FOR MEMBERS / SUBSCRIBERS / VOL. 27 - NO. 1
JULY 2023

C.V.O.CA'S NEWS & VIEWS

From President's Desk...

Dear Professional Colleagues and Readers,

It is indeed privilege and pleasure for me to take charge as a 41st President in the 51st year of this majestic association. Not only this but being a part of this association's golden jubilee celebrations is like a cherry on a cake. I am deeply touched for reposing trust and confidence on me and elevating me at the highest position of the Association. I will be committed and serve to the best of my abilities to maintain the benchmark set by the past leaders and will try to take the flag higher.

At CVO we have planned many programs for Members, Students and Public at large and theme for the year shall be LEARNING, NETWORKING and UPSKILLING. I request for everyone's active participation and active involvement in Association's activities in coming year and have happy learning, networking and upskilling.

In July Chartered Accountants are submerged in Income Tax Filing to meet the 31st July deadline. Moreover, 1st July is the Chartered Accountants' Day and I wish all my fellow colleagues a happy CA Day. Also, all of us are indebted to our academic and spiritual gurus and mentors. 3rd July is that auspicious day this year. I wish all of You a very happy Guru Purnima.

During our Honorable Prime Minister's official visit to US in June for bilateral talks not only strengthen the ties between two countries but after the meeting of Shri Narendra Modi with Tesla CEO Elon Musk, Musk said, 'I'm incredibly excited about the future of India. India has more promise than any large country in the world.' He also said that he is confident about Tesla coming to India as soon as it's humanly possible.

50 Years' Celebration Committee had planned its 9th financial literacy program for public at large on June 18, 2023 at Navneet Community Hall, Navneet Nagar, Dombivali briefing about government benefits and schemes, minority schemes and awareness about Mediclaim related issues. Around 300 people attended the program and their concerns were addressed in question & answer session by our expert speakers.

Youth and Members in Industry Empowerment Committee supported Youth Residential Refresher Course organized by the ICAI on June 24-25, 2023 in which many young members participated and the RRC and the bond among them was strengthened and were back with lifetime memories.

As sensex is making new high and new age companies have superior business models that leverage the power of digitalization to fuel growth with that regard decode the Indian economy and equity, Program Committee has planned a program on Indian Economy and Indian Equity for public at Yogi Sabhagruha on June 30, 2023 titled as, '5 trillion Economy: How Real, How Far?'

We have also planned monthly capital market meet exclusively for our members in which we will have one expert speaker who will share his views and ideas on Value Investing.

I request all members to take active participation in association's activities and also motivate students to be a part of students families as we are planning many activities such as Students Gyaan Ganga- A newsletter written by and for students, 'MargDarshan by Your Buddy Program'- A helpline for guiding and counselling of students to help them to rise and shine.

I wish everyone happy LEARNING, NETWORKING and UPSKILLING.

Persistence is what makes the impossible possible, the possible likely and the likely definite- Robert Half.

Thank you all..... Always in Gratitude

Jeenal

CA Jeenal Savla

July 1, 2023

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STARTUP

WATER CONSERVATION: FOR OUR FUTURE GENERATION

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FROM THE DESK OF CHAIRMAN

To,
All fellow members and seniors

Things that start have to end. This is a truth of life and we all need to accept it. This is my first communication as chairman of the News and View Committee after handing over charge to a new team under the able leadership of CA Jeenal Savla. It is a proud moment of our association's history that a lady president is leading from the front. I wish the new team the very best and I am sure the new team will take our association to new heights.

Today I wish to discuss a very important topic. In March 23, a private weather forecaster "**Skymet**" had predicted a "below-normal" southwest monsoon on account of El Nino conditions with a 60% of chance of drought. With such a high chance of a drought, it is important we take water conservation seriously now.

As the population of India grows and the demands on freshwater resources increase, the need for water conservation becomes more critical than ever before. Water is not an infinite resource, and its preservation is essential to ensure a sustainable future for ourselves and generations to come. India being an agrarian economy, it is highly dependent on water as a resource.

For India Water conservation is not an option; it is imperative for our generations to come. And each of us will have to take necessary small baby steps to ensure we contribute to the conservation. I tried to narrate some small habit changes which can have a lasting impact.

1. **Fix Leaks and Drips**: Check taps and pipes for any leaks or drips regularly. A small leak can waste a significant amount of water over time. Repairing leaks promptly can save liters of water each day.

2. **Be Mindful of tap-water Usage**: Turn off the flowing tap water when not needed, especially while brushing your teeth, shaving etc. Leaving the tap running can waste water unnecessarily.

3. **Cultivate water-Saving habits**: Consider low-flow showerheads while bathing, consider keeping the pressure of water flow low in wash basins, it will just take some seconds more to wash your hand with low pressure, but you will save a considerable amount of water.

4. **Try to Shorten Showers time**: Aim for a shorter shower time instead of a long, leisurely one. By reducing your shower time, you can save a substantial amount of water over time.

5. **Water Plants Wisely**: Water your plants during the early morning or late evening to minimize evaporation.

6. **Efficiently Use Dishwashers and Washing Machines**: Wait until you have a full load before running your dishwasher or washing machine. Avoid changing plates while having dinner, especially in restaurants. If possible, choose eco-friendly and water-saving modes for these appliances.

It's high time, we start inculcating water-saving technics. Such habitual changes not only will save water but will have a feeling of satisfaction. Together we shall and we will make a difference.

Thanking you, be healthy and live life.

Thank you all..... Always in Gratitude

CA Ameet Chheda

REGISTRATION UNDER STARTUP INDIA: EMPOWERING ENTREPRENEURS FOR SUCCESS

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The Startup India Initiative is a 'Movement'. Yes, I call it a 'Movement' because it is not an event of the past. It is not stationary. It is ongoing, changing and adapting itself to the needs of startups and supporting the startup environment and its components. This has been one of the Masterstroke of the Modi Government.

This initiative has given wings to innovative ideas that were earlier not realisable at all. It has helped give, ideas a form or in a way one can say transition from abstract to physical.

The Startup India Initiative is monitored and aptly supported by the Department for Promotion of Industry and Internal Trade under the Ministry of Commerce and Industry, Government of India.

I. The key features and benefits for registered startups include:

1. Tax benefits and exemptions: These include a three-year income tax exemption for eligible startups, exemption from capital gains tax, and exemptions for investments made by incubators, angel investors, and venture capital funds.

2. Access to funding and financial support: Startup India facilitates access to funding through various channels including banks and various government schemes and grants.

3. Simplified regulatory compliance: The self-certification system allows startups to comply with labor and environmental laws without any inspections for a certain period.

4. Incubation and mentoring opportunities: Startup India encouraged the establishment of incubators and accelerators to support startups. These incubators provide physical infrastructure, mentoring, business development support, and networking opportunities. Startups can leverage these resources to refine their business models, access industry experts, and gain valuable insights.

5. Intellectual property rights support: Startup India offers various support mechanisms to safeguard the IP rights of startups. This includes fast-tracking of patent applications, reducing the cost of filing patents, and providing legal assistance in IP-related matters.

6. Government procurement benefits: The government has introduced measures to promote the procurement of goods and services from startups, including relaxation of prior experience and turnover requirements. This opens up a significant market for startups and enhances their growth prospects.

II. Eligibility Criteria and Preparing for Registration

A. Eligibility Criteria:

To register under Startup India and avail the benefits offered by the initiative, startups need to fulfill certain eligibility criteria. These criteria are designed to ensure that the startups registered under the program are innovative, scalable, and have the potential to contribute to the growth of the economy. Let's explore these key eligibility requirements:

1. Type of Entity: The entity should be a private limited company (includes a One Person Company but not a Section 8 Company), limited liability partnership or a registered partnership firm.

2. Age of the Entity: The date of incorporation should be within the past 10(ten) years from the date of application to Startup India.

3. Turnover Limit: The annual turnover of the startup should not exceed INR 100 crores (approximately USD 14 million) in any of the previous financial years.

4. Character of the Entity (Originality):

5. Innovation and Scalability: Startups are required to demonstrate their innovative nature and the potential for scalability. Innovation can be evidenced through the development of a new product, process, or service, or substantial improvement in existing products, processes, or services. The scalability potential is assessed based on the startup's business model and market potential.

6. Endorsement or Recommendation: Though not mandatory, Startups can obtain an endorsement or recommendation from any of the following entities to support their application:

   a. Incubators recognized by the Government of India
   b. Accelerators recognized by the Government of India
   c. Funding agencies recognized by the Government of India
   d. Any State or Central Government agency

   The endorsement or recommendation serves as an affirmation of the startup's potential and credibility.

Important points to remember:

1. The registrant entity should not have been formed on account of Merger, Demerger, Acquisition, Amalgamation, Absorption or due to compromise or arrangement as provided under the Companies Act, 2013 will not be recognized as Startup.

2. Conversion of an entity from one form to another shall not be a bar for availing recognition subject to the fulfilment of condition provided in sub-section (3) of section 80-IAC of the Income- tax Act, 1961.

3. Entities under Holding Company – Subsidiary Structure or Joint Ventures will not be recognised as startup.

4. Also, entities which are incorporated outside India will be ineligible for recognition.

5. It is mandatory for Indian promoters to hold at least 51% of the capital as per Companies Act, 2013 and SEBI (ICDR) Regulations, 2018 in the proposed startup.

6. Changes in the name of a recognized Startup necessitated under the relevant provisions of the applicable Act will be permitted.

7. Changes in CIN/LLPIN for any other reasons are not permitted except where it is necessitated due to:

(a) change in domicile State; or

(b) due to conversion of entity into permitted categories (i.e. private Limited company, limited liability partnership or registered partnership firm); and

(c) change in industry/ sector subject to cancellation of existing certificate.

8. Incorporating same line of businesses or production lines with even a single common director / designated partner / partner will not be recognized as startup.

9. Entities with common director/designated partner/ partner with any other entity shall be allowed to the extent permissible under the provisions of the Companies Act, 2013.

10. Related party transaction shall not be allowed except transactions on arm's length basis.

11. Entities operating in domains specifically prohibited by law shall not be recognized.

12. Sole proprietorships are permitted to be registered unless they convert themselves into any of the permitted category of entity.

B. Preparing for Registration:

Before initiating the registration process under Startup India, it is important for entrepreneurs to gather the necessary documents and information. This ensures a smooth and efficient application process. Here are the key steps to prepare for registration:

1. Incorporation Documents:

Ensure that you have the necessary incorporation documents of your startup, such as the certificate of incorporation, memorandum and articles of association in case of a private limited company, registration certificate and partnership deed or LLP agreement as the case may for partnership firm or a Limited Liability partnership, or any other relevant registration document. These documents establish the legal existence of your startup.

2. Business Description:

Prepare a comprehensive description of your startup's business activities. Clearly articulate your product or service offerings, target market, unique value proposition, and how your startup aims to disrupt or innovate in the industry. This description should showcase the uniqueness and potential of your startup.

3. Recommendation or Endorsement Letters:

Obtain recommendation or endorsement letters from recognized incubators, accelerators, funding agencies, or government agencies. These letters should highlight the innovative nature of your startup, its growth potential, and the need for support and recognition under Startup India.

4. Pitch Deck:

Craft a well-structured and compelling pitch deck that presents your startup's vision, mission, market opportunity, business model, revenue generation plan, and growth strategy. A pitch deck is an essential tool for communicating your startup's potential to investors, mentors, and evaluators.

5. **Financial Statements and Projections:**

   Ensure that your financial statements, including balance sheets, profit and loss statements, and cash flow statements, are up to date and accurate. Additionally, prepare realistic financial projections that demonstrate the growth potential and financial viability of your startup.

By gathering these documents and preparing the necessary information, you will be well-equipped to initiate the registration process under Startup India. In the next part, we will provide a step-by-step guide to registering your startup under the initiative.

C. Step-by-Step Registration Process

Registering your startup under Startup India involves a straightforward process that can be completed online through the official Startup India website. Follow these step-by-step instructions to navigate through the registration process:

1. **Create an Account:** Visit the official Startup India website **(www.startupindia.gov.in)** and create an account. Provide the required details to create your login credentials.

2. **Log in to the Portal:** Log in to the Startup India portal using your registered email address and password.

