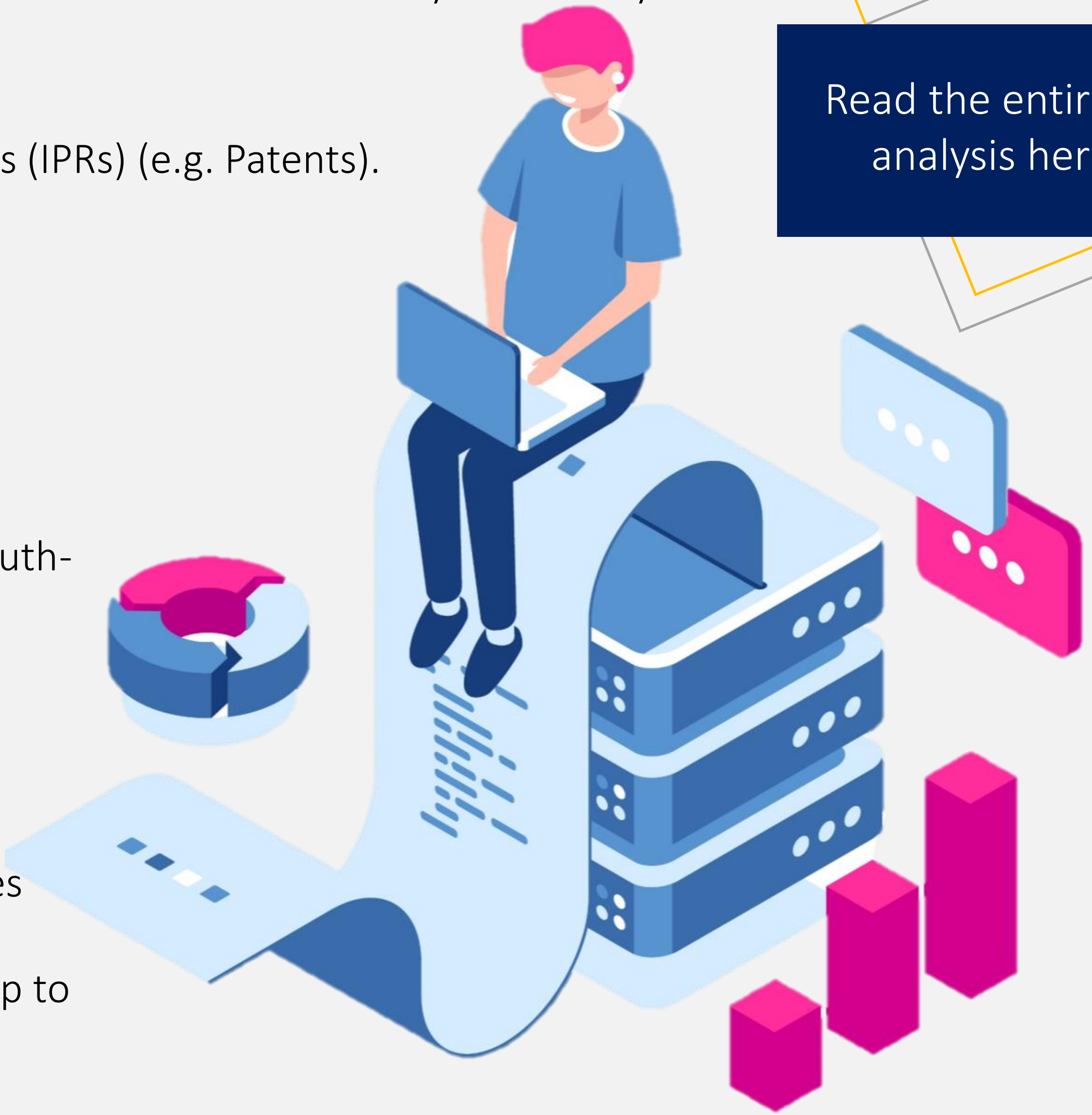
6 TDS

Vide insertion of a new section: 194-O, TDS at 1% is now required to be deducted by an e-commerce operator on gross amount of goods or services sold through the operator.

-If ecommerce participant is an individual or HUF, no TDS to be deducted up to ₹5 Lakh of gross sales.

