

STARTUPS

FUNDING & COVID-19

Getting Started

A start-up with a **brilliant business idea** is aiming to get its operations up and running. From humble beginnings, the company proves the **worthiness** of its model and products, steadily growing thanks to the generosity of friends, family, and the founders' own **financial resources**.

Over time, its **customer base** begins to grow, and the business begins to expand its operations and its aims. Before long, the company has risen through the ranks of its competitors to become **highly valued**, opening the possibilities for future expansion to include new offices, employees, and even an initial public offering (IPO).

However, the path for each start-up is somewhat different, as is the **timeline for funding**.



STARTUP FUNDING

STAGES

1

► Pre-Seed Funding/Bootstrapping:

Meaning

Pre-Seed funding, also known as self-funding, is an effective way of start-up financing, especially when the business is just starting. When the founders have their own money, then they are tied to business. On a later stage, investors consider this as a validation point too.

Who is the Investor?

The founders can invest from their own savings or can get their family and friends to contribute. This will be easy to raise due to less formalities, plus less costs of raising. In most situations, family and friends are flexible too at many points.

Purpose of Investment

Pre seed funds enable the acceleration of the early-stage development of the product and services of the start-up, thus, making it a critical element of the funding process.

Investment Range

Upto
USD 50K



2

Seed Funding:

Meaning

Seed funding is the first official equity funding stage. It typically represents the first official money that a business venture or enterprise raises. This early financial support is ideally the "seed" which will help to grow the business.

Who is the Investor?

There are many potential investors in a seed funding situation like incubators, accelerators and angel investors. They tend to appreciate riskier ventures and expect an equity stake in the company in exchange for their investment.

Purpose of Investment

Seed funding helps a company to finance its first steps, like market research & product development. With seed funding, a company has assistance in determining what its final products will be & who its target demographic is.

Investment Range

USD 50K to 500K



3

3

► Series A Funding:

Meaning

Once a business has developed a track record, that company may opt for Series A funding in order to further optimize its user base and product offerings. In this round, it's important to have a plan for developing a business model that will generate long-term profit.

Who is the Investor?

The investors involved in the Series A round come from more traditional venture capital firms. Angel investors also invest at this stage, but they tend to have much less influence in this funding round than they did in the seed funding stage.

Purpose of Investment

Opportunities may be taken to scale the product across different markets.

Investment Range

USD 500K to 5Mn



4

► Series B Funding:

Meaning

Series B rounds are all about taking businesses to the next level, past the development stage. Investors help start-ups get there by expanding market reach.

Who is the Investor?

Often led by many of the same characters as the earlier round, including a key anchor investor that helps to draw in other investors. Series B leads to addition of a new wave of other VCs that specialize in later-stage investing.

Purpose of Investment

Used to grow the company so that it can meet high levels of demand. This stage funding is for bulking up on BD, sales, advertising, tech, support and employees.

Investment Range

USD 5Mn to 10Mn



5

► Series C+ Funding:

Meaning

In Series C and above rounds, investors inject capital into the meat of successful businesses, in an effort to receive more than double that amount back. Funding is focused on scaling the company, growing as quickly and as successfully as possible.

Who is the Investor?

As the operation gets less risky, more investors come to play. Groups such as hedge funds, investment banks, private equity firms, and large secondary market groups accompany the type of investors mentioned above.

Purpose of Investment

Companies at this stage look for additional funding in order to help them develop new products, expand into new markets, or even to acquire other companies.

Investment Range

USD 10Mn to 100Mn



6

▶ Initial Public Offering (IPO):

Meaning

IPO is the process of offering corporate shares to the general public for the first time. Growing start-ups that need funding often use this to generate funds, whereas established organizations use it to allow start-up owners to exit some or all of their ownership by selling the shares to the general public.

Who is the Investor?

The general public applies for the shares of the company during the IPO stage.

Purpose of Investment

After the IPO, stock options for a growing company can be leveraged to attract top talent and the increased access to capital can provide resources to push the momentum of your business forward.