3. **Fill out the Registration Form:** Once logged in, fill out the registration form with accurate details about your startup. The information required includes:

   a. **Startup Details:** Provide your startup's name, address, date of incorporation, and the type of legal entity (private limited company, partnership firm, LLP, or sole proprietorship).

   b. **Description of Business Activities:** Describe your startup's business activities in detail, highlighting its innovative aspects and scalability potential.

   c. **Supporting Documents:** Upload the necessary documents, including the certificate of incorporation/registration, recommendation or endorsement letters, pitch deck, and financial statements.

4. **Self-Certification:**

   As part of the registration process, you will be required to self-certify that your startup meets the eligibility criteria and complies with the necessary regulations. Ensure that you have fulfilled the eligibility requirements and comply with the relevant regulations before proceeding with the self-certification.

5. **Submission and Review:**

   Submit your application for review. The Inter-Ministerial Board, responsible for evaluating startup applications, will review your submission. The board consists of representatives from various ministries and departments.

6. **Approval and Registration:**

   Upon approval by the Inter-Ministerial Board, your startup will be officially registered under Startup India. You will receive a recognition certificate and a unique Startup India number.

7. **Avail the Benefits:**
   With the registration completed, you can now avail the benefits and incentives provided by Startup India. Explore the various programs, schemes, and initiatives available and leverage them to accelerate the growth of your startup.

Once the requisite information is provided and the requisite documents are uploaded the authorised recognition team will then review the information. If they feel that the information is incomplete or additional information / documents are required then they will mark accordingly. Upon providing the requested additional information / documents, DPIIT will issue a Certificate of Recognition nearing the name of the registered entity.

It is important to note that the authorities permit only updation of data only thrice. Beyond the permitted limits the application will be rejected.

It is important to note that the registration process may involve additional steps or requirements depending on the specific circumstances of your startup. Stay updated with the official Startup India website and guidelines to ensure you have the latest information.

Conclusion:

Registering your startup under Startup India opens doors to a plethora of benefits, support programs, and incentives designed to nurture and accelerate the growth of innovative ventures. By fulfilling the eligibility criteria, preparing the necessary documents, and navigating the registration process, entrepreneurs can position themselves for success in India's dynamic startup ecosystem. The supportive ecosystem, financial incentives, simplified regulatory compliance, and access to funding and mentorship opportunities create a fertile ground for startups to thrive. Embrace the opportunities offered by Startup India and embark on a rewarding entrepreneurial journey where innovation, growth, and success await.

VALUATION & FUND RAISING BY START-UPS

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What are Start-ups?

A Start-up is a new business venture providing services or products to an existing and growing market. A startup is in the first stage of operations and comprises one or more entrepreneurs. The primary aim is to respond to market demand by creating new and innovative products or services. While most small businesses might intend to stay small, a startup focuses on fast growth in a designated market. Usually, such companies start as an idea and gradually grow into a viable product, service, or platform.

Recent Developments

In 2016, the Government of India introduced the "Start-Up Scheme," its flagship initiative aimed at fostering innovation and promoting entrepreneurship to drive economic growth and employment opportunities throughout the country. This scheme provides various benefits to start-ups, including legal assistance, funding support, expedited processing of patent applications at reduced costs, and exemptions under the Income-tax Act, 1961.

As of April 30, 2022, the Start-Up Scheme has recognized 98,208 start-ups, with approximately 1,163 of them receiving income tax exemptions. Moreover, according to the data available on the Start-Up India website, more than 3,465 start-ups have been funded by the SIDBI Funds of funds. Currently, India boasts the world's third-largest start-up ecosystem, following the United States and China.

According to media reports as of December 2022, India had 108 start-ups with valuations exceeding $1 billion, thereby attaining the coveted "Unicorn" status.

Eligibility under Indian Laws

Ministry Of Commerce and Industry - Department for Promotion of Industry and Internal Trade

Under the Startup India Action Plan, startups that meet the definition as prescribed under G.S.R. notification 127 (E) are eligible to apply for recognition under the program.

Eligibility Criteria for Startup Recognition:

- The Startup should be incorporated as a private limited company or registered as a partnership firm or a limited liability partnership.
- Turnover should be less than INR 100 Crores in any of the previous financial years.
- An entity shall be considered as a startup up to 10 years from the date of its incorporation.
- The Startup should be working towards innovation/ improvement of existing products, services and processes and should have the potential to generate employment/ create wealth.
- An entity formed by splitting up or reconstruction of an existing business shall not be considered a "Startup."

https://www.startupindia.gov.in/content/dam/invest-india/Templates/public/198117.pdf

Companies Act, 2013

An entity is considered a "Startup" only if it is incorporated as a Private Limited company (under the Companies Act, 2013), or registered as a Partnership Firm (under the Partnership Act) or a Limited Liability partnership (under the Limited Liability Partnership Act) in India, and fulfils the following conditions:

- Not more than seven years have elapsed from its incorporation/ registration (for an entity in the biotechnology sector, this period is 10 years).
- The turnover of the entity in any financial year since incorporation/ registration has not exceeded INR 250 million.
- The entity is working towards innovation, development or improvement of products or processes or services, or is a scalable business model with a high potential of employment generation or wealth creation.
- Exemption is only available to Startups that are private companies or LLP formed on or after 01 April 2016.
- It holds a certificate of eligible business from Inter-Ministerial Board of Certification
- Plant and machinery used in the business should be new and have never been used in India before.

Income Tax Act, 1961

Post getting recognition a Startup may apply for Angel Tax Exemption. Eligibility Criteria for Tax Exemption under Section 56 of the Income Tax Act:

- The entity should be a DPIIT recognized Startup.
- The aggregate amount of paid-up share capital and share premium of the Startup after the proposed issue of share, if any, does not exceed INR 25 Crore.

https://www.startupindia.gov.in/content/sih/en/startupgov/startup_recognition_page.html

Types of Start-ups

1. **Scalable Start-ups**: Scalable start-ups primarily operate in the technology sector and strive for rapid growth and a high return on investment (ROI).
2. **Small Business Start-ups**: Small business start-ups prioritize longevity rather than scalability. While these businesses aim for growth, they do so at their own pace. Business owners typically rely on bootstrapping and self-financing for these start-ups.
3. **Social Entrepreneurship Start-ups**: Unlike other start-ups, social entrepreneurship start-ups focus on creating positive environmental and societal changes rather than generating wealth for the founders. Examples of such companies include charities and non-profit organizations.
4. **Large Company Start-ups**: Large company or offshoot start-ups are established by existing, well-established companies. These companies introduce revolutionary products and quickly gain recognition in the market.

5. **Lifestyle Start-ups:** Lifestyle start-ups are created by individuals who have a passion or hobby they wish to pursue. These business owners prioritize independence and invest their energy, money, and time in building a start-up around their favorite hobby or activity.

6. **Buyable Start-ups**: Buyable start-ups are unique in that their goal is not to become large and successful on their own. Instead, the business owner builds such a company from scratch with the intention of selling it to a larger corporation. These types of start-ups are commonly found in the technology and software industry.

Key Metrics of Start-ups

1. **Customer Acquisition Cost (CAC)**

   The customer acquisition cost (CAC) is a metric that provides an estimate of the total expenses incurred in acquiring a new customer. It typically encompasses various costs, such as advertising expenses, marketer salaries, salesperson costs, and other relevant expenditures. To calculate CAC, these costs are divided by the number of customers acquired within a specific period.

2. **Retention Rate**

   The customer retention rate is a key metric that indicates the percentage of customers a company is able to retain over a specific period of time. It is calculated by taking the number of customers at the end of a given period, subtracting the number of new customers acquired during that period, and then dividing it by the number of customers at the start of the period.

3. **Average order size**

   The average order size refers to the mean amount of money that customers spend when making a purchase from a business. This metric plays a crucial role in assessing the overall performance and profitability of a company. Monitoring the average order size is significant as it provides insights into the revenue generated per customer. If the average order size is relatively low, it may indicate that the business is not generating sufficient revenue from each customer.

4. **Monthly Recurring Revenue (MRR)**

   Monthly recurring revenue (MRR) represents the anticipated monthly revenue generated from customers. This metric holds significance as it enables businesses to track their growth and forecast future revenue. By analyzing MRR, companies can gauge their financial performance on a recurring basis and make informed projections regarding their revenue streams.

5. **Annual Run Rate (ARR):**

   The annual run rate represents the projected annual revenue generated from customers. This metric is valuable for tracking business growth and predicting future revenue.

6. **Cash Runway:**

   Cash runway refers to the duration a startup has before depleting its available funds and achieving profitability. This metric is crucial for monitoring progress and ensuring that the startup stays on track towards profitability.

7. **Burn Rate:**

   Burn rate measures the rate at which a startup utilizes its funds. It is an important metric for tracking progress and ensuring that the startup is on a path towards profitability.

8. K-factor:

The K-factor reflects the organic growth rate of a startup through word-of-mouth and viral mechanisms. This metric is significant for tracking progress and ensuring sustainable growth towards profitability.

9. Monthly Active Users (MAU):

Monthly active users represent the number of individuals who engage with a product or service on a monthly basis. This metric is essential for tracking progress and ensuring steady growth towards profitability.

10. Return on Advertising Spend (RoAS):

For startups with advertising budgets, calculating the return on advertising spend is crucial. RoAS measures the effectiveness of advertising campaigns by dividing the sales generated from advertising expenditures over a specific period of time.

Valuation Methodologies

A. The Berkus Method

The Berkus approach, developed by Dave Berkus, an American venture capitalist and angel investor, offers a framework for valuing startups based on the evaluation of five key success factors:

- Basic Value: This factor assesses the core value proposition of the startup.
- Technology: Evaluation of the uniqueness and potential of the technology employed.
- Execution: Analysis of the startup's ability to execute its business plan.
- Strategic Relationships in the Core Market: Assessment of partnerships and relationships in the target market.
- Production and Consequent Sales: Examination of the production capabilities and projected sales.

The Berkus approach involves assigning monetary values to each of these success factors and summing them up to determine the startup's valuation. This approach typically allocates a maximum of $500,000 per success factor, resulting in a theoretical maximum pre-money valuation of $2.5 million. While this approach does not consider other market factors, its limited scope can be beneficial for businesses seeking a straightforward valuation tool.

The Berkus approach is sometimes referred to as the stage development method or the development stage valuation approach.

B. Comparable Transactions Method

The Comparable Transactions Method is a widely used startup valuation technique that relies on precedent and seeks to answer the question, "What were similar startups acquired for?"

When using this method, it is important to consider ratios or multipliers to account for significant differences between the two businesses being compared. For instance, if another SaaS company possesses proprietary technology while your business does not, it may be appropriate to apply a lower-end multiplier from the range. This method shares similarities with the Market Multiples Approach.

C. Scorecard Valuation Method

The Scorecard Method is an alternative approach suitable for pre-revenue businesses. It involves comparing the subject startup to other funded companies while considering additional criteria.
Strength of the team0-30%Size of the opportunity0-25%Product or service0-15%Competitive environment0-10%Marketing, sales channels, and partnerships0-10%Need for additional investment0-5%Other0-5%
To apply the Scorecard Method, follow these steps:

- Determine the average pre-money valuation of comparable companies.
- Evaluate how your business compares to these companies based on various qualities.
- Assign a comparison percentage to each quality. This percentage represents how your business measures up to competitors - whether it is on par (100%), below average (<100%), or above average (>100%) for each quality.
- Calculate a factor for each quality by multiplying the assigned percentage by the weight of that quality (e.g., 30%).
- Sum up all the factors calculated in the previous step.
- Multiply the sum of factors by the average valuation in your business sector to determine your pre-revenue valuation.

By following this process, the Scorecard Method allows for a comprehensive assessment of the startup's qualities and provides a valuation estimation for pre-revenue businesses.

D. Cost-to-Duplicate Approach

The cost-to-duplicate approach involves considering all costs and expenses associated with a startup and the development of its product, including the acquisition of physical assets. By accounting for these expenses, the approach aims to determine the fair market value of the startup.

However, the cost-to-duplicate approach has several drawbacks:

- Neglecting future potential: This approach does not take into account the startup's future potential by projecting financial statements that reflect its anticipated sales and growth.
- Ignoring intangible assets: The approach fails to consider intangible assets alongside physical assets. Even at the startup stage, a company may possess valuable intangibles such as brand value, goodwill, patent rights (if applicable), and other intellectual property rights that can significantly impact its valuation.