(Applicable from 1/4/20)

Read the entire analysis here



PAYTM

On February 4, 2020, Paytm launched its All-in-One Android Point of Sale (PoS) device. The platform claims to alleviate the daily problems of a merchant, ranging from accepting payments on the Paytm wallet, UPI, apps, debit and credit cards and cash to generating GST compliant bills, coupled with the facility of bill printing. Transactions can be managed through the 'Paytm for Business' app. The facility will aid faster checkout through scanning of items. The digital space is being eyed by Paytm that holds the potential to grow to a size of USD 1 trillion by the year 2023. While identifying the vast opportunities present in the fintech space, Founder and CEO of Paytm, Vijay Shekhar Sharma, in an interview with Business Standard said, "I always believe that we don't need to disrupt the financial services or banking industry, we need to add to their capabilities."

Never has anyone ever: The internet linked PoS device unlocks potential to tap large volume of transaction data of the unorganized sector by allowing recording of cash transactions and generating bills.

OYO

In the Jan'20 edition of our newsletter, we talked about the layoffs spree by Indian Startups, led by Oyo Hotels and Homes. The Unicorn raised eyebrows as it booked a 5.5x increase in losses in FY'18. Even though its Investor, SoftBank tried to tighten the noose by issuing stringent guidelines, it probably came a little too late as- on 17 Feb'20, Oyo again reported a 6.3x increase in losses in FY'19 (as per Bloomberg). It also reported a jump in revenue by 4.5x, which is largely credited to the 80% increase in its B2B bookings (added 4000 new corporate accounts in the fiscal year). Despite visible signs of stress, the 6 year old startup has reiterated that there will be no breaks on expansion.

A huge portion of the optimism that the startup's leadership is still showing is credited to the Chinese market that has so far treated them way too well. The company's segment analysis shows that dependency on the international market increased from 1% in FY'18 to 36.5% in FY'19.

The big question: With the wake of Coronavirus that has a direct impact on the tourism industry, will their optimism fall sick too?

SKYLO

We're gonna tell our kids that high altitudes had network issues and they still won't believe it because of Sklyo Router:

The wow factor: Skylo is trying to create an all-encompassing global wireless network that would have the power to connect every imaginable object to the internet, reaching places impervious to cell towers and fiber-optic cables. The Silicon Valley startup Skylo Technologies Inc. says it's come the "closest so far".

Target Market: Skylo says it's not trying to deliver high-speed internet to homes or buildings. It's more interested in allowing boats at sea or truckers on rural routes to send and receive short bursts of data for cheap. It primarily aids to Maritime services, weather information for enhancing agricultural yield, prompt disaster management.

Opportunity Vs Threat: Do the tech and telecom giants lay hand over this disruptive solution and shed their tower rentals, or are they too engaged throttling the 5G race?

ZUME PIZZA

Faasos makes food but does not deliver, Zomato delivers but does not make. Ever wondered why not make and deliver en route to the customer? Zume Pizza did! The Silicon Valley startup used to deliver robot made pies to the customers by making it on a moving van and delivering it en route. The company was mercied by SoftBank with heavy cheques, but soon sharks exited the venture with a cold feet, and the operations shut down within a month. Lesson: Not all foodtech ideas might click and not all crazy ideas are worth pursuing.

AROUND THE WORLD IN A BLINK

AFRESH

U.S. retailers toss out $18 billion worth of ruined nourishment goods annually. San Francisco startup Afresh makes programming that utilizes calculations and man-made reasoning to assist stores with improving their new nourishment inventories and cut back on wastage. Established in 2016, the organization says it has protected associations with a few billion-dollar staple chains and is in chats with additional. Some accomplice stores have announced that receiving the tablet-based application has helped them sliced their nourishment squander by 50%

PETAL

Petal decides if you're qualified for a charge card utilizing factors like your pay and bank articulations. Intended for more youthful individuals who haven't yet settled a strong credit extension, the organization doesn't charge expenses - including for missed installments - and offers money back remunerations. The New York City-based organization will grow its tasks in a major manner in 2020 gratitude to an ongoing $30 million VC subsidizing round, in addition to another $300 million in the debt financing.

MOVANDI

The rollout of 5G, the fifth-age remote system, started in 2019 and will increase in 2020. However, a few specialists stress that the innovation won't be as available to those outside of ‘high-thickness zones’. Movandi, situated in Irvine, California, plans to cure that. The startup makes innovation that widens the span of 5G range groups. And keeping in mind that the remote sign loses a lot of its power if not in the beneficiary's view, Movandi's tech can twist the sign around structures and different obstructions. The startup, which has $30 million in subsidizing, says it is in converses with significant remote suppliers about potential organizations.

