ELITE VALUATION

Independent Valuation & Boutique Advisory | Pan-India

www.elitevaluation.in

THE ULTIMATE

STARTUP VALUATION IN INDIA

— GUIDE 2026 —

Fundraising • Rule 11UA • FEMA • OPM • Backsolve
Convertible Instruments • ESOPs • Cap Table

A Practitioner's Guide for Founders, CFOs and Investors

BY

SAGAR SHAH

CA | CS | IBBI Registered Valuer | All India Rank Holder | Ex-EY

First Edition | 2026

ABOUT THE AUTHOR

Sagar Shah

CA | CS | IBBI Registered Valuer | All India Rank Holder | Ex-EY

Founder, Elite Valuation

Sagar Shah is the Founder of Elite Valuation and leads the firm's Valuation and Advisory practice. A Chartered Accountant (All India Rank Holder), Company Secretary and IBBI Registered Valuer, he brings 15+ years of professional experience advising promoters, investors, listed companies, startups and multinational groups on complex valuation and transaction matters across India.

Before founding Elite Valuation, he spent 9 years at Ernst & Young across valuation, transaction advisory, transfer pricing and cross-border taxation. His work today spans financial reporting, M&A and restructurings, intangible assets, ESOPs, FEMA, AIFs, securities, financial modelling and other regulator-facing assignments where the valuation must stand up to scrutiny from auditors, regulators, investors and boards.

EXPERIENCE	CLIENT BASE	CREDENTIALS	BIG 4 FOUNDATION
15+ Years	**500+ Client Engagements**	**CA | CS | IBBI RV**	**9 Years at EY**

VALUATION & ADVISORY EXPERTISE

- Business & Company Valuation
- M&A, Merger, Swap Ratio & PPA Valuation
- Intangible Asset, Brand, Patent & IP Valuation
- ESOP, Sweat Equity & Share-Based Payment Valuation
- Ind AS / Financial Reporting Valuation
- Shares, Securities & Complex Instrument Valuation
- FEMA, FDI / ODI & Cross-Border Valuation
- Income Tax, Companies Act & SEBI Valuation
- AIF Valuation, Structuring & Compliance Support
- ESOP Structuring, Scheme Design & Implementation
- Financial Modelling, Fundraising & Transaction Support
- Due Diligence, Transfer Pricing & Cross-Border Advisory

Practice focus. Elite Valuation is built for assignments where financial judgement, regulatory interpretation and transaction context intersect. The team supports both one-time transactions and recurring reporting requirements, with an emphasis on independent analysis, clear documentation and execution that is practical for management and audit teams.

HOW WE APPROACH ENGAGEMENTS

01	02	03	04
Clarify the purpose	**Build from evidence**	**Document the judgement**	**Stay involved through review**
We start with the reporting, transaction or regulatory objective before selecting a method.	Assumptions are anchored to financials, market data, contractual terms and the economics of the business.	The report explains the why behind the number so that reviewers can follow and challenge it.	We support management through auditor, board, investor and regulator questions on the valuation.

PHONE	EMAIL	WEBSITE
+91 9879557558	**sagarrvshah@elitevaluation.in**	**www.EliteValuation.in**

WHAT WE DO

Elite Valuation is not limited to startup valuation assignments. We work across the full valuation and transaction lifecycle - from a first institutional round or ESOP grant to an acquisition, intangible-asset exercise, cross-border transaction, Ind AS requirement, AIF mandate or strategic decision. The common thread is independent analysis that is commercially useful and defensible before stakeholders.

01 Startup & Fundraise Valuation

Pre-revenue to growth-stage valuation, round-pricing support, enterprise value, ordinary-share value and investor-facing analysis.

02 Business & Company Valuation

Independent enterprise and equity valuation for strategic decisions, transactions, shareholder matters and regulatory purposes.

03 Shares, Securities & Instruments

Equity, preference shares, debentures, convertibles and complex capital structures, including OPM, PWERM, backsolve and waterfall analysis.

04 ESOP Advisory & Valuation

Pool sizing, scheme design, ordinary-share valuation, grant-date fair value, Ind AS 102 support and ongoing implementation.

05 M&A, Merger & Swap Ratio Valuation

Valuation for acquisitions, mergers, demergers, restructurings, share-exchange ratios and transaction decision-making.

06 Intangible Asset & IP Valuation

Brand, customer relationship, technology, patent, copyright, licence and other intellectual-property valuation.

07 PPA & Ind AS Valuation

Purchase price allocation, impairment, financial instruments, share-based payments and other fair-value measurements for financial reporting.

08 FEMA & Cross-Border Valuation

FDI / ODI, cross-border issue and transfer pricing support, valuation certificates and transaction-structure inputs.

09 Income-tax & Regulatory Valuation

Independent valuation for applicable Income-tax, Companies Act, SEBI and transaction-specific valuation requirements.

10 AIF Valuation & Advisory

AIF portfolio valuation together with structuring, registration and compliance support for sponsors and fund managers.

11 Financial Modelling & Fundraising

Investor-ready operating models, DCFs, scenario analysis, cap-table economics and decision models for growth and fundraising.

12 Due Diligence & Transaction Advisory

Financial due diligence, transaction structuring, M&A support, valuation review and other execution-focused advisory.

One team, multiple contexts. *Startup assignments commonly sit at the intersection of Companies Act, FEMA, Income-tax, Ind AS, investor rights and transaction documentation. We scope the work around the actual purpose rather than forcing one valuation number into every use case.*

REPORTS	MODELS	ADVISORY	REVIEW SUPPORT
Independent valuation opinions	**DCF / OPM / PWERM / waterfall models**	**Round & structure inputs**	**Board / auditor / investor queries**

+91 9879557558 | sagarrvshah@elitevaluation.in

WHO WE SERVE

We work with founders and venture-backed companies across the funding lifecycle, as well as listed groups, investors, funds and professional advisers. Clients typically involve us when a valuation will affect dilution, tax, accounting, a board decision, a regulatory filing or an eventual exit - and the number must be supported by a file that can be defended later.