By overlooking these aspects, the cost-to-duplicate approach may not provide a comprehensive valuation that accounts for the startup's true worth and growth potential.

E. Risk Factor Summation Method

The risk factor summation approach is a valuation method that considers the quantitative impact of various risks associated with a startup on the potential return on investment.

The process involves the following steps:

- Calculate an estimated initial value for the startup using any of the other valuation methods discussed.
- Assess the effect of different types of business risks on the initial value. Each risk is evaluated to determine whether it has a positive or negative impact, and an estimate is either subtracted from or added to the initial value accordingly.
- Consider all identified risks and apply the "risk factor summation" to the initial estimated value of the startup.
- Determine the final value of the startup after factoring in all the identified risks.

By incorporating risk assessment and adjusting the initial value accordingly, the risk factor summation approach provides a more comprehensive valuation that accounts for the potential risks and their impact on the startup's value.

The 12 common risk categories are as follows:

1. Management
2. Stage of the business
3. Legislation/political risk
4. Manufacturing risk
5. Sales and marketing risk
6. Funding/capital raising risk
7. Competition risk
8. Technology risk
9. Litigation risk
10. International risk
11. Reputation risk
12. Potential lucrative exit

F. Discounted Cash Flow Method

- The discounted cash flow (DCF) method focuses on projecting the startup's future free cash flow.
- A rate of return on investment, called the discount rate, is then estimated.
- Since startups are new companies and there is a high risk associated with investing in them, a high discount rate is generally applied.
- The future free cash flows are then discounted back to present value.

G. Venture Capital Method

As the name suggests, this method is a go-to for venture capital firms, and it's another option to consider if you need a pre-revenue valuation. It also reflects the mindset of investors who are looking to exit a business within several years.

There are two formulas to work toward the valuation:

- Anticipated Return on Investment (ROI) = Terminal Value ÷ Post-Money Valuation
- Post-Money Valuation = Terminal Value ÷ Anticipated ROI

First, you'll calculate your startup's terminal value, or the expected selling price after the VC firm has invested. You can find this using estimated revenue multiples for your industry or the price-to-earnings ratio.

Determine the anticipated ROI, such as 10x, and plug everything in to find your post-money valuation. From there, subtract the investment amount you're asking for to get your pre-money valuation.

Conclusion

As previously mentioned, there are various methodologies available for valuing start-ups. Different methodologies may be more suitable for specific types of start-ups. It's important to note that valuation is not an exact science, and there is no definitive right or wrong method. The choice of valuation method depends on the specific facts and circumstances of each case, such as the nature of the business, the stage of the start-up, the availability of comparable listed peers, and recent market transactions in similar sectors. Evaluating these factors can help determine the most appropriate valuation method to use.

FUND RAISING BY START-UPS

Why Start-ups need Funding?

A startup might require funding for one, a few, or all of the following purposes. It is important that an entrepreneur is clear about why they are raising funds. Founders should have a detailed financial and business plan before they approach investors. Start-ups usually require funding for the following activities –

- Prototype Creation
- Product Development
- Team Hiring
- Working Capital
- Legal and Consulting Services
- Raw Material and Equipment
- Licenses and Certifications
- Marketing and Sales
- Offices spaces and Admin expenses

Sources of Fund Raising

1. **Personal Investment/Bootstrapping**

   Personal investment or bootstrapping involves using your own money or assets as collateral to fund your business. This demonstrates your long-term commitment to the project to potential investors or bankers.

2. Friends and Family

Friends and family can be a valuable source of funding as they often trust and are more easily convinced compared to strangers. However, there is a risk of losing their money, and it's important to consider the potential impact on your relationship if that happens.

3. Venture Capital

Venture capitalists invest in companies by taking an equity position, typically supporting high-risk but promising projects. This involves giving up some ownership or equity in your business to an external party. Venture capitalists expect a healthy return on their investment, often achieved when the business sells shares to the public.

4. Angel Investors

Angel investors are affluent individuals interested in investing in promising startups. They have played a significant role in the early growth stages of many successful companies such as Alibaba and Google. In addition to providing capital, angel investors often offer mentorship to young entrepreneurs.

5. Crowdfunding

Crowdfunding involves raising funds by receiving loans, contributions, pre-orders, or investments from multiple individuals through a crowdfunding platform. It requires presenting a detailed description of your business to attract potential investors.

6. Business Incubators

Business incubators and accelerator programs support numerous startups in gaining market traction. These programs are particularly beneficial for startups in their early stages. While incubators and accelerators offer similar services, accelerators assist startups in achieving significant advancements in their business goals.

7. Grants and Subsidies

Governments actively seek to support new ideas and young entrepreneurs by providing grants, subsidies, and loans. Startups can also apply for awards and donations from government agencies. Initiatives like the "Startup India" and "Make in India" campaigns in India further contribute to government efforts in assisting startups.

8. Loans

Banks offer favorable financing terms and capital to businesses, particularly small and medium-sized enterprises. To secure a loan, a well-structured startup business plan is essential, outlining the business model, profit forecast, and expected maturity date. Banks provide two types of financial services: working capital loans and funding options.

Stages of Start-up

1. Pre-Seed/Ideation Stage

In the initial stage of the startup lifecycle, entrepreneurs have an idea and are focused on bringing it to life. Typically, they require a small amount of funds. At this early stage, fundraising options are limited and often informal. This phase involves conducting research and answering important questions, such as:

- Is the idea viable?
- Has the idea been previously executed?
- What are the estimated costs of the venture?
- What business model will be adopted?
- How can the startup get started?

These questions help lay the foundation for the startup and guide decision-making during the pre-seed stage.

Following are the available sources of funding at this stage –

- Bootstrapping/Self-financing
- Friends & Family
- Business Plan/Pitching Events

2. Seed/Validation Stage

During this stage, the startup has developed a prototype and aims to validate the potential demand for its product or service. This involves conducting a 'Proof of Concept (POC)' before proceeding to a full market launch. At this point, the startup has evolved from an idea to an actual business with some customer traction. To support its growth, entrepreneurs seek seed funding from investors, offering company equity in return for larger amounts of capital. Seed funding typically covers the following costs:

- Product launch
- Product marketing
- Hiring new employees
- Conducting market research to identify product-market fit

These activities are crucial for establishing a strong foundation and expanding the startup's presence in the market.

Following are the available sources of funding at this stage –

- Incubators
- Government Loan Schemes
- Angel Investors
- Crowdfunding

3. Series A/Early Traction Stage

During the Early Traction stage, a startup successfully launched its products or services in the market. Key performance indicators such as customer base, revenue, and app downloads become crucial in measuring progress. At this stage, the startup may seek Series A funding, which involves attracting investment from venture capitalists in exchange for shares of the company. This funding marks a significant milestone and sets the stage for future business growth. To leverage this opportunity, the startup focuses on the following aspects:

- Optimizing the business operations and processes to enhance efficiency and effectiveness.
- Mitigating any financial losses or shortfalls by strategically managing resources and cash flow.
- Further developing and refining the product or service based on customer feedback and market demands.
- Creating a scalable blueprint or strategy for future growth, ensuring that the business is prepared to expand and capture a larger market share.

These steps are essential for positioning the startup for long-term success and sustainable growth in the competitive market landscape.

Following are the available sources of funding at this stage –

- Venture Capital Funds
- Banks/Non-Banking Financial Companies (NBFCs)
- Venture Debt Funds

4. Scaling Stages

At this stage, the startup is experiencing a fast rate of market growth and increasing revenues. Startups in this stage have dedicated user bases and steady streams of revenue.

a) <u>Series B Funding</u>

At this point, you've proven you can scale your idea. Investors can now help you -

✓ Employ advanced market reach activities
✓ increase market share
✓ Form operational teams such as business development and marketing.

b) <u>Series C Funding</u>

Series C funding is for a company well on its growth path and often interested in expanding globally. It may be easier to find investors at this stage, as they trust the startup to succeed. Funds at this phase are used to do the following:

✓ Build new products
✓ Reach new markets
✓ Acquire underperforming startups in the same industry

c) <u>Series D Funding & beyond</u>

There is no limit to how many funding rounds a startup can go through. If a company has more advanced revenue goals, it may complete as many fundraising series as necessary. There are usually two reasons a startup goes past the Series C funding round. They are:

✓ **New opportunities**: A potentially lucrative opportunity appears that requires the company to act before the Initial Public Offering (IPO).

✓ **Subpar performance**: The startup misses the goals set during the Series C round of funding. It then raises more funds in the Series D round to address the issues.

Following are the available sources of funding at each of the stages –

- Venture Capital Funds
- Private Equity/Investment Firms

5. Exit Options

- **Mergers & Acquisitions**: In this scenario, the investor may decide to sell the portfolio company to another company in the market. This can involve the acquisition or merger of one company with another, either in whole or in part.

- **Initial Public Offering (IPO):** An IPO occurs when a startup goes public and lists its shares on the stock market for the first time. This process is typically undertaken by startups with a strong track record of profits and steady growth, as it involves complex legal and regulatory requirements.

- **Selling Shares:** Investors have the option to sell their equity or shares to other venture capital or private equity firms. This allows them to exit their investment and realize their returns.

- **Buybacks**: In some cases, founders of the startup may choose to buy back shares from the fund or investors. This can occur if the founders have sufficient liquid assets and desire to regain control of their company.

These various exit strategies provide opportunities for investors to monetize their investments in startups and for founders to transition to new phases or regain control of their ventures. The specific exit strategy chosen depends on factors such as the company's growth, market conditions, and the goals and preferences of the stakeholders involved.

Steps to Startup Fund Raising

1. Assessing the need for Funding:

The startup should carefully assess the reasons for requiring funding and determine the appropriate amount to be raised. Developing a milestone-based plan with clear timelines for the next 2, 4, and 10 years is crucial. This includes creating a financial forecast that considers projected sales data, market trends, and economic indicators. Costs associated with production, prototype development, research, and manufacturing should be thoroughly planned. Based on this analysis, the startup can determine the requirements for the next round of investment.

2. Assessing Investment Readiness:

Apart from identifying the funding requirement, it is important to evaluate the readiness of the startup to raise funds. Investors are interested in revenue growth, market position, favorable return on investment, time to break-even, profitability, uniqueness of the startup, competitive advantage, and the vision and future plans of the entrepreneurs. A reliable, passionate, and talented team is also essential to attract investors.

3. Preparation of Pitch Deck:

A pitch deck is a comprehensive presentation that outlines all the important aspects of the startup. It should tell a compelling story and flow logically from one element to another. The pitch deck is an opportunity to showcase the startup's value proposition, market potential, business model, competitive advantage, and financial projections.

4. **Investor Targeting:**

   Researching and targeting the right set of investors is crucial. Understanding the investment thesis of venture capital firms is important, as it identifies their investment strategy, focus areas, geographic preferences, and differentiating factors. By studying their past investments and engaging with successful entrepreneurs who have raised equity funding, startups can identify active investors, sector preferences, geographic locations, average ticket sizes, and the level of engagement and mentorship provided.

5. **Due Diligence by Interested Investors:**

   Interested investors, such as angel networks and venture capital firms, conduct thorough due diligence on the startup before finalizing any equity deal. This involves examining the startup's financial decisions, team credentials, and backgrounds to verify claims regarding growth and market performance. Successful completion of due diligence leads to finalizing the funding agreement on mutually agreeable terms.

6. **Term Sheet:**

   A term sheet is a non-binding document that outlines the major terms and conditions of the investment deal between the venture capital firm or investor and the startup. It covers important aspects such as valuation, investment structure (equity, debt, or a combination), management structure (board of directors and appointment/removal procedures), and changes to the share capital. The term sheet provides a framework for subsequent rounds of funding and addresses stakeholders' rights and obligations related to changes in the company's share capital.

Instruments for Funding

Equity Shares

Equity shares are long-term financing sources for companies. These shares are offered to the general public and cannot be redeemed. Investors who hold equity shares have voting rights, can share in the company's profits, and have a claim on its assets. The value of equity shares can be expressed in terms such as par value, face value, and book value.

Share Warrants

A share warrant is a contract that allows individuals to trade company shares at a fixed price on or before a predetermined date. The fixed price is called the "strike price," and the date before which the shares can be traded is the "expiration date." Share warrants are often offered at a price lower than the current market value. However, the shares are not issued when the warrant is presented. Instead, the warrant represents a promise to honor the strike price when the investor exercises their call rights. The investor must exercise the call right before the strike date for the company to fulfill the contract.