Investment Range

USD 100Mn+

In a nutshell, the various start-up funding stages allow entrepreneurs to scale their start-up at any stage of their entrepreneurial journey. This scaling practice allows them to identify where their start-up stands and which potential investors would invest in them in order to help them grow.



Effects of **COVID-19** on Startup Funding in India

The **Coronavirus pandemic** crashed stock markets around the world, productions have come to a halt and businesses look at a bleak future with a little or no fear of running for months with no revenue. With **uncertainty** around the world, the bustling start-up ecosystem in India too will have to face the wrath of the novel coronavirus.

Needless to say, investors too will now be **cautious** with their moves and thus, during these unprecedented times, investments into start-ups will be a **challenging task**.

Thus, let's get down to brass tacks and expound on this topic in detail.



A fund of **INR 100 crores** has been created in India to help fight COVID-19

The start-up industry in India has come together to create a **pool of funds** of INR 100 crores which is **fully charitable** without any financial interest, to assist all those companies and innovators who can help fight the pandemic. The initiative has been named **ACT (Action COVID-19 Team)** and will help the investors and the innovators co-function to fight the economic carnage caused by the COVID-19 outbreak. It is also subject to **tax exemptions** of up to 50% under **section 80G of Income Tax Act 1961** and the following ideas are eligible for the grant:

- Prevention of COVID-19 spread
- Scaling Testing
- Disease management at home
- Enhanced support for healthcare workers & hospitals
- Management of critically-ill patients
- Support for mental health

More than 75% of this fund created by the Indian Government got subscribed within the first few days of its launch!

Start-up Funding falls by 50% in the month of March'2020

Start-up funding for March 2020 fell over 50 percent compared to the previous month due to the novel coronavirus outbreak which has disrupted business, led to lockdowns and deterred funding activity, data indicates. Indian start-ups raised **\$354 million** across 34 deals in **March'2020**, less than half the **\$714 million** raised in **February** across 46 deals. The fall is even sharper- 56 percent, compared to the \$794 million that start-ups raised from venture capitalists in March 2019.

However, the term sheets for the largest start-up funding deals executed in March 2020 were already finalized in November 2019. So, the real impact will be seen in the next 6 months where the shortage of funds could be more than ever.

Opportunity in Chaos:

There are innumerable examples of success in turbulent times. Fighting COVID-19 is almost similar as fighting a war with the healthcare professionals assuming positions of the soldiers while wearing their white coats and masks, the government trying to calm the residents and deploying resources to the production of alternate defensive goods, that is, masks, sanitizers, test kits and ventilators and the public hoarding en masse.

With the coronavirus pandemic, there are many start-ups that will have to change their course of work. A survey by Indeed says that 64% of Indian businesses are pivoting in response to pandemic. Health-tech, artificial intelligence, E-commerce grocery platforms and habit-forming sectors related to working out, cooking, listening to podcasts and many others are the new emerging sectors. While some start-ups may face adverse challenges in the current scenario, a plethora of players in the start-up ecosystem are blooming. Some are even proactively adapting their business models to make themselves sustainable and continue to provide their services to their target audience.

All in all, the fledgling start-up sector is set to face its biggest challenge ever with Covid19 holding the entire nation in its grip. Stay safe and **keep ideating!**



About Us

Nucleus AAR Advisors LLP is a business consulting firm providing specialized services in the field of Investment Banking, Deal Transaction Advisory, Corporate Advisory, International Taxation, Audit & Assurance. We partner entrepreneurs in their critical decision making by providing them various analysis customized as per their requirement. We also help in the effective implementation of decisions and its subsequent monitoring as well.

Team Nucleus is comprised of people from Big4s and reputed consulting firms with combined experience of 30+ years.

Team is distinguished by their functional and technical expertise combined with their hands-on experience, thereby ensuring that our clients receive the most professional service.



Locations: Gurugram | Bengaluru | Jaipur

Website: www.nucleusadvisors.in

Email: info@nucleusadvisors.in