CLIENTS & STAKEHOLDERS

- Founders, startups and venture-backed companies
- VC, PE, family offices and strategic investors
- CFOs, controllers and finance teams
- Boards, audit committees and independent directors
- Employees and management teams in ESOP programmes
- Acquirers, sellers and shareholders in secondary transactions
- Listed companies and large private groups
- AIF sponsors, fund managers and trustees
- MNCs and Indian subsidiaries of global groups
- CA, CS, legal, tax and transaction advisers
- Banks, NBFCs, lenders and credit teams
- Businesses preparing for M&A, restructuring or succession

WHEN CLIENTS TYPICALLY CALL US

FUNDRAISE Pre-seed to growth round, valuation discussion, cap-table impact or investor diligence	**ESOP** Pool creation, grant pricing, ordinary-share value or Ind AS 102 accounting	**CROSS-BORDER** Foreign investor, FEMA pricing, conversion terms or secondary transfer
TRANSACTION M&A, merger, demerger, share swap, secondary or restructuring	**REPORTING** PPA, impairment, fair value, instrument classification or audit support	**REGULATORY** Companies Act, SEBI, Income-tax, AIF or another valuation requirement

SECTORS WE WORK ACROSS

Technology & SaaS	**Fintech**	**Consumer & Retail**	**Healthcare**	**Manufacturing**
Financial Services	**Logistics**	**Hospitality**	**Real Estate & Infra**	**Professional Services**

WHY CLIENTS WORK WITH US

SENIOR INVOLVEMENT Complex assignments receive founder-led review and judgement, not a volume-processing approach.	**STARTUP + REGULATORY VIEW** We connect commercial round economics with Companies Act, FEMA, tax, Ind AS and investor-rights consequences.
DEFENSIBLE OUTPUT The focus is not only the number, but the assumptions, evidence and documentation behind it.	**PRACTICAL EXECUTION** Big 4-style rigour combined with the responsiveness and accessibility of a boutique advisory team.

START A CONVERSATION

If you are unsure whether the immediate question is round pricing, ordinary-share value, FEMA, ESOP, accounting or a broader transaction issue, send us the term sheet, cap table, instrument terms or transaction note. We can help define the right valuation objective before the structure becomes difficult to change.

PHONE	EMAIL	WEBSITE
+91 9879557558	**sagarrvshah@elitevaluation.in**	**www.EliteValuation.in**

DISCLAIMER

This guide is provided for general information and educational purposes only and does not constitute valuation, legal, tax, accounting, investment, fundraising or transaction advice. Startup transactions are fact-specific, and the applicable law, valuation purpose, signatory requirement and measurement date can differ depending on the instrument, investor, transaction and reporting framework. Readers should obtain professional advice before acting. Elite Valuation and the author accept no liability for loss arising from reliance on this material.

Scope of the Guide

The guide focuses on the practical valuation questions encountered by Indian startups, founders, CFOs and investors: fundraising, choice of valuation approach, complex share rights, cross-border pricing, ESOPs, secondaries, down rounds and exit readiness. Illustrations are intentionally simplified to explain the mechanics and judgement involved and should not be used as a substitute for an entity-specific valuation.

2026 Direct-tax Transition

India moved to the Income-tax Act, 2025 for tax years beginning on or after 1 April 2026, while tax years beginning before that date continue to be governed by the Income-tax Act, 1961. This guide therefore distinguishes current 2026 transactions from legacy tax-year references. The former Section 56(2)(viib), commonly called angel tax, does not apply on or after 1 April 2025; legacy matters can still require reference to the old framework.

Professional and Regulatory Use

A valuation prepared for one purpose should not automatically be reused for another. A Companies Act valuation, FEMA pricing exercise, financial-reporting fair value, ESOP valuation and tax valuation may ask different questions and may require different evidence or professional capacity. The purpose, valuation date, instrument rights and intended users should be fixed before work begins.

Information, Illustrations and Copyright

All numerical examples, companies, round terms and case studies are illustrative unless expressly stated otherwise. Market inputs, legislation and regulatory guidance can change.

TABLE OF CONTENTS

PART I - FOUNDATIONS

Chapter 1: Why Startup Valuation Is a Different Discipline

Valuation theory was built for businesses with a past. A startup's value lies almost entirely in a future that has not happened yet, and the discipline has to be rebuilt around that fact.

Feature	Mature business	Early-stage startup
Evidence base	Historical operating record	Forward plan, unit economics and external benchmarks
Primary uncertainty	Forecast variance around an established model	Business-model, scale and financing uncertainty
Typical value concentration	More balanced between explicit period and terminal value	Often heavily concentrated in later years / exit outcomes
Capital structure	Usually simpler	Often layered preferences, convertibles and option pools
Best defence	History + market evidence	Internal consistency + triangulation + contemporaneous evidence

Table 1.1: Why startup valuation requires a different evidentiary discipline.

The Problem with Applying Conventional Valuation to a Startup

Every standard valuation textbook rests on a quiet assumption: that the business being valued has a history from which the future can be inferred. Revenue has a trend. Margins have a range. Working capital has a rhythm. Capital expenditure has a pattern. The analyst's job is to understand that history well enough to extend it forward with judgement, and then to discount the result at a rate that reflects the risk of being wrong. A startup breaks every link in that chain. There may be three years of history, but the business model changed twice during it. Revenue may have grown three hundred per cent, but from a base so small that the percentage is meaningless. Margins may be deeply negative by design, because the company is buying growth. Working capital may swing violently as the company shifts between prepaid and postpaid customers. And the terminal value - which in a mature company might represent sixty per cent of the total - can represent ninety-five per cent or more of the value of an early-stage company, meaning that almost the entire answer depends on assumptions about a period nobody can forecast with confidence. This is not a reason to abandon rigour. It is a reason to understand precisely where the rigour must be applied. In a mature business, the discipline sits in the analysis of history. In a startup, it sits in three other places: the internal consistency of the forward story, the quality of the external evidence used to anchor it, and the transparency with which uncertainty is acknowledged and bounded rather than buried.