Preference Shares

Preference shares, also known as preferred shares, combine characteristics of both common shares and fixed-income securities. Holders of preference shares typically have priority when it comes to receiving dividends from the company. However, preference shares may not have the same level of voting rights or potential for capital appreciation as common shares.

- **Redeemable Preferences Shares**

  Redeemable preference shares are a type of preference shares that can be repurchased by the company at a later date. They provide a way for companies to return cash to existing shareholders and differ from traditional share repurchases in certain aspects. The repurchase price for these shares is predetermined at the time of issuance.

- **Convertible Preference Shares**

  Convertible preference shares allow holders to convert them into equity shares at a fixed rate. Conversion is typically allowed after a specified period and within a given time frame stated in the memorandum. Convertible preference shares can be optionally convertible or compulsorily convertible. They provide investors with the opportunity to receive preferred share dividends while also participating in the price change of equity shares.

  - **Compulsorily Convertible Preference Shares (CCPS)**

    CCPS is a popular instrument used by startups to raise capital. These preferred shares pay dividends and are compulsorily converted into common equity shares at a predetermined conversion ratio after a specific period. Once converted, the shareholders give up their preferred shareholder rights and become common shareholders, with voting rights and the ability to participate in share price appreciation.

  - **Optionally Convertible Preference Shares (OCPS)**

    OCPS is another tool used by startups to raise funds. Unlike CCPS, OCPS are optionally convertible into equity shares. The conversion is based on mutual agreement, with either the investor or the company having the option to convert the preference shares into equity shares. The option holder can exercise their right to convert before the expiry of the tenure. If the option is not exercised, the company will redeem the preference shares.

Debentures

A debenture is a type of long-term loan that corporations or governments obtain from the public to meet their capital requirements. Debenture holders act as creditors of the issuing company, unlike shareholders who are owners of the company. Similar to bondholders, debenture holders earn interest income for investing in the debt instrument. The interest rates, also known as coupon rates, are typically fixed unless they are of the floating type. Fixed interest rates provide stability and protect against market fluctuations, reducing investment risk. Debentures, like preference shares, can be either redeemable or convertible. Convertible debentures can further be classified as optionally convertible or compulsorily convertible.

Convertible Notes

What are Convertible Notes?

- Convertible notes are a form of short-term debt that can be converted into equity.
- In seed financing, these notes typically convert into shares when a Series A round of financing is closed. Instead of receiving their invested amount with interest, investors receive shares as part of the startup's initial preferred stock financing, based on the terms specified in the note.

What is the need for Convertible Notes?

The need for convertible notes arises when it is challenging to determine the valuation of a startup, especially in its early stages. Traditional fundraising rounds rely on a valuation to determine equity distribution, but for new businesses, this may be difficult to ascertain. Convertible notes address this issue by introducing the concept of "convertible equity." They can be issued during the pre-seed or seed funding stage and later converted into equity once the company has a valuation, typically during Series A fundraising.

Critical Terms of Convertible Notes

There are several critical terms associated with convertible notes:

- Interest rate: Convertible notes operate as debt instruments and carry an attached interest rate. However, instead of cash, the interest is paid in the form of equity in the business.

- Discount rate: Investors providing funding through convertible notes receive a discount when purchasing shares in the future.

- Valuation cap: To reward investors for assuming risk, a valuation cap is set as an upper limit on the company's valuation when the convertible note converts into equity.

- Maturity date: The maturity date signifies the final deadline by which the business is required to repay the loan or extend the agreement.

SAFE notes

What are SAFE Notes?

SAFE (Simple Agreement for Future Equity) notes, introduced in 2013 by Y Combinator, offer a simplified alternative to convertible notes. These notes allow startups to structure seed investments without involving interest rates or maturity dates. Typically, SAFEs are concise five-page documents, with the only negotiable detail being the valuation caps. In India, a similar instrument known as the 'iSAFE note' has gained popularity.

A Simple Agreement for Future Equity (SAFE) is a financing agreement between a company and an investor. It grants the investor the right to receive shares in the future, based on the company's valuation at a specified point in time, often the next funding round, typically the series A round.

Unlike traditional convertible notes, SAFEs are not considered debt but rather a form of convertible security. Therefore, they do not accrue interest and do not have a maturity date by which they need to be repaid. SAFEs can remain in effect indefinitely, and investors do not have any control or influence over the company's operations during that period.

To adhere to Indian legal requirements, the iSAFE note is structured as compulsorily convertible preference shares (CCPS), which means it is convertible upon the occurrence of specified events.

Benefits of SAFE notes include:

- **Simplicity**: SAFE notes are simpler compared to convertible notes. They do not have an end date or accrue interest, and they are typically concise five-page documents. Understanding and drafting a SAFE note may be possible without the need for legal assistance. The terms are straightforward, with clear advantages and disadvantages.

- **Reduced negotiation**: Unlike other investment instruments, SAFE notes involve less negotiation. The primary point of discussion may revolve around valuation caps, but other terms are generally standardized.

- **Provision for important events**: SAFE notes still include provisions for events such as early exits, change of control, or company dissolution. They offer benefits to investors, such as discounts and valuation caps, ensuring investor protection.

- **Conversion to equity**: Investors have the option to convert their investment into equity at a later stage. The timing of conversion is not predetermined but typically occurs when the startup raises an equity round and distributes preferred shares.

- **Flexibility for startups**: The absence of predefined terms and a maturity date provides startups with flexibility and freedom. There are no specific obligations or expectations associated with SAFE notes, allowing startups to navigate their growth trajectory without constraints.

- **Proportional benefits**: When SAFE notes convert to equity, investors may be entitled to proportional benefits based on their original investment. This may include receiving preferred stock, commonly known as "shadow" or "sub-series" stock. While this can offer advantages, it can also introduce complexity in the share structure. Startups should be mindful of potential legal costs during equity rounds.

Types of SAFE Notes

There are various types of SAFE Notes that can be issued by a startup to investors. Some of the SAFE notes used in transactions are discussed below:

- **Fixed Conversion at a future date:**

  The investor invests a particular sum of money and the company commits a particular percentage of equity to the investor.

- **Valuation Cap, no discount**:

  In these types of SAFE notes, there is an upper limit on the valuation of the firm in the next round but there is no floor cap and no discount is offered to the investors. The higher the valuation cap, the better it is for the founders as it will result in lower dilution of equity for the founder but provided founders are confident to close the next round at higher than the valuation cap.

- **Discount, no valuation cap:**

  In these SAFE notes, the investor only negotiates the discount for the next round and leave the valuation discussion for the future as that is discussed in pricing round.

- **Valuation cap and discount:**

  In this type, the investor agrees on both the discount and the valuation. Here, the discount is applied to the pre-money cap of the pricing round.

- **Most Favoured Nation (“MFN”) clause:**

  Here, the MFN clause entitles the investors to the same terms as offered to the subsequent investors, so that they will always get the most favourable terms.

Key Terms in a Shareholders Agreement

Pre-emptive Rights and Anti-dilution

Pre-emptive rights are provisions that require a company to offer new shares to existing shareholders in proportion to their current shareholding. This clause is effective when all existing shareholders are interested in making further investments. On the other hand, an anti-dilution clause plays a crucial role when a company offers new shares to new investors. It allows existing investors to maintain their ownership percentage without the need for additional investment.

Right of First Refusal (ROFR)

The right of first refusal is a protective clause that limits the transfer of shares. It ensures that control of the company is not transferred to undesirable third parties. If a shareholder intends to sell their shares, they must first offer them to existing shareholders at the same price. If an existing shareholder declines to purchase the shares at that price, the company may seek alternative investors.

Right of First Offer (ROFO)

A right of first offer grants non-selling shareholders the opportunity to make an offer for the shares being sold before the selling shareholder can solicit offers from third parties.

Tag-Along Rights

Tag-along rights protect the interests of minority shareholders when a majority of shareholders intend to sell their shares. Also known as piggyback rights, this provision allows minority shareholders to sell their shares at the same price and under the same terms if they choose to do so.

Drag-Along Rights

Drag-along rights, on the other hand, favor the buyer. They compel minority shareholders to sell their shares as part of a company sale, ensuring that the buyer can acquire 100% of the shares under the same price and terms.

Buy-out Rights

The shareholders' agreement should include a buy-out rights clause that specifies the circumstances under which the company or existing shareholders can purchase the shares of a shareholder who becomes incompetent due to events such as death, disability, bankruptcy, or marital dissolution. The agreement may also include an "expulsion" clause, which allows existing shareholders to expel undesirable shareholders and acquire their shares.

Exit or Termination Clause

An exit or termination clause outlines the process and terms for investors or founders to exit the business upon achieving predetermined milestones. This clause provides clarity on how investors or founders can exit, often through a fair valuation or with a guaranteed premium in the event of an acquisition.

Good Leaver Bad Leaver

The good leaver bad leaver clauses define the terms and value at which a departing shareholder's shares are sold. A good leaver typically refers to directors or employees who cease employment due to reasons such as redundancy, ill health, resignation, or seeking new job opportunities. A bad leaver, on the other hand, refers to an employee who departs on negative terms, such as breaching their employment contract or engaging in gross misconduct within a defined period. A good leaver may have the option, but not the obligation, to sell their shares upon departure. However, a bad leaver is required to sell their shares to other shareholders at the nominal value.

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DECRYPTING TAXATION OF STARTUPS

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BACKGROUND – INDIA SCENARIO

We all are very familiar with terms like Unicorns, Founders, Funding, Valuation, Due Diligence, Seed round, Pre-Series, Boot Strapping etc. Yes, these are terms all revolving around the Startups which have created an uproar in the business world. Every now and then there is some news on the happenings in the Startups world. Millennials are in the forefront of innovation and comprise a huge part of the Startup as founders, idea creators, content creators, work force etc.

To give momentum to and build a strong Startups ecosystem, our PM Shri Narendra Modi had announced the flagship Startups India Initiative. In order to boost entrepreneurship, employment, innovation under the said initiative, the Government of India (GOI), introduced various benefits and facilities for the Startups. Benefits under Income tax provisions being one of them.

Startups is an Idea where the founders identify problems and try and bring solution to it in the most effective and efficient manner. They are entrepreneurs who bring in innovations and solutions that have never been done before or if done earlier are now more efficient thereby leading to generation of employment and wealth creation.

Startups usually have brilliant ideas for problem solving but generally are short of funds to the put those ideas into action. People with wealth who have a strong belief on the success of those ideas jump in to provide the much-needed funds as an Angel and are therefore called as Angel Investors. The concept of Angel Taxation came into existence when notices for additions under provisions of Sec 56(2)(viib) were issued to these Startups. There was a huge hue and cry on Angel taxation and therefore urgently required an urgent step in by the government. This resulted in some reliefs being extended to the eligible Start-ups. The issue of Angel tax has been dealt with in detail ahead.