BETTER.COM

New York City-based Better.com is attempting to overturn the out of date contract application process by bringing it on the web. The organization doesn't charge expenses or commissions and rather brings in its cash just by means of premium. Also, while customary home loan applications can take weeks, getting pre-affirmed on Better.com takes only a couple of moments because of a generally robotized process. The organization, which loaned more than $4 billion to homebuyers in 2019, declared a $160 million financing round in August that carried its all out subsidizing to $254 million.

Don't reserve your best self only for your career

Allocation choices can make your life turn out to be very different from what you intended. Sometimes that's good: Opportunities that you never planned for emerge. But if you make poor choices about how to invest your resources, the outcome can be bad. When people who have a high need for achievement have an extra half hour of time or an extra ounce of energy, they often unconsciously allocate it to activities that yield the most tangible accomplishments. And our careers provide the most concrete evidence that we're moving forward. You ship a product, finish a design, complete a presentation, close a sale, get paid or promoted. In contrast, investing time and energy in your relationship with your friends and family typically doesn't offer that same immediate sense of achievement. Kids, for instance, misbehave every day, and it's not until 20 odd years later that you can say, "I raised a good kid." You can neglect your relationship with your spouse, and on a day-to-day basis, it doesn't seem as if things are deteriorating. People who are driven to excel have this unconscious propensity to underinvest in their families and overinvest in their careers — even though intimate and loving relationships with their families are the most powerful and enduring source of happiness.

Management can be a noble profession

Management isn't simply about P&L statements, meeting quarterly growth and profitability targets, and creating brand awareness. Those are byproducts of good management. Management is about waking up every day and helping people become better people so they can do better work and live better lives.

God does not hire accountants in heaven

...I realized that the way God would measure my life is different than how we measure each other's. Instead of aggregating all my accomplishments, comparing them with the accomplishments of my friends and colleagues, and then giving me a grade, he would simply want to know **how I helped other people**. It will not be about my degrees, books, or awards, but about the lives I was able to assist along the way.

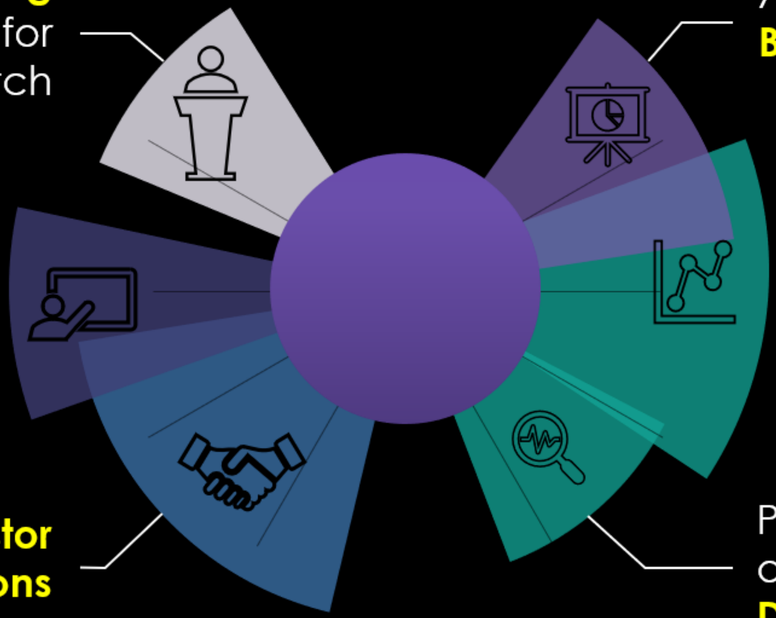
*~words by Late **Clayton Christensen (1952-2020)***
(often known as the Most Influential Business Management thinker of our generation)

CONSULTANCY SERVICES TO STARTUPS

Previous issues:

Dec'19

Jan'20



Other Startup Services

Our services are passionately focused on the professional development and success of our clients

A: 421A, New Alipore, Kol-53
M: +91 9830547380; +91 9830347380
E: kk@chunderkhator.in; ritwik@chunderkhator.in
W: www.chunderkhator.com

We thank Abhimanyu, Shyam, Ritwik and Kartikeyan for their contributions.

We would love to hear from you. Leave us a feedback here.