OUR INSIGHT

Founders often ask us whether their company can be valued at all, given that it has barely any revenue. The answer is always yes - but the question they should be asking is different. The right question is not 'what is our company worth', it is 'what evidence exists that a reasonable person could rely on to support a number, and how wide is the range that evidence supports'. A valuation of an early-stage company that produces a single point estimate with no discussion of range is telling you more about the valuer than about the company.

Price, Value and the Gap Between Them

In the startup world these three words are used interchangeably and they should not be. Price is what someone actually paid. Value is what the asset is worth on a defined basis to a defined party. Valuation is a professional opinion on value, prepared for a stated purpose under a stated standard. The gap between price and value in venture transactions can be very large, and it is not evidence that anyone has made a mistake. A venture investor pricing a round is not solving for the intrinsic worth of the business today. They are solving for an ownership percentage that produces an acceptable return in the scenario where the company succeeds, accepting that in most scenarios the investment returns nothing. That calculation is entirely rational and it will routinely produce a price well above any figure a discounted cash flow would support on a probability-weighted basis. This matters practically because the headline 'valuation' announced when a round closes is a price, not a value - and frequently not even the price of the equity shares. It is usually the post-money figure implied by the price paid for a preference instrument carrying liquidation preference, anti-dilution protection and other economic rights that ordinary equity shares do not have. Treating that figure as the value of every share in the company overstates the worth of ordinary equity, sometimes by a very wide margin. Chapters 9 and 10 deal with this problem directly.

The Basis of Value: Ask Before You Calculate

Before a single cell of a model is populated, two questions must be settled: what standard of value applies, and what premise of value applies. These are not academic distinctions. They change the answer, sometimes by multiples.

The premise of value asks a related question: is the business being valued as a going concern that will continue trading, or on some liquidation basis? For most startups the going concern premise is correct, but it should be a conscious conclusion rather than an assumption - particularly where runway is short and the fundraise that would extend it is not yet committed.

PRO TIP

Write the standard of value, the premise of value, the valuation date and the purpose of the engagement on the first page of the model, before you build anything. If any of those four change during the assignment, the model must be revisited. More disputed valuations come apart on these four points than on any technical calculation.

What Actually Makes a Startup Valuation Defensible

Defensibility is not accuracy. Nobody can be accurate about a business whose outcome is genuinely uncertain. Defensibility is the quality of being able to explain, to a regulator, an auditor, an acquirer or a court, why the conclusion reached was a reasonable one on the information available at the valuation date.

- Every assumption is sourced. Growth rates, margins and multiples trace to something external - a management plan the board approved, a market study, observed peer data, or documented transaction evidence.
- The internal logic holds. Revenue growth is consistent with the headcount and marketing spend that would be required to deliver it, and with the working capital it consumes.
- The answer is triangulated. At least two independent approaches produce results in a similar range, and where they diverge the divergence is explained rather than averaged away.
- Uncertainty is stated, not hidden. Sensitivities are shown. The range is disclosed. The reader can see how the answer moves when the key assumptions move.
- The capital structure is respected. Value is allocated across share classes according to their actual economic rights, not divided equally across a share count.
- The record is contemporaneous. The evidence relied on existed at the valuation date and can still be produced two years later when somebody asks. That last point deserves emphasis. The overwhelming majority of valuation disputes in India are not lost on methodology. They are lost because the file cannot demonstrate what was known and relied upon at the time. A well-documented mid-range answer beats a brilliant undocumented one every single time.

Five Failure Modes and How They Are Caught

Startup valuations fail for a small number of recurring reasons. In almost every contested case reviewed, the defect falls into one of five categories, and each has a characteristic signature that a reviewer learns to spot within minutes of opening the file.

What is striking about that list is that none of the five is a technical error. No entry concerns a mistake in the mathematics, a misapplied formula or a misunderstanding of theory. Every one of them concerns process: what was done, in what order, and what record was kept of it. This is consistently true. Valuations are very rarely lost on the arithmetic and very frequently lost on the file. The implication for a founder or CFO is encouraging, because process is controllable in a way that judgement is not. You cannot guarantee that a forecast will prove accurate, and no one should expect you to. You can guarantee that the plan was formally

adopted before the valuation was instructed, that the market evidence relied upon was retained, that the capital structure was read from the constitutional documents, and that the report was signed by the right professional on the right date. Those are administrative acts, they cost very little, and together they account for the great majority of the difference between a valuation that holds and one that does not.

PRO TIP

Open a dated folder for every valuation at the moment it is instructed, and close it when the report is issued. Into it go the board minute approving the plan, the plan itself, the market evidence, the peer screening record, the constitutional documents relied upon, the instruction letter and the final report. Nothing goes in afterwards. That closed folder is the thing that answers the question asked three years later.

Case Study 1.1 - A Pre-Revenue SaaS Company: Range Before Precision

A pre-revenue B2B SaaS startup has a functioning product, three paid pilots and a signed pipeline, but only six months of operating history. Management asks for a single DCF value for a seed round.

A practitioner would resist false precision. The lead evidence may be comparable seed-stage financings and a scenario framework around conversion of the pipeline, with a DCF used only as a reasonableness check. The output can still support a point conclusion where required, but the report should disclose the wider range supported by the evidence and the assumptions that move it.