In this article, I have tried to cover the tax provisions impacting various categories of people associated with Startups. It is divided into the following

a. Tax provisions affecting Startups entities

b. Tax provisions affecting employees of Startups

c. Other Provisions

A. Tax provisions affecting the Startups entities

1. Tax Holiday - Deduction of 100% Profits – Sec 80-IAC

In times when the government was withdrawing or giving sunsets to profit linked investments, the government introduced Sec 80-IAC to encourage and incentivise Startups. Tax Provisions for deduction of profits to eligible Startups u/s. 80-IAC are as follows:

<table>
<tr><th>Particulars</th><th>Provisions of Sec 80-IAC</th></tr>
<tr><td>Eligible Startups</td><td>i. Company / LLP engaged in eligible business
ii. Incorporated on or after 1st April 2016 but before 1st April, 2024.
iii. Turnover does not exceed Rs. 100 crores in the year in which deduction is claimed
(Turnover can exceed Rs. 100 crores before or after the said years out of the 10 years)
iv. Entity holds a certificate of eligible Start-up from the Inter-Ministerial Board of Certification of Department for Promotion of Industry and Internal Trade (DPIIT)
<u>Restrictions</u>
i. Entity is not formed up by splitting up or reconstruction of business already in existence
ii. Entity is not formed by plant or machinery previously used
<u>Exception:</u>
a. Plant & machinery used outside India, was not used in India before its installation
b. Plant & machinery was imported to India
c. Prior to its installation, no depreciation has been claimed and allowed under the Income tax Act, 1961</td></tr>
<tr><td>Eligible Business</td><td>Eligible Startups engaged in
i. Innovation
ii. Development
iii. Improvement
Of Products or process or services

iv. Scalable business with high potential of employment generation or wealth creation</td></tr>
<tr><td>Deduction amount</td><td>100% of Profits derived from eligible business</td></tr>
<tr><td>No. of years</td><td>Any 3 <u>consecutive</u> years out of 10 years beginning from the year of incorporation (at the option of the Assessee)</td></tr>
<tr><td>Form for claim</td><td>For claiming the deduction of 100% profits, the eligible Startup is required to furnish Form 10CCB duly signed and verified by a Chartered Accountant 1 month before filing the return of income.</td></tr>
</table>

Conditions prescribed by the DPIIT vide Notification G.S.R. 127(E) dated 19th February, 2019 to recognise the eligible entity as a Startups are as given below

Particulars	Conditions prescribed by DPIIT
Entity to be considered to be a Startups – (Conditions for availing registration to be eligible for 80-IAC deduction)	i. Private Limited Company / Registered partnership Firm / LLP ii. Will be eligible only upto 10 years from the year of incorporation / registration iii. Turnover to not exceed Rs. 100 crores in the given 10 years from incorporation / registration iv. Engaged in Innovation, development, Improvement of Process or products or services or is a scalable business model with employment generation or wealth creation To get certificate of an eligible Startups for claiming deduction of profits u/s. 80-IAC, an eligible Startups is required to file Form 1 with the Inter-Ministerial Board of DPIIT along with the prescribed documents. The Board shall verify, make enquires and if deems fit, grant approval.
Conditions for claiming exemption u/s. 56(2)(viib)	i. Certificate of Eligible Startup Inter Ministerial Board of DPIIT ii. Aggregate amount of paid up share capital and share premium does not exceed Rs. 25 crores after issue of shares **Exceptions – Following will not be considered to determine the above limit** i. Shares issued to Non resident ii. Shares issued to venture Capital company or venture capital fund iii. Shares issued to listed company whose net worth > 100 crores or Turnover > 250 crores in preceding year to year in which shares are issued. For claim of relaxation from the provisions of Sec 56(2)(viib), a self-certified declaration is required to be filed in Form-2 with DPIIT, which, in turn, shall be forwarded to CBDT.
Restrictions	The start-up shall not invest the amount received from issue of shares in the following: I. Land or building being residential house other than that used for the purposes of renting. ii. Land or building not being a residential house other than that occupied by start-up for its business or renting. iii. Loans and advances, if start-up isn't engaged in ordinary business of lending of money. iv. Capital contribution made to any other entity v. Shares and securities vi. Motor vehicle, aircraft, yacht or any other mode of transport, if the cost of such an asset exceeds Rs. 10 lakhs. vii. Jewellery viii. Archaeological collections, drawings, paintings, sculptures, any work of art or bullion ix. Any other capital asset. However, the above conditions are not applicable in case start-up holds the above assets as stock-in-trade, in its ordinary course of business. Startups seeking the Angel tax exemption can't undertake ordinary transactions such as salary advances, stock M&A, creation of a subsidiary, or contribution to an ESOP trust. These restrictions shall make it impossible for start-ups to scale or compete globally.

2. Provisions of Sec 56(2)(viib) – relaxation for eligible Startups

A common method to transfer funds between unconnected persons without any income-tax implications was to infuse funds into a closely held company at a huge premium. This resulted in generation and circulation of unaccounted money and money laundering through issue of shares, and in order to prevent the same the government introduced the provisions of Sec 56(2)(viib).

The intent of the government by bringing the said provisions on statue is true and correct, however problems commenced when the tax department started issuing notices to Startups who received huge amounts towards premium. In the Starts ups, investors generally do funding even before the Startups starts earning revenue. The premiums are high due to the belief of the investor on the success of the idea of the Startup. The said high premiums cannot be justified by applying bookish valuation methods based on the book value or DCF method. The Assessing Officers failed to understand these huge valuations and simply going by prescribed method had started making huge additions. Hence the terminology of Angel taxation emerged and became famous due to these reasons. The government then granted relief to eligible Startups from the applicability of provisions of Angel taxation.

Following is the provision and the requirement of Sec 56(2)(viib)

Particulars	**Provisions of Sec 56(2)(viib)**
Applies to	All persons, Resident as well as Non resident **Non residents were earlier not covered within the ambit of these provisions, however the Finance Act 2023 brought in an amendment to cover the non residents as well from 1st April, 2023** <u>Not Applicable to</u> i. Venture Capital (VC) undertaking receiving the consideration from a VC company or a VC fund registered with SEBI or AIF I & AIF II regulated by SEBI or IFSC Authority Act or IFSC regulations ii. Eligible Startups who have obtained a certificate from the Inter-Ministerial Board of DPIIT and whose iii. Persons notified by the Central Government. (Certain class of persons of the specified countries have been given exemption from the applicability of provisions of Sec 56(2)(viib) - Refer Notification S.O. 2274(E) [NO. 29/2023/F. NO. 370142/9/2023-TPL (PART-I)] DATED 24-5-2023)
Transaction	Issue of shares by a Company not being a company in which public are substantially interested and aggregate amount of paid up share capital and share premium does not exceed Rs. 25 crores after issue of shares.
Taxable amount	Consideration amount in excess of FMV of shares
Trigger point	Consideration amount is received in excess of FMV of shares where issue price exceeds face value

Particulars	Provisions of Sec 56(2)(viib)
Determination of FMV	FMV shall be as per i. Methods prescribed as per Rule 11UA read with Rule 11U (NAV method or DCF method) **OR** ii. Price substantiated by the company to the satisfaction of the Assessing officer Proposed changes open for public 1. For receipt from non-residents, 5 new internationally accepted methods of valuation have been proposed and have been kept open for public comments– i. Comparable Company Multiple Method ii. Probability Weighted Expected Return Method iii. Option Pricing Method iv. Milestone Analysis Method v. Replacement Cost Methods Representations have been made to extend the applicability of the said valuation methods to investments from residents as well 2. On issue of shares to non-resident entity notified by the Government or Venture Capital Fund or Funds from specified funds, price at which shares are issued to them shall be considered as FMV subject to fulfilment of the following conditions a. FMV does not exceed aggregate consideration received from them b. Consideration is received within 90 days from the date of the issue 3. Valuation from Merchant Banker should not be more than 90 days prior to the date of issue of shares 4. Safe harbour of 10% variation in value to be provided for forex fluctuation, economic indicators etc.
Valuation Report to be taken from	Valuation report to be procured from the Merchant Banker

The Startups in receipt of the certificate of recognised and eligible Start-up's from the Inter-Ministerial Board of DPIIT are not subject to provisions of Sec 56(2)(viib). However the Startups though engaged in the eligible business of innovative product or process or scalable business having potential of employment generation or wealth creation, if do not fulfil other criteria's as stated by the DPIIT, shall not be able to safeguard themselves from the rigors of provisions of Sec 56(2)(viib).

Extending the applicability of the provisions of sec 56(2)(viib) to Non residents

Finance Act, 2023 brought in an amendment by making the provisions of Sec 56(2)(viib) applicable to Non-residents. The Memorandum stated that the objective of the amendment is to widen the tax base by rationalising the tax provisions in order to eliminate the possibility of tax avoidance by extending the applicability to any person irrespective of the residential status. However Inbound Investments by non-residents were already being regulated under the provisions of FEMA and the amounts towards receipt of shares were being routed through banking channels. Then one fails to understand as to why was there a need to bring the non-residents within the ambit of provisions of Sec 56(2)(viib).

1. **Valuation under FEMA vis a vis Income Tax Act –** Under FEMA, presently the inbound investments on issue of shares are being accepted at a valuation determined by the internationally accepted principles of valuation. FMV determined as per FEMA should be the minimum value for which shares sought to be issued which means that shares can be issued at the determined FMV or any higher price. Unlike FEMA provisions, under the Income Tax Act, the share price should not exceed the FMV as per the prescribed method. Valuation is subjective and not an exact science and the price paid for an asset (i.e., share) is often a result of a negotiation process between the buyer and seller. Therefore, the valuation methodology adopted could range anywhere from being a simple book value-based approach to other complex methods. A valuation method aligning valuations under both the laws will have to be worked out and kept in mind by the company while issuing shares to non-residents. The introduction of the new 5 methods of valuation having international and wide acceptability seems to be a move by the government in the direction of aligning valuations under both laws. However given the past experience, the track record of how the tax department functions, the complexities and the perspective of the founder and the investor involved whiling sitting on the table to negotiate, the understanding of the tax authorities on a case to case basis and applicability by them of the newly proposed methods, it does not appear that Startups could sail through easily without going through the hassle. Time will only tell what lies ahead.

2. **Impact on FDI –** India is one of the fastest growing economy and has the 3rd largest Startups eco system. Even today major investments come from foreign sources. Generation of funding from the non-resident into the Indian Startups eco system will give a push and momentum to both the Startups well as the Indian Economy. However non-resident investors could resist from making investments in Indian Startups due to uncertainties on account of tax provisions and probable litigations that may arise by including them in the ambit of Sec 56(2)(viib). This amendment could result as a hindrance to attract foreign money. Many entrepreneurs are even accelerating their flip to an overseas jurisdiction due to this change. Therefore, the government will have to try and achieve a balance between the non-resident investments and tax evasion provisions introduced with the intent of plugging money laundering and unaccounted use of money.

3. **No relief from applicability of provisions of Sec 68**

   As per the provisions of Sec 68, if a sum is found credited in the books of an Assessee and the Assessee offers no explanation or the Assessing officer is not satisfied with the explanation offered, then the sum so credited shall be deemed to be the income of the Assessee. Even though an eligible Startups may have relief from the applicability of provisions of Sec 56(2)(viib), under the provisions of Sec 68, the Startups entity shall still be required to prove the genuineness, creditworthiness and the identity of the person making the investments in the Startups. Relief from applicability of provisions of Sec 68 has been granted only to selected category of Startups i.e. sum credited in the books of Venture Capital Company or Venture Capital Fund.

4. **Carried forward and set off loss under Sec 79**

   As per the provisions of Sec 79, business loss to a Company can be allowed to be carried forward and set off only in case when the shareholders holding not less than 51% of the shares in the year of incurrence of loss are the shareholders in the year of carried forward and set off. These provisions are crucial for a Startups as it incurs losses in the initial years of operations. Allowing carry forward and set-off of losses reduces the taxation burden on a start-up in the initial years of profits and results in a positive impact on its cash flows. However due to the peculiarity of constant changes in the Investors and the changes in shareholding % of the Promoters / Investors in a Startups, the said section becomes inapplicable and the Startups are unable to carry forward and set off losses incurred in its initial years. In order to facilitate the ease of doing business and promote Startup ecosystem, the government has rationalised the provisions of Sec 79 for Startups.

An **eligible Startup Company u 80-IAC** is allowed to carry forward and set off their past year losses, if either of two conditions are satisfied:

i. At least 51% of the voting power is beneficially held by the same persons on two relevant dates as follows:
i. the last day of the previous year in which such loss was incurred; and
ii. the last day of the previous year in which the loss brought forward has to be set off.

OR

ii. all the shareholders holding shares carrying the voting power on the last day of the financial year in which loss was incurred should continue to hold those shares on the last day of the financial year in which the loss brought forward are to be set off, and losses pertain to initial 10 years from the date of its incorporation.

A Startup who is not an eligible Startup as per Sec 80-IAC shall still be required to fulfil condition (a) above. However, even after the amendment, many Eligible Startups may get hit by section 79 limitation, because of two reasons:

a. With passing time, the shareholding of Promoters/initial shareholders may reduce resulting in a reduction of voting power by more than 51%, as start-ups need funding for running its business operations

b. many PE investors generally consider the time frame of 3-5 years for exit from a start-up

In such a scenario, a start-up may not be able to fulfil both the conditions and hence, may not be able to carry forward and set-off past years' losses.

5. Eligible Startups – 80-IAC not eligible for concessional tax rate under Sec 115BAA and Sec 115BAB

a. Sec 115AA – Domestic companies have been given an option to pay tax at concessional rate of 22% subject to the condition that it shall not avail certain benefits / exemptions / deductions. For companies opting for concessional rate, the effective tax rate works out to 25.17% inclusive of Surcharge and Cess.

b. Sec 115BAB – New domestic companies incorporated on or after 1st October, 2019 and engaged in the business of manufacturing goods have been given an option to pay tax at concessional rate of 15% subject to the condition that it shall not avail certain benefits / exemptions / deductions. For newly incorporated manufacturing companies opting for the said concessional rate, the effective tax rate works out to 17.16% inclusive of Surcharge and Cess.

Companies opting for concessional rates in the above mentioned Sections cannot claim deduction under the provisions of section 10AA or section 32(1)(iia) or section 32AD or section 33AB or section 33ABA or sub-clause (ii) or sub-clause (iia) or sub-clause (iii) of sub-section (1) or sub-section (2AA) or sub-section (2AB) of section 35 or section 35AD or section 35CCC or section 35CCD or under any provisions of Chapter VI-A other than the provisions of section 80JJAA or section 80M.

Since Sec 80-IAC is not covered under the exception of deductions under Chapter VIA, an eligible Startup eligible under Section 80-IAC and claiming deduction of 100% profits for any 3 consecutive years out of 10 years from the date of incorporation, shall not be eligible for concessional rate of taxation.

B. Tax provisions affecting the Startups employees

Deferment of tax on ESOPs of employees of eligible Startups – Sec 17(2)(vi)

In order to retain talented employees, it is important to compensate them thoroughly. In case of Startups, cash flows and cash liquidity are always a concern. There is always a cash crunch due to good amount of cash burnouts in the initial years. In such situations, the Startups offer Employee Stock Option Plans (ESOPs) to its employee. ESOPs are options given to employees to subscribe to shares of the Startup companies at a discounted rate on fulfilment of certain conditions. It is compensation given to them in kind and hence are in the nature of perquisites. The employer is required to deduct and pay tax on the perquisites amount (i.e. difference of the fair value in the as on the date of the exercise and discounted exercise price) in the year of exercise. However due to cash liquidity issues in Startups, the government has given a concession to eligible Startups to defer to deduct and pay tax on perquisites within 14 day of the earliest of the following events

i. After the expiry of 48 months from the end of the relevant assessment year;
OR
ii. from the date of the sale of such specified security or sweat equity share by the Assessee; **OR**
iii. from the date of the Assessee ceasing to be the employee of the entity

C. Other Tax provisions

Capital Gain Exemption u/s. 54GB

The provisions of exemption u/s. 54GB are as given below

Particulars	Provisions of Sec 54GB
Applicable to	An individual or Hindu undivided family
Capital Gain arising from	Transfer of Long-Term capital Asset being a residential property (a house or a Plot of land)
Exemption available when	Net consideration is invested in the Eligible Startups u/s 80-IAC and the Eligible Startups has utilised the amount for purchase of new asset within 1 year from the date of subscription by the Assessee.
Amount of Exemption	i. If net consideration > cost of the new assets then, Cost of the new asset *Capital Gain / Net ale consideration ii. If net consideration < cost of the new asset, whole of the Capital Gains
New Asset means	New Plant and Machinery but does not include i. any machinery or plant which, was earlier used by any other person – within or outside India ii. any machinery or plant installed in any office premises or any residential accommodation or a guest house; iii. any office appliances iv. Computers or computer software; other than a technology-driven start-up certified by the Inter-Ministerial Board of Certification notified by the Central Government in the Official Gazette v. any vehicle;

Particulars	Provisions of Sec 54GB
New Asset means	v. any vehicle; vi. any machinery or plant, the whole of the actual cost of which is allowed as a deduction (whether by way of depreciation or otherwise) in computing the income chargeable under the head "Profits and gains of business or profession" of any previous year
Date up to which investments can be made	31st March 2023 (extended by CBDT circular no.1 / 2023 dated 6th January, 2023 from earlier date of 31st March 2022)
Lock in Period	Investor - Equity shares of the Eligible Startup to be held for 5 years from the date of investments Eligible Startup – to hold new asset for 5 years from the date of acquisition
Consequences of violation of Lock in Period	In case new asset is transferred, exemption claimed shall be deemed to be income of the year in which new asset is transferred and shall be subject to Capital Gain tax. In case of sale equity shares, exemption claimed shall be deemed to be income of the year and shall be taxed as Capital Gain along with Capital gain on sale of shares in the year of sale.

Conclusion

Starts ups have their presence in almost every sector of the economy. They are leaving no stones unturned. They are bringing in innovation and bringing in new technology to make living easy and simpler. Right from inception, the number of Startups have grown multi fold and are still multiplying. With the growth of Startups, the economy grows too. Hence the government should try, adopt and creative a conducive environment for Startups to operate. It needs to be appreciated that a lot of ease and benefits have been extended to the Startups by the government as and when it has been realising the same. Still the teething issues in compliance, procedures, tax laws or any other applicable laws faced by them should be immediately addressed to. Tax laws should be made more simpler to adhere to. Startups function differently from the usual businesses. Its uniqueness and nitty gritty needs to be understood before blindly applying tax provisions to safeguard genuine Startups from unnecessary hardships.

STARTUPS - REDEFINING REAL ESTATE INDUSTRY

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Background

There is no doubt that last decade India has witnessed rapid change at various front. Whether it is the adoption of digitization, access to information, policy changes, tax structures, internet usage, or colonial culture. This has led to change in mindset, lifestyle, likings and priorities. Some people might call it a cultural shift. Although the majority of these changes have been experienced in urban India, Bharat still has a presence. One of the factors behind these changes is Startups and Startup Culture. It has changed dynamics of some Industries and Consumer behaviour. Real Estate Industry is no exception.

Real Estate Industry has remained one of the largest job creator and key to economic activity. However, a large part of the sector has remained unorganized and has been viewed with suspicion by regulators. Bringing about structural change in a country like India is always a challenge, and the same applies to reforms in the real estate sector. However, startup culture is slowly redefining the industry and overcoming its previous weaknesses. In this article, I have tried to highlight certain changes in the real estate industry that have been driven by startups

Startups & Real Estate Industry

India is the third-largest country in the world in terms of the number of startup ventures, after the United States and China. The growth of startups in the real estate sector has been slower than in other industries, but these initial steps give a glimpse of how the industry is going to take shape in the future. The use of technology in the real estate sector has led to the rapid adoption of technology tools and platforms. The way businesses are done, processes are followed, transactions are executed, products are designed, marketed, sold, and funded have all started to change the way they were traditionally done. Startups in the real estate space are commonly known as proptech, contech, or CRETech. The sector has seen four waves of tech innovations since 2007, including:

- The dot-com boom and the rise of online aggregators
- The use of data analytics and virtual experience to provide customer-specialized services
- The use of IoT, drones, and augmented reality
- AI, ML, blockchain, and the metaverse

These innovations are changing the way real estate is done, and they are likely to have a major impact on the industry in the years to come.

Change

It is interesting to analyse how some of the products, processes & services have evolved because of Startup Culture

1. **Buy, Sell, Rent & Manage Property** - Online marketplaces, platforms for broker networks, platforms for direct sale by homeowners, software/platforms enabling property management, tools/platforms enabling renters/buyers to find property, lead generation, helping make a buying decision, democratising homebuying, etc.

Some of the Startups in and around the Space are

Magicbricks/ 99 Acres – Platform offering variety of services, including property listings, home loans, and brokerage services.

IndusNet - Automating Digital Marketing (from Lead to Sales cycle)

BHIVE Workspace – Coworking & Managed Offices

Relation Realtech - Unit bookings through App based Technologies & reduce 1-2-1 interaction

Sell.Do - Online selling portal, virtual site visits, online payment options, and video conferencing & calendar scheduling tools

PinClick - a simplified, trust driven & unbiased home-searching experience (Online & Offline fulfilement)

SuqareYards - Integrated platform for real estate & mortgages

The HouseMonk – Helps property managers and landlords market, sell and manage their rental portfolio through it's SaaS platform

NestAway/ Zenhomes – CoLiving apartments for young professionals

Reloy – Homeowners Loyalty Programme & Digital Amenities Programme

Nomadgao – CoLiving & CoWorking

GoStops - provide young travellers with safe and social spaces at prices

2. **Construction Technologies** – The adoption of innovative solutions such as Building Information Modeling (BIM), the Internet of Things (IoT), Robotics, Automation, Predictive Analytics, and Drones for surveying and monitoring construction sites is part of this trend. Many products and services that are part of physical real estate are being innovated or digitally transformed to improve sustainability, efficiency, and comfort. Smart automation and IoT applications can be deployed in wired, wireless, or hybrid formats to address multiple practical constraints. They can be used for home automation, energy efficiency automation, and building management systems. Many solutions address space and design-related issues. These technologies improve efficiency, safety, and cost-effectiveness in the construction process.

Some of the Startups in and around the Space are

BuildTrack - IoT platform deployed to control or monitor electrical devices and sensors in any physical real estate space

75F - Innovating Building System industry by taking a fresh approach to HVAC, lighting and building controls.

Drona Automations - Solves problems occurring from sewage to space though robotics & automation

DSP Design - a 360° Architecture, Design and Smart Building Advisory Firm

Smartvizs - Platform that provides a greater perception and understanding of the space and design intent and strengthens collaborative design review.

WorkInSync / Smarten Spaces - platform for all your workplace needs enabling hybrid working models

Landeed – Making Land Transactions as easy and smooth as trading

LiveSpace - Interior Design & Décor Platform

3. **Construction Process Workflows/ ERPs /CRMs** - Technology is being used to solve problems throughout the construction project lifecycle, from processes like cost planning and estimation, procurement and vendor management, real-time information access, and predictive analytics. Some solutions also help to facilitate collaboration among project partners (architects, designers, building product manufacturers, etc.). From pre-construction to closeout, technology has enabled complete process control and efficient project delivery across all stages of engineering, procurement, and construction. Some solutions also help to facilitate the transparent exchange of transaction data across the stakeholders of a real estate company, such as the builder, its channel partners, and the customers. The traditional approach to every single process in the real estate sector is labour-intensive, but this will have to change as technology and automation can make the process much more efficient. Some of the Startups in and around the Space are

   BuildSupply - Creates ecosystem of software, e-commerce and finance and provide a one stop solution for activities throughout the construction project lifecycle

   Highbar - Standard ERP integrating complex 5-Dimensional Project Management systems

   ITAakash – ERP also offering solutions like CRM, HCM, Project Management, Property/Facility Management and Inventory Management

   DaeBuild CRM - End-to-end pre-sales and post-sales automation solution with White Labelling Options

   GeraWorld - Application offers functionalities from property purchase till the end of the warranty period also provides seamless integration with other ERP system

   Propiti - a platform to connect all the rental stakeholders together to manage all the processes and information

   ListEz - B2B SaaS prop-tech startup that aims to simplify and enable the real estate broker community by hand-holding them in their entire business lifecycle

4. **Marketing Tools** - Powered by Billions of data and/or Brokers Network

   Some of the Startups in and around the Space are

   Careersocially - Intelligent tool (gauge the sentiments of the audience) that is actively helping developers to expand their broker network based on the project attributes and get accelerated project sales

   Totality/ Insomniacs - set of technology products, which eventually will help a Realtor optimise their spending, improve pre-sales/ sales/marketing team efficiencies, drive lead level engagements

   Propacity – Helping Brokers manage & grow their business

   Agent iChat – AI Chatbot built for Lead generation

   Realiti - Enables marketing team's dream to target customers for every unit home individually or in any combination of their choice

   eXp Realty - offers a virtual campus to embrace Metaverse technology for enhancing customer engagement on a large scale for brokers

5. **Branding** - Transform the way brands interact with customers

Some of the Startups in and around the Space are

Sparrow Interactive - Design and Build solution for creating Brand Centres of RE projects

Baetho – Storytellers & a no code platform which allows to create solutions that are capable of elevating the customer experience

6. **Democratising Homebuying** - Various customer-centric products help homebuyers make informed decisions. Some of them create advanced analytics that provide buyers with accurate and precise information about real estate. They use AI and ML to address the problem of information asymmetry in the real estate market. These AI-centric solutions may integrate a large amount of property data, social data, economic and market indicators, and environmental insights.