Practitioner Checklist

- State the purpose, standard / basis of value, valuation date and premise before modelling.
- Separate round price from ordinary-share value where preference rights exist.
- Triangulate the conclusion with more than one evidence source wherever practicable.
- Retain contemporaneous forecasts, market evidence and primary capital-structure documents.
- Show sensitivity / range where uncertainty is genuinely wide.

PART I - FOUNDATIONS

Chapter 2: The Valuation Trigger Map for Indian Startups

A startup will need a valuation many times before it exits - and the valuation required at each point is governed by a different law, prepared by a different professional, and built on a different standard of value.

Trigger	Primary valuation question	Typical output
Primary fundraise	What price / value can be supported for the proposed allotment?	Companies Act valuation + commercial pricing analysis
Foreign investor	Does the issue or transfer satisfy FEMA pricing?	Cross-border pricing certificate / support
ESOP grant	What is the defensible ordinary-share / option value?	Equity-share and option valuation
Secondary transfer	What is the value of the specific shares being transferred?	Transfer valuation considering tax / FEMA as relevant
Financial reporting	What fair value is required by the applicable accounting standard?	Ind AS / accounting valuation

Table 2.1: Common startup valuation triggers and why one report may not serve all of them.

Why One Company Can Have Several Correct Valuations at Once

A single company can legitimately have several valuation figures on the same date. The negotiated round price may be one number. A Companies Act valuation supporting the allotment may answer a different statutory question. A FEMA pricing exercise may establish the minimum or maximum permitted price for a cross-border leg. The fair value of an ordinary equity share used for ESOP or financial-reporting purposes may be materially lower than the price of a preference instrument. In a secondary transfer, the applicable Income-tax valuation provisions may introduce yet another measurement objective. These numbers are not inconsistent when their purposes are different.

OUR INSIGHT

Read the trigger map as a transaction checklist. A priced round with a foreign investor and a simultaneous ESOP refresh can activate Companies Act, FEMA and financial-reporting or ESOP valuation workstreams at the same time. If a secondary component is added, tax valuation can enter as well. The practical mistake is discovering the second purpose or professional capacity after closing documents are already signed.

The Sequencing Problem

Timing is where many transactions go wrong. Each valuation report has a valuation date and must be sequenced correctly with the corporate action it supports. The Companies Act valuation should be available for the approvals and disclosures that rely on it; a FEMA valuation must be aligned to the cross-border pricing and reporting framework; and any tax valuation relevant to a transfer should use the law and prescribed rules applicable to that tax year. The discipline is to identify every required report before the board and shareholder timetable is fixed, not after the money has moved.

A workable sequence for a priced round

Notice that the valuation is instructed at step two, before resolutions are passed, and not at step five when the company realises a filing needs supporting. The order in that diagram is not stylistic. Reversing steps three and four is one of the most frequently encountered defects in Indian startup transaction files, and it is not always curable after the fact.

PRO TIP

Maintain a single 'valuation register' as a live spreadsheet: date, purpose, standard of value, methodology used, conclusion, signatory, and the corporate action it supported. Every founder who has been through a diligence exercise wishes they had started one on day one. It takes ten minutes a round and saves weeks at exit.

Who Is Qualified to Sign What

India has overlapping valuation regimes rather than one universal statutory signatory. An IBBI Registered Valuer in the Securities or Financial Assets class is central to Companies Act share and securities valuations. FEMA pricing must be supported in the professional capacity and manner permitted by the operative foreign-investment rules. Income-tax valuation depends on the governing tax year and the prescribed method / professional under the applicable rules; legacy angel-tax DCF requirements should not be copied into a current 2026 transaction by habit. Financial-reporting valuations may also involve independent valuation specialists even where the accounting standard does not prescribe a statutory signatory. The engagement letter should therefore state the purpose, legal framework and capacity in which the valuer is acting.

Building the Habit Early

Almost everything in this chapter becomes straightforward if it is handled as a routine part of transaction planning, and painful if it is handled as an exception. The companies that manage the trigger map well are not the ones with the largest finance teams. They are the ones that adopted a simple habit early: before any corporate action involving shares, somebody runs the trigger map and writes down what the action requires. That single step catches the great majority of problems while they are still cheap. It identifies the second signatory before the closing timetable is fixed. It flags the FEMA reporting obligation before the deadline passes. It surfaces the need for a separate ordinary share valuation before options are granted at the wrong exercise price. And it produces, as a by-product, the valuation register that will make the eventual exit diligence a matter of retrieving documents rather than reconstructing history.

Case Study 2.1 - Series A + Foreign Investor + ESOP Refresh

An Indian startup proposes a Series A preferential allotment to resident and non-resident investors and wants to refresh its ESOP pool at the same board cycle.

The transaction is mapped into separate workstreams: Companies Act valuation for the allotment, FEMA pricing for the non-resident leg, ordinary-share / option valuation for the ESOP and financial-reporting analysis where applicable. If a founder also sells shares to the investor, the secondary leg is separately tested for tax and FEMA transfer pricing. The commercial round price is an input to the analysis, not a universal answer.

Practitioner Checklist

- Map every valuation trigger before board and shareholder timelines are fixed.
- Keep a valuation register by date, purpose, professional capacity and corporate action.
- Do not assume one report can serve Companies Act, FEMA, ESOP, accounting and tax purposes.
- Align the report date and valuation date with the transaction sequence.
- Refresh ordinary-share valuation after material financings or changes in rights.