Some of the Startups in and around the Space are

Liases Foras / Propall / Aurum / Propsoch / Zapkey - bringing in a scientific approach to property pricing and for developing a reliable market database

Propcheck/ Nemmadi – HomeInspection & Area Measurement using tech

HedgeHomes- End to End home buoying Platform

Teal - Re-engineering property due diligence in India

PropertyPistol, NoBrokers - a one stop shop for customers not only for property search and allied services such as packers and movers, home-cleaning and painting, legal verification, rental agreements, home loans, interiors, payments, and any other home-related services

7. **Funding/ Investing**

Fractional ownership platforms or real estate exchanges use blockchain technology to enable liquidity and reduce investment risk in commercial real estate. Some of the startups in this space include MYRE Capital, Alt DRX, Alt RealTech, Aurum WiseX, and Strata.

Credo - A home loan marketplace that helps users compare and apply for home loans

Early-stage, venture, and debt investments are also being made in the real estate sector. Some of the startups in this space include Gruhas and Oakbridge Capital.

Virtual data rooms are secure online platforms that help with many aspects of the deal process and automated workflow. They provide integration and secured access that connects to investment banks, advisory firms, and proprietary IT systems. Virtual data rooms also have translation facilities, AI-based technology to shift and appraise vast data, auto-allocation of documents, and AA functionality for smart reading, categorizing, and allocating documents. Some of the startups in this space include Drooms.

8. **Accelerators** – In addition to product- and process-centric startups, there are thematic accelerators that help startups by identifying, nurturing, and validating innovative startups that can address specific challenges and deliver significant cost savings, revenue maximization, and overall process efficiencies. Some of the startups in this space include Brigade REAP.

Impact

Key solutions offered by startups include automation of tasks, data-driven decision-making, and the utilization of artificial intelligence (AI) and machine learning (ML) algorithms for predictive analytics. These solutions have offered much-needed transparency, streamlined transactions, and better access to data, practices unheard of in the industry before. Additionally, startups are using VR-AR-3D technology to showcase properties to buyers and improve property showcasing. They are also using smart home technologies and maintenance optimization to improve the efficiency of homeownership. However, there is still a long way to go in terms of the adoption of these technologies by the real estate industry.

Startup Performance

According to data compiled by Fintrackr, real estate startups in India have raised nearly $2.4 billion between January 2021 and March 2023. This comprises 39 growth-stage companies that raised $2.25 billion and 69 early-stage startups that raised $145 million. The real estate industry attracted $551 million in investments in 2020, slightly more than $549 million in 2019. Venture capital-backed real estate companies raised $10.6 billion by July 2021, a nearly 28% surge from the same period a year earlier and the largest spend on record, according to data compiled by Crunchbase. Even though most of India's real estate industry transactions, worth over $1.4 billion, happen offline, over 50% of purchasing decisions start with an online search. This indicates the growing influence of real estate startups in India.
If you are considering investing in a real estate startup in India, here are some tips:

- Do your research. Before you invest in any real estate startup, it is important to do your research and understand the company's business model and its competitive landscape.
- Invest in companies with a strong team. The team is one of the most important factors in the success of a real estate startup. Make sure that the company has a strong team with experience in the real estate industry and in technology.
- Invest in companies with a clear vision. The company should have a clear vision for how it plans to disrupt the real estate industry. Make sure that you understand the company's vision and that you believe in its ability to execute on its plan.

Initiatives at Government

Some of the Initiatives by Government are as follows

1. Digitisation of Land Records to create Comprehensive and transparent land registry system.
2. Emergence of Smart Cities with smart infrastructure, energy management, waste management, and citizen engagement.
3. Online platforms for property registration, wherein one can register and track the progress of their applications digitally (by some of the States).
4. The implementation of technology in RERA has made it easier for home buyers to access information, file complaints, and track the progress of their cases.
5. Some municipal corporations have adopted solutions for property tax management which includes online payment systems, assessment tools, and digital records to streamline the collection and management of property taxes.

6. Government agencies are increasingly using data analytics and predictive modelling to gain insights into real estate trends, market dynamics, and urban planning. These technologies help in making informed decisions related to infrastructure development, land use planning, and housing policies.

Wayforward

Further Investment and collaboration between Startups, established real estate companies, and technology firms shall revolutionise the real estate sector and make it more transparent, efficient, and accessible to a wider audience.

Next big thing in the Space

- Super apps are disrupting the industry by providing enhanced and more targeted information and products. They can also allow businesses to access large volumes of customer data, which can be used to generate insights for the expansion of their products and services. Additionally, super apps can provide a seamless, integrated, contextualized, and efficient experience within the property industry. Super apps that acquire users through messaging, mobile payment, ride-hailing, or food delivery can integrate more offerings, including property and real estate-related services as their reach grows.
- Hyper care is a customer-focused approach to providing support that collaborates with real estate developers, owners, and operators to deploy fully integrated technology solutions that meet end-users' expectations.
- Climate tech is a field of technology that focuses on developing environment-friendly solutions for the real estate industry. This includes decarbonizing buildings, completing the booking, selection, and transaction process online, and even transforming buildings into revenue-generating clean power plants.
- Virtual worlds are digital environments that are becoming increasingly popular. Startups are deploying digital offices, residences, and retail outlets in virtual worlds. This could lead to a generational shift from brick-and-mortar real estate to virtual real estate. Crypto-centric residential communities are also being developed, where residents will purchase their land titles in the form of a non-fungible token (NFT) for both the virtual and real worlds.

FROM CONCEPT TO SUCCESS: YOUR ULTIMATE GUIDE TO VALIDATING STARTUP IDEAS

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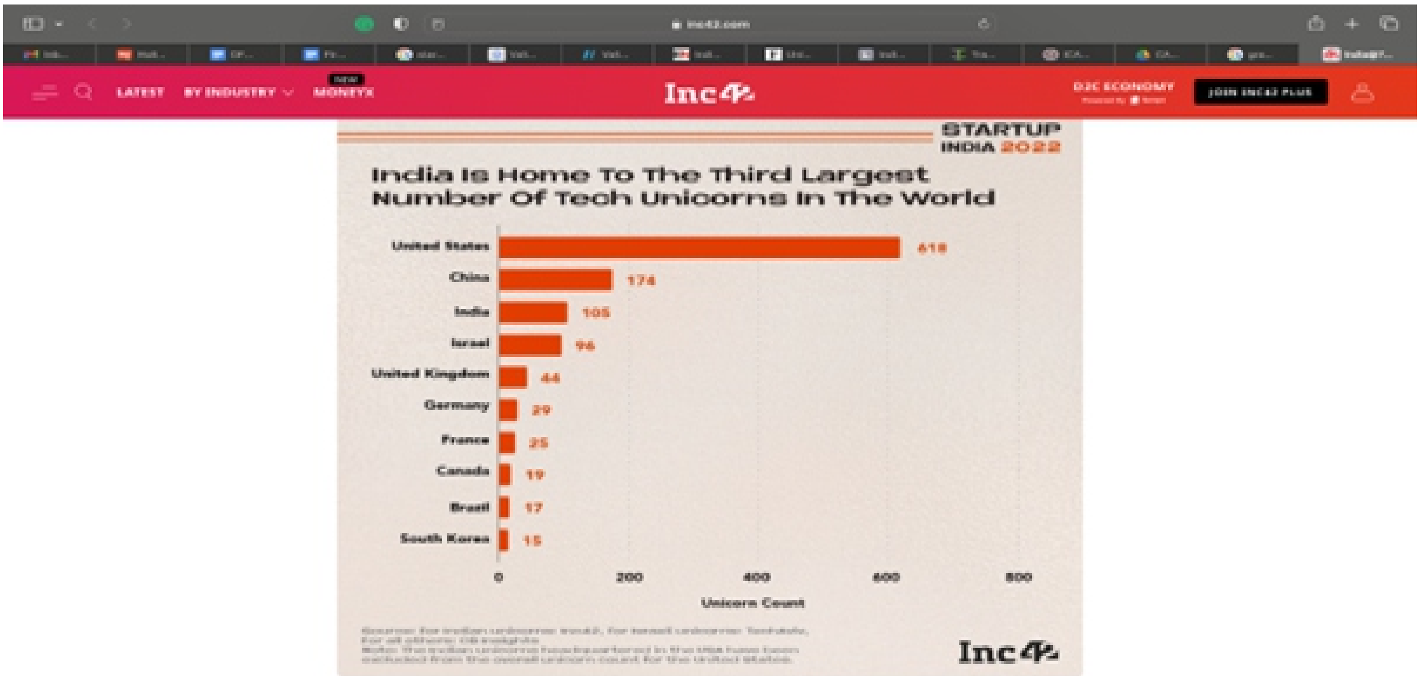
In the present-day evolving business landscape, startups have become the driving force behind innovation, disruption, and economic growth. India, in particular, has witnessed a remarkable rise in entrepreneurial activity, with a blooming startup ecosystem that is attracting global attention.

According to recent statistics, India is home to one of the largest startup ecosystems in the world. As of 2022, the country boasted 84,000+ recognized startups, according to the Ministry of Commerce & Industry. These startups have transformed traditional sectors and created new markets, solving unique challenges and addressing the needs of a diverse population.

What makes the Indian startup landscape genuinely fascinating is the incredible pace at which it is growing. In 2022, despite the challenges posed by the global pandemic, Indian startups raised a staggering $25 billion in funding, according to Entrackr report. It showcases the resilience and potential of the ecosystem. The country has 100+ unicorn startups, with a combined valuation surpassing $350 billion.



Source: Inc42

India's startup landscape boasts notable success stories. Be it Flipkart that revolutionized Indian online shopping to become a leading e-commerce platform or Ola that disrupted transportation with its convenient ride-hailing service. Such success stories showcase India's startup potential and opportunities.

However, amidst this vibrant startup ecosystem, one crucial aspect often determines the fate of an entrepreneurial venture – the validation of startup ideas. Ideas are the seeds from which successful startups emerge, and validating them effectively is the key to transforming concepts into sustainable businesses.

I aim to make this guide as a compass for entrepreneurs seeking the right direction for their startup venture. From concept to success, equipping you with the knowledge and tools required to validate your startup ideas. We will delve into the fundamental principles of idea validation, explore various strategies and methodologies, and provide you with actionable insights from my own startup venture- Firmway.

Whether one is a seasoned entrepreneur looking to launch a new venture or an aspiring startup enthusiast with a groundbreaking idea, this guide will back them on the path to startup success. So, get ready to dive deep into the universe of idea validation, uncover the secrets behind successful startups, and learn how to navigate the challenges and uncertainties that lie ahead. Together, let's unlock the full potential of your startup idea and pave the way for a remarkable entrepreneurial journey.

What do you mean by startup idea validation?

Startup idea validation is the critical process of evaluating the feasibility and potential triumph of a business concept prior to committing substantial resources. It encompasses meticulous research, analysis, and testing to collect evidence and insights that either support or challenge the startup idea's assumptions.

Why should entrepreneurs opt for startup idea validation?

Numerous compelling reasons come to my mind that highlight the importance of startup idea validation. Some key reasons include:

1. **Allows you to mitigate risks**

   Idea validation helps entrepreneurs identify potential risks and challenges associated with their startup idea. By conducting thorough research, analysis, and testing, entrepreneurs can uncover flaws, market limitations, or other obstacles that may hinder the success of their venture. Addressing these risks early on can save valuable time, effort, and resources in the long run.

2. **Helps you attain a product-market fit**

   Validating a startup idea provides insights into whether there is a genuine need and demand for the product or service. By engaging with potential customers, conducting market research, and analysing the competitive landscape, entrepreneurs can understand their target market better and tailor their offerings to meet customer needs effectively. This increases the chances of achieving product-market fit, a key factor for success.

3. **Supports efficient resource allocation within your startup**

   Validating a startup idea helps entrepreneurs allocate their resources more efficiently. Instead of investing significant time, effort, and capital in an unproven concept, idea validation provides evidence-based guidance on whether to proceed, pivot, or abandon the idea. This ensures that resources are utilized in the most effective and strategic manner.

4. **Empowers you to attract more funding and partnerships**

   When you have a validated startup idea, your business is more likely to attract potential investors, partners, and collaborators. Investors are often more inclined to support ventures that have undergone thorough validation, as it demonstrates a well-researched and data-driven approach. Additionally, partnerships and collaborations with industry players become more viable when the startup idea is validated, as it inspires confidence and increases credibility.