A Practical Valuation Sequence for a Funding Round

1	2	3	4	5
Map triggers	**Fix dates**	**Build evidence**	**Obtain reports**	**Close the file**
Resident / non-resident, primary / secondary, ESOP and accounting workstreams.	Valuation date, board date, shareholder date and expected closing.	Plan, cap table, rights, financials, market data and transaction documents.	Complete each purpose-specific valuation before the approval or filing that relies on it.	Save signed reports, resolutions, filings and the final cap table in the valuation register.

PART I - FOUNDATIONS

Chapter 3: The Regulatory Architecture

Four bodies of law govern startup valuation in India, and they were not designed to work together. Understanding where each begins and ends is the difference between a clean transaction and a multi-year dispute.

Framework	Core question	Typical startup trigger
Companies Act	What valuation and disclosure support is required for the corporate action?	Preferential allotment, restructuring, scheme, sweat equity
Income-tax	Does a transfer or receipt require prescribed FMV treatment?	Secondary sale, below-FMV transfer, legacy tax-year matter
FEMA	What pricing constraint applies when a non-resident participates?	FDI, transfer, conversion, exit
Ind AS / accounting	How should the instrument, option or transaction be measured?	ESOP, fair value, convertibles, PPA

Table 3.1: The four frameworks ask different questions and should be mapped before pricing is finalised.

Four Frameworks, Four Purposes

The Indian regulatory framework for valuation grew by accretion. Each layer was added to solve a specific problem at a specific time - preventing tax leakage, controlling capital flows, protecting minority shareholders, standardising financial reporting - and no single authority ever harmonised them. The result is a system where four separate frameworks can apply simultaneously to one transaction, each demanding a different methodology, a different signatory and a different standard of value.

The Companies Act Layer

Section 247 of the Companies Act 2013 created the concept of the Registered Valuer and made valuation a regulated professional activity in India for the first time. The Companies (Registered Valuers and Valuation) Rules 2017 built the machinery: registration with IBBI, asset class specialisation, an examination requirement, mandatory continuing education, a code of conduct and a disciplinary framework. For a startup, the Companies Act bites most directly at Section 62(1)(c), which governs preferential allotment - the mechanism by which almost every venture round is executed. Where a company issues shares to persons other than existing shareholders on a rights basis, the price must be determined by the valuation report of a registered valuer, and that report must be made available to shareholders in connection with the special resolution authorising the issue. The requirement is procedural as much as substantive. The report must exist, must be by a properly registered valuer holding the correct asset class, must be dated before the resolution, and must be circulated with the notice. A defect in any one of those elements is a defect in the allotment itself, and it is the kind of defect that surfaces years later in a due diligence exercise when the company is

trying to close an exit.

OUR INSIGHT

We are asked regularly whether a registered valuer's report is really necessary for a small round where everyone knows each other and nobody is in dispute. The honest answer is that the report is not for today. It is for the day, three or four years from now, when a buyer's counsel opens the corporate records and works backwards through every allotment the company has ever made. A missing report on a small early round has held up more Indian exits than any single commercial issue We have seen.

The Income Tax Layer

The direct-tax layer changed materially before this 2026 edition. The former Section 56(2)(viib), known as angel tax, does not apply on or after 1 April 2025. From tax years beginning on or after 1 April 2026, the Income-tax Act, 2025 applies, while earlier tax years remain governed by the 1961 Act. For current startup transactions, tax valuation remains especially relevant to transfers of unquoted shares: Section 79 of the 2025 Act addresses transfers for consideration below prescribed fair market value on the transferor side, while Section 92(2)(m) addresses receipt of specified property, including shares and securities, without or for inadequate consideration on the recipient side, subject to the statutory exceptions. Legacy years should still be analysed under the corresponding provisions of the repealed Act.

The FEMA Layer

Where a non-resident is on either side of a share issue or transfer, the FEMA framework applies in addition to everything above. Its logic is directional and simple to state: India should not lose value on the way out and should not overpay on the way in. In practice this produces a floor price when a non-resident is acquiring or subscribing, and a ceiling when a non-resident is selling to a resident. The price must be certified as being not less than - or not more than, as applicable - the fair value worked out in accordance with any internationally accepted pricing methodology on an arm's length basis. The certificate must be issued by a Chartered Accountant, a SEBI-registered Merchant Banker or a Practising Company Secretary. Reporting obligations - Form FC-GPR for an issue, Form FC-TRS for a transfer - follow within prescribed timelines, and late filing attracts a compounding process that is both expensive and slow.

PRO TIP

Do not carry the historic "tax ceiling versus FEMA floor" shorthand into a 2026 primary fundraise. Angel tax has been withdrawn for issues on or after 1 April 2025. For a current cross-border round, map Companies Act approvals, FEMA pricing, instrument terms, accounting and any transfer-side tax consequences separately. A secondary sale within the same round may create tax questions that the primary issue itself does not.

The Accounting Layer

The accounting framework does not authorise transactions; it measures them. But its requirements shape valuation work heavily, particularly for companies applying Ind AS. Ind AS 113 establishes the fair value measurement framework and the three-level hierarchy of inputs, with startup valuations almost invariably falling into Level 3 - unobservable inputs requiring the fullest disclosure. Ind AS 102 governs share-based payment and drives ESOP valuation. Ind AS 103 requires purchase price allocation on a business combination, forcing the identification and valuation of intangible assets. Ind AS 36 requires impairment testing of goodwill and other assets. Ind AS 109 governs the classification and measurement of convertible instruments, which is where many startups discover that the instrument they chose for commercial reasons has consequences they did not anticipate.

None of these collisions is insoluble, but all of them are far easier to resolve before a transaction than after it. The consistent pattern in Indian startup disputes is that the commercial deal was agreed first and the regulatory framework was consulted second. The companies that avoid trouble reverse that order - and find, more often than not, that the constraints were narrower than feared and the structure that satisfied them was available all along. The practical instruction that follows from all of this is short. Identify every framework the transaction engages before pricing is agreed, obtain each report from the correct signatory, and keep the evidence. Everything else is detail.