What are the steps that you need to undertake to validate your startup idea?

6-step approach to validate your startup idea

Initiate Comprehensive Market Research

Start by thoroughly researching your target market. Identify your potential customers, understand their needs, preferences, and pain points, and analyze the competitive landscape. This research provides insights into market demand, existing solutions, and potential gaps your startup idea can fill.

Validate your Value Proposition

Validating your value proposition is a crucial step in the process of validating your startup idea. It involves gathering evidence and insights to confirm that your product or service delivers value to your target customers and meets their needs effectively. The value proposition plays a crucial role in differentiating your offering, attracting customers, validating market fit, and effectively communicating the value and benefits of your product or service. It is a key component of successfully launching and scaling a startup.

Engage with Potential Customers

Interact directly with your target audience to gather feedback and validate your assumptions. Conduct surveys, interviews, or focus groups. These days one can opt for online surveys using platforms like SurveyMonkey or Google Forms. Share the survey link through email, social media, or your website. Conduct surveys and interviews to identify the specific customer segments that will benefit the most from your value proposition. Ask questions about their demographics, preferences, behaviours, and purchasing power to build a comprehensive understanding of your target audience. Apprehending the potential market will help you gauge the scope of growth and expansion of the proposed business.

Develop a Minimum Viable Product (MVP)

Create a scaled-down version of your product or service, known as an MVP. The MVP should have enough functionality to demonstrate the core value proposition and key features. Launch the MVP and measure customer response through surveys, user metrics, and testimonials. Assess the level of satisfaction, adoption rates, and retention rates to gauge the effectiveness of your value proposition. Iterate on your MVP based on the feedback received, making necessary improvements to align with customer needs and preferences.

Analyze Financial Viability

Assessing the financial aspects of your startup idea is crucial to determine its sustainability and attractiveness to investors. Conduct a thorough financial analysis, including cost projections, revenue potential, and potential funding requirements. You can demonstrate to investors that you have carefully considered the financial aspects of your startup idea. It provides them with confidence in your ability to generate sustainable revenue, manage costs effectively, and achieve a favourable return on investment. Additionally, understanding the financial viability of your idea allows you to make informed decisions, allocate resources efficiently, and develop a solid financial plan for the future success of your startup.

Seek Expert Advice and Feedback

Share your startup idea with industry experts, mentors, or advisors who have experience in your target market or industry. They help identify potential blind spots, and validate the viability of your idea from a professional standpoint.

Taking cues from notable reports to understand the necessity of Startup Validation
Source: IBM Report

A survey by Genome Report pinpoints that startups that have validated their market have a 34% higher chance of success than those that haven't. This indicates the significant impact of idea validation on the overall success rate of startups.

Furthermore, as per a 2022 Skynova Survey involving different founders, over 56 percent said that ensuring a product market fit is among the top recommendations for a successful business venture. Thus, you need to adopt an adequate idea validation approach to enhance the possibility of creating a thriving organization.

How our company Firmway adopted startup idea validation to attain success?

Firmway is an innovative SaaS-based platform founded by a team of Chartered Accountants, dedicated to streamlining and automating Balance Confirmation and Reconciliation Processes. With a strong presence in the market, Firmway currently serves over 500 corporate clients and 400 audit firms. Over the previous financial year, the platform has successfully facilitated more than 4.5 lakhs confirmations and conducted over 10,000 reconciliations.

Our journey at Firmway involved a systematic approach to developing and validating our automated confirmation and reconciliation solutions. Drawing on our expertise as Chartered Accountants, we proactively engaged with Partners of CA Firms, as well as Account Heads and Finance Heads of Corporates, to gain a comprehensive understanding of their pain points and challenges. Through these interactions, we recognized that effective follow-up was a crucial aspect of the confirmation process, leading us to introduce an auto reminder feature. This feature ensures a higher response rate to confirmation requests.

Additionally, we realized the necessity of tailoring our pricing to meet the specific needs of CA firms and Corporates. Understanding that the same pricing model would not be feasible for both segments, we developed different packages to accommodate their distinct requirements. By offering customized pricing, we were able to cater to the unique needs of each customer segment effectively.

By adopting this systematic and customer-centric approach to idea validation, Firmway ensured that our solutions were well-aligned with market demands. Our optimized validation process played a crucial role in the successful development and launch of our automated confirmation and reconciliation solutions.

Boost your startup potential with startup idea validation!

I strongly believe that the validation of startup ideas is a crucial step on the path to success. I hope this guide empowers entrepreneurs to unlock the full potential of their ideas, navigate challenges, and embark on a remarkable entrepreneurial journey. Idea validation is an indispensable process that sets the foundation for sustainable and profitable businesses in the transforming startup domain.

FIVE HOBBIES YOU NEED FOR SELF-DEVELOPMENT

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Tu na thakega kabhi,
Tu na rukega kabhi,
Tu na mudega kabhi
Kar shapath, kar shapath
Agneepath, agneepath

The aforementioned lyrics have been masterfully quoted by Mr. Harivanshrai Bachchan in his poem "Agneepath." When I first discuss self-development, I focus more on how to continue improving yourself every day. There are several definitions of "self-development" in the literature, but because the phrase emphasises "self," self-development is highly individual and differs from person to person.

To achieve a shared comprehension of self-development I shall quote Moore, K., who said, "Self-development is a magnificent pursuit. It is the urge to connect with your own sense of freedom, worth, integrity, and happiness. to enjoy plenty.

Self-development may be summed up as learning for the purpose of learning and keeping all of this knowledge throughout one's life. It also includes learning new information and abilities that are open to change.

In order to keep this essay brief and to the point, I'll discuss how hobbies can help you grow as a person. This misconception regarding a hobby as something you might do in your alleged "free time" has emerged. Hard effort can conquer talent, but if your talent starts working hard, no one can stop you, according to a famous quote. You may be wondering how this is even important and how hobbies, or activities you perform in your spare time, might aid in your personal growth.

Let's first examine the five variables that motivate self-development:

Financial Stability: It is the process of improving one's financial situation.

Physical Fitness: It is undeniable that maintaining physical fitness promotes personal growth.

Relationships: If you are surrounded by the people you love and have time for them, you will undoubtedly grow as a person.

Mindset: Having the right mentality enables you to make wise decisions even in the most trying circumstances

Personal Development: Learning new things, being creative, and gaining information all contribute to becoming a better person.

If I told you - you needed a hobby for all of these, would that make sense? Hobbies play a huge role in self development. Hobbies give you a fantastic opportunity to improve your way of life. You get a feeling of deep thinking and activity when you're involved in a hobby. Hobbies are a pleasurable activity that lets you immerse yourself in. They relieve stress and promote mental health. Hobbies change the way you think and perceive life.

Now let's look at the 5 Hobbies you should have to support the 5 aspects that motivate self-development. These are comparable to one another:

Hobbies that makes you money:

You wouldn't want to be someone who just goes to work every day, works all day, then comes home, eats, sleeps, and continues the cycle every day. All work and no play makes Jack a dull boy, right? You require a pastime that generates income. Giving clients advisory services or examining their tax ramifications would delight you deeply. Your passion is paying off financially.

But what if you do not really like what you are doing? In this fast pace world when people have started making money out of their expertise, it is utmost important to understand that doing what you like can make you much more money that merely liking what you do.

Apart from work, you may hobbies like playing sports or reading books. How about monetizing these? We all are aware how social media has taken over the monetization world and everyone on social media have become influencers. They just put content on the hobbies they have or activities they like to do. There are social media pages that exclusively discuss cricket or that just write reviews about books and then monetize them. So, having a hobby that makes you money can really have you develop yourself by improving your financial stability.

Hobbies that keep you fit:

Swimming, cricket, sports, workouts, walking, trampoline, dancing or just wiggling, but keep the body moving. Physical fitness is essential. Your physical appearance influences someone's first impression of you. Furthermore, physical exercise is essential for boosting your fitness. Working out is a favourite pastime for many people. To gain mental strength, you must maintain physical condition. Physical fitness enables you to work more efficiently. You must incorporate activities into your life that will help you stay fit. A multitude of activities can be used to achieve physical fitness. Staying fit is a must-do item on the to-do list of successful people, as you can tell from looking at their life. They take care of their bodies so that they can stay healthy and perform appropriately. Due to the fact that it motivates you to put yourself in challenging situations, being fit may also be a hobby.

Having a hobby that keeps you physically active and fit boosts your morale and gives you confidence. The energy that you get by being fit is unparalleled. Besides, if you are physically in good health, everything else that you do has much better results. All of these can definitely help you in self-development.

Hobbies that help you socialize:

No man is an island, it has been stated. We all require the company of others for a variety of reasons. In light of this, we need to develop some fresh social abilities. Building a strong social life may require learning a new game or even working on our conversational abilities.

You may create enduring memories as a result, and you can establish enduring relationships with others.

Spending time with family, surfing on through social media to catch up on your connections, calling friends and family, celebrating festivals together or merely calling up relatives to say a hi-hello - all of us have one of this as hobby. While some take this as a waste of time, but I would rather say - life is not always about doing productive things. Some time in a day, you need to take a break and socialize. This helps you know different things, share emotional bonds and learn new skills through social media or by calls or meets.

Have you ever thought of participating in a CVOCA initiative as a volunteer? The memories and experiences you make could be priceless and enduring. It's possible that you'll end up meeting new pals that encourage and inspire you to do better and the end-result may definitely help you in self-development.

Hobbies to help you evolve your mindset:

These pastimes are entirely intellectual in character. All endeavors that hone your intellect, sharpen your reasoning, require you to reflect and accomplish lofty objectives fall under this category. You will need a very strong mind to maintain a solid grip on everything because every worry, hustle, and try are connected to your mind. You need to engage in hobbies in order to maintain a healthy and active mind.

Some significant hobbies that will change your perspective include: Meditation, introspection or self-analysis, analytical thinking. While practicing meditation has been emphasized multiple times by so many people, having the same as hobby and how can it help is something that I would like to emphasize here.

Such hobbies calm your mind and give your perspective of life which in long run definitely help you to self-develop yourselves.

Hobbies that keep your creative and help you build knowledge:

Let's break this in two parts. The first one is about hobbies that keep you creative. Any sort of artistic expression or building anything from scratch gives you a tremendous sense of accomplishment. It offers joy and happiness and enables you to visually explore your sensations and emotions. Crafts are the first thing that come to mind when we think of creative hobbies, but have you ever thought of gardening or cooking as creative pastimes? The process of starting from zero, planning the layout, and preparing the land for planting a garden may be just as creatively stimulating as making a painting or sculpture. Additionally, cooking gives you the satisfaction of feeding your family and friends and sharing your bounty. Writing is a fantastic way to express creativity and a wonderful approach to evaluate your inner-self.

The second part being hobbies that help you build knowledge. Have you ever attempted to learn a new language or capture an unforgettable image? The days of merely being able to learn from official institutions are long gone. There are a tonne of platforms available nowadays that may help you learn more quickly. Our own CVOCA youtube channels and journal issues have so many self-learning courses/ articles.

Being creative and striving to get knowledge keep your mind active and give you sense of contentment and then we do not deny how creative and knowledge building hobbies help in self-development.

Events In Retrospect

Day & Date	Committee	Program Name	Moderator / Speaker	Attendance / Views
Thursday & Friday, 1st and 2nd June, 2023	Publication, Representation and Training committee	Training Session on Salary, IFOS and ITR filing for Administrative Department of Somaiya College	CA Viral Satra, CA Umang Soni	40 participants
Friday, 2nd June, 2023	Study Circle Committee	Rationale, Significance of Peer Review and its Review and Reporting Procedures	Premal Gandhi	27+ participants
Sunday, 18th June, 2023	50 Year Celebrations Committee	Insurance, Minority, Mediclaim and Financial Literacy	CA Ketan Saiya, CA Mukesh Dedhia. Shri Manish Mulchand Gala, Shri Vishal Khushal Gada Hetal Harilal Sangoi	350+ participants
19th June to 30th June 2023	Publication, Representation and Training committee	Certificate Course on Tally for Students of Somaiya College	CA Henik Shah, CA Zeel Vora, CA Jill Shah, CA Harsh Soni	10 students