Case Study 3.1 - One Financing, Multiple Frameworks

A venture-backed company issues CCPS to a foreign investor, expands its option pool and grants options one month later. The CCPS carry a liquidation preference and an anti-dilution mechanism.

The Companies Act governs the allotment process, FEMA governs the non-resident pricing constraint, accounting standards govern classification and share-based-payment measurement, and the ESOP requires a defensible ordinary-share value. If management simply applies the CCPS subscription price to the option grant, it ignores the economic value of the preference rights. Mapping the frameworks first prevents that mismatch.

Practitioner Checklist

- Identify the Companies Act, Income-tax, FEMA and accounting workstreams separately.
- For 2026 tax years, check whether the Income-tax Act, 2025 or the legacy 1961 Act governs the matter.
- Treat angel tax as a legacy issue for primary issues after 1 April 2025, not as a current pricing ceiling.
- Read investor rights and conversion mechanics before choosing the valuation method.
- Keep the regulatory map with the transaction file for future diligence.

PART II - REGULATORY PRICING

Chapter 4: Angel Tax, Rule 11UA and the 2026 Tax Valuation Position

Angel tax shaped Indian startup valuation practice for years, but a 2026 guide must begin with the current position rather than repeat a rule that no longer applies to new share issues. The former Section 56(2)(viib) stopped applying on or after 1 April 2025. From 1 April 2026, India also transitioned to the Income-tax Act, 2025 for tax years beginning on or after that date, while earlier tax years continue under the repealed 1961 Act. The result is a cleaner primary-fundraise landscape, but not the end of tax-driven share valuation.

4.1 The 2026 Position in One Page

Question	2026 position	Valuation implication
Does angel tax apply to a current primary share issue?	No. Former Section 56(2)(viib) does not apply on or after 1 April 2025.	Do not create a tax-FMV ceiling for a current primary issue merely because the old workflow used one.
Which direct-tax statute applies now?	Income-tax Act, 2025 for tax years beginning on or after 1 April 2026; the 1961 Act continues for earlier tax years.	Identify the governing tax year before citing section or rule numbers.
Can share transfers still create tax valuation issues?	Yes. Current law retains fair-market-value consequences for specified transfers / receipts of unquoted shares.	Secondary transactions can still require prescribed FMV analysis.
Does Rule 11UA disappear from all work?	No. It remains relevant to legacy years and historic matters under the 1961 Act; current rules under the 2025 Act must be checked for current tax years.	Do not mix old and new section / rule references in one report without a transition note.

Table 4.1: Angel tax has gone, but tax valuation has not.

OUR INSIGHT

The most important 2026 update is conceptual: stop treating every startup fundraise as a tax-ceiling exercise. A current primary issue still needs to be structured and valued correctly under the Companies Act, FEMA where a non-resident participates, and accounting where relevant. Tax valuation becomes especially important again when the transaction contains a secondary transfer, a below-FMV receipt or a legacy tax-year matter.

4.2 What Angel Tax Used to Do - and Why the History Still Matters

Under the old Section 56(2)(viib), a closely held company could be taxed where it issued shares above the prescribed fair market value. That rule drove extensive DCF and Rule 11UA documentation in venture rounds and created the familiar debate about projections, merchant-banker reports and hindsight review. The policy was withdrawn for issues on or after 1 April 2025, so those mechanics should now be taught as history and as context for legacy assessments - not as the governing rule for a 2026 primary round.

The discipline created during that period remains useful. A board-approved business plan, external market evidence, transparent assumptions, documented discount-rate build-up and a closed contemporaneous file are still exactly what an auditor, investor, acquirer or regulator expects when reviewing a judgement-heavy startup valuation.

PRO TIP

On every 2026 tax valuation, put a one-line law-transition statement near the front of the report: identify the tax year, state whether the Income-tax Act, 2025 or the legacy 1961 Act governs, and cite the corresponding prescribed valuation rule. This prevents the increasingly common error of carrying old section and Rule 11UA references into a current-year report by habit.

4.3 Where Tax Valuation Still Matters in Startup Transactions

Tax valuation remains highly relevant in secondary transactions and other transfers of shares for inadequate consideration. Under the Income-tax Act, 2025, Section 79 addresses specified transfers of unquoted shares where consideration is below prescribed fair market value on the transferor side. Section 92(2)(m) addresses receipt of specified property, including shares and securities, without consideration or for consideration below prescribed fair market value, subject to the statutory thresholds and exceptions.

For a founder secondary, employee liquidity transaction, inter-se transfer or restructuring, the tax analysis therefore remains a core part of the valuation trigger map. The important shift is that the tax issue is no longer a blanket ceiling on a fresh primary issue. It is a transaction-specific question: what is being transferred, by whom, to whom, in which tax year, and under what exceptions?

Startup event	Primary issue or transfer?	Tax valuation focus
Fresh Series A / B issue	Primary issue	No angel-tax ceiling for issues on or after 1 April 2025; consider other applicable tax consequences and non-tax frameworks.
Founder secondary to resident buyer	Transfer	Transferor / recipient FMV provisions may both need review.
Secondary involving non-resident	Transfer	Tax FMV analysis plus FEMA pricing and reporting.

Startup event	Primary issue or transfer?	Tax valuation focus
Legacy angel-tax assessment	Historic primary issue	Analyse the old Act, then-applicable Rule 11UA, valuation date evidence and contemporaneous projections.

Table 4.2: The tax question depends on the event, not on the label "startup valuation".

4.4 Legacy Rule 11UA Matters: How to Defend the File

The withdrawal of angel tax does not erase disputes for earlier years. A legacy assessment can still turn on whether the valuation method and assumptions were reasonable on the valuation date. The correct defence is ex-ante evidence, not an argument built from what happened later.

- Board-approved forecast and the date on which it was approved.
- External market-size, pricing and peer evidence that existed on the valuation date.
- A bridge from historical performance to the forecast, including the operational drivers of any step change.
- Discount-rate assumptions and data sources retained in the working papers.
- Sensitivity analysis showing the range supported by reasonable changes in assumptions.
- The signed report, instruction letter and primary corporate documents preserved in the closed file.

4.5 Case Study - 2026 Fundraise With a Founder Secondary

A startup raises Rs. 40 Crore of new Series A capital and, in the same closing, a founder sells a small block of ordinary shares to an investor. The company initially asks for a single "Rule 11UA valuation" for the entire round.

The current framing is different. The fresh primary issue is not subject to the former angel-tax ceiling. It is analysed under the Companies Act and, where the investor is non-resident, FEMA. The founder secondary is separately tested under the tax provisions applicable to transfer and receipt of unquoted shares, and the value of ordinary shares is distinguished from the price of the preferred instrument. One closing therefore still creates multiple valuation questions - just not the same ones that existed during the angel-tax era.

Practitioner Checklist

- First identify whether the matter is a current tax year or a legacy tax year.
- Do not request an angel-tax report for a current primary issue merely because the old process was familiar.
- For share transfers, identify both transferor-side and recipient-side FMV consequences.
- Use the prescribed valuation rule applicable to the governing tax law and transaction.
- Retain contemporaneous evidence because legacy assessments can arise years after the valuation date.

PART II - REGULATORY PRICING

Chapter 5: FEMA Pricing Guidelines and the Cross-Border Round

The moment a non-resident appears on either side of a share transaction, the FEMA pricing framework becomes central. For an unlisted startup, this can create a pricing floor or ceiling depending on the direction of the issue or transfer, alongside Companies Act, accounting and transaction-specific tax considerations.

Direction	Pricing effect for unlisted equity	Practical focus
Resident / company -> non-resident	Generally a floor: do not issue or transfer below the applicable fair value	Support methodology, valuation date and instrument terms
Non-resident -> resident	Generally a ceiling: resident should not pay above the applicable fair value	Align valuation and transfer documentation
Convertible / formula-based instrument	Pricing or conversion mechanics need to be fixed and tested under applicable FEMA rules	Model downside / ratchet outcomes before signing

Table 5.1: Directional logic of FEMA pricing. Always verify the operative rule and sector conditions for the specific transaction.

The Directional Logic of FEMA Pricing

The FEMA framework governing equity instruments - principally the Non-Debt Instruments Rules and the pricing guidelines issued under them - operates on a simple protective principle. Capital coming into India should not come in cheaply, and capital leaving India should not leave expensively. Everything in the pricing guidelines follows from that.

What 'Fair Value' Means Under FEMA

For unlisted equity instruments, the requirement is that the price be worked out in accordance with any internationally accepted pricing methodology for valuation on an arm's length basis, duly certified by a Chartered Accountant, a SEBI-registered Merchant Banker, or a Practising Cost Accountant or Company Secretary as applicable under the relevant rule. That phrase - any internationally accepted pricing methodology - is deliberately open. It does not prescribe a formula the way Rule 11UA does. It permits the discounted cash flow method, comparable company multiples, comparable transaction analysis, net asset value where appropriate, and combinations of these. The flexibility is genuine and useful, but it creates an obligation: because the rule does not dictate the method, the certificate must explain and justify the method chosen. A one-page certificate asserting a number without disclosing methodology satisfies the form of the requirement and not its substance, and it is exactly the kind of document that fails on later examination.

OUR INSIGHT

In a cross-border round, compute the FEMA pricing constraint before the commercial price is locked and map every other valuation purpose separately. The old angel-tax ceiling no longer applies to a current primary issue, but a secondary leg can still create tax-FMV consequences. Finding that distinction at term-sheet stage is much easier than trying to repair the structure after signing.

Convertible Instruments and the Conversion Price

Indian venture rounds are overwhelmingly executed using compulsorily convertible preference shares or compulsorily convertible debentures rather than ordinary equity. Under FEMA these instruments are treated as equity instruments provided they are compulsorily and fully convertible, which is why the compulsory element is non-negotiable in an Indian structure. An optionally convertible instrument falls outside the equity treatment and is regulated as external commercial borrowing, with an entirely different and considerably more restrictive set of conditions. The pricing rule for a convertible instrument is that the price or conversion formula must be determined upfront, at the time of issue, and the price at which conversion actually occurs must not be less than the fair value at the time of issue of the instrument. This permits a formula-based conversion, which is how ratchets and anti-dilution mechanisms are accommodated - but the formula must be fixed at issue and the resulting conversion price must respect the original floor.

PRO TIP

Where a term sheet contains a full-ratchet anti-dilution clause and foreign investment, check the mechanics carefully at drafting stage. A ratchet that operates by adjusting the conversion ratio in favour of the investor can, in a sufficiently severe down round, produce an effective conversion price below the fair value at issue. Broad-based weighted average formulations are generally easier to reconcile with the framework and are also the market standard for good commercial reasons.

Reporting: The Obligation That Outlives the Transaction

Certification is only half the requirement. The transaction must also be reported, within prescribed timelines, through the Reserve Bank's reporting portal.

Reporting delays and substantive FEMA contraventions should be distinguished. Where the framework permits, a reporting delay may be regularised through the applicable Late Submission Fee mechanism; other contraventions can require separate regularisation or compounding. The practical point is unchanged: late or inconsistent reporting becomes a diligence finding, consumes management time and should be avoided through a live closing checklist.

A Cross-Border Round, Step by Step

The first step is the one most often skipped. Before pricing is discussed at all, confirm that foreign investment is permitted in the company's sector, under what route - automatic or approval - and up to what percentage, and whether any conditionalities attach. A company operating in a restricted sector, or one whose actual activities have drifted beyond its stated objects into a regulated area, can find that the round is not permissible at any price. That is a discovery to make in week one, not week eight. The second point of frequent difficulty concerns investors from countries sharing a land border with India, for whom investment requires prior government approval regardless of sector. This applies not only to direct investors but also, on a beneficial ownership analysis, to investment vehicles with such ownership. Where an investor's structure involves multiple jurisdictions, beneficial ownership should be established and documented early.

Practical Points That Recur

Three issues arise in cross-border rounds with enough regularity to be worth stating separately. First, the valuation certificate must be consistent with the price actually reported in the filing; a mismatch between the certified fair value and the FC-GPR figure is among the most common queries raised, and it is usually the result of a last-minute price adjustment that nobody carried back to the certificate. Second, where a round closes in tranches, each tranche is a separate issue with its own reporting obligation and its own valuation timing question. Companies frequently file for the first tranche and overlook the later ones. Third, the obligation to file the annual return on foreign liabilities and assets continues in every year in which foreign investment remains outstanding, whether or not anything happened during that year. It is the single most commonly missed FEMA filing in the startup sector.

Case Study 5.1 - Cross-Border Series B with a Conversion Formula

A startup proposes Series B CCPS to a non-resident investor. The term sheet includes a valuation-linked adjustment to the conversion ratio if the next round is below a stated threshold.

Before signing, the finance and legal teams model the conversion outcomes at three down-round prices, test the FEMA pricing implications of the formula, and document the fair-value methodology supporting the issue. The exercise changes the drafting from an open-ended ratchet to a defined formula that can be administered and supported later.

Practitioner Checklist

- Confirm sector eligibility, entry route and beneficial ownership before pricing.
- Determine the direction of the transaction and the resulting FEMA pricing constraint.
- Read the conversion / anti-dilution formula before certifying a convertible issue.
- Reconcile the valuation conclusion with the price actually reported in the FEMA filing.
- Track each tranche and annual foreign-liabilities / assets reporting separately.

PART III - METHODOLOGY

Chapter 6: Choosing an Approach for an Early-Stage Company

There are only three valuation approaches. The skill lies not in knowing them but in knowing which one the evidence available at a given stage can actually support.

Company stage	Evidence usually available	Primary approach	Useful cross-check
Pre-revenue	Team, product, market and financing evidence	Scorecard / VC / scenario method	Recent comparable rounds
Early revenue	Revenue growth, unit economics, limited history	Market + scenario / DCF where supportable	VC method / recent financing
Scaling	Cohort data, repeatable revenue, improving forecastability	DCF + market approach	Recent financing / backsolve
Late-stage	Established KPIs, clearer path to profitability / exit	DCF + market approach	Precedent transactions / PWERM where exit is near

Table 6.1: Stage-appropriate method selection. Method follows evidence, not preference.

The Three Approaches and What Each Requires

All valuation methodology reduces to three approaches. The income approach derives value from expected future economic benefits, discounted for time and risk. The market approach derives value from prices observed for comparable assets. The asset approach derives value from the assets and liabilities of the business, adjusted to current values. Every named technique is a variant of one of these three. Each approach has an evidentiary precondition. The income approach requires forecastable cash flows. The market approach requires genuinely comparable observations. The asset approach requires that the assets on the balance sheet substantially represent the value of the business. A startup frequently satisfies none of these fully, which is why stage-appropriate selection matters so much more here than in mature company work.

OUR INSIGHT

The mistake we see most often is a beautifully constructed twelve-year discounted cash flow for a company with nine months of revenue. The model is not wrong in its arithmetic - it is wrong in its claim to knowledge. If you cannot forecast next quarter within a reasonable band, a model that turns on year eleven is theatre. At that stage the market approach, honestly applied with a stated range, is both more defensible and more useful.

Techniques Specific to Early-Stage Valuation

The Venture Capital method

The venture capital method works backwards from an exit. It estimates the company's value at a future exit date - typically using an exit multiple applied to forecast exit-year revenue or earnings - discounts that value back at a target rate of return reflecting the very high risk of early-stage investment, and then adjusts for the dilution expected from future funding rounds before the exit occurs. Target rates in this method are high, frequently expressed in tens of percent per annum, because they are implicitly carrying the probability of failure rather than modelling it separately.

The First Chicago method

This method builds explicit scenarios - typically a success case, a base case and a failure case - values each separately, assigns a probability to each, and takes the weighted average. Its great advantage is transparency: the reader can see exactly what outcomes are contemplated and what weight each carries. Because the failure scenario is modelled directly rather than buried in a discount rate, the discount rates applied to each scenario can be far more moderate and easier to justify.

Scorecard and checklist methods

For pre-revenue companies where no financial forecast can be meaningfully supported, scorecard methods begin from an observed average pre-money valuation for comparable companies at a comparable stage, and adjust it by weighted factors: strength of the team, size of the opportunity, strength of the product, competitive environment, and so on. These methods are frankly qualitative and should be presented as such. Their value is that they discipline a judgement that would otherwise be entirely unstructured, and they make the reasoning visible.

PRO TIP

Whichever method you lead with, always run a second. Two approaches producing a similar range is powerful evidence. Two approaches producing wildly different answers is a signal that an assumption somewhere is wrong - and finding out which one is far more valuable than splitting the difference and moving on.

Weighting, Triangulation and the Honest Range

Where more than one approach has been applied, a conclusion must be reached. There are two defensible ways to do this and one indefensible one.

- Reasoned weighting. Assign explicit weights reflecting the relative reliability of each approach given the evidence available, and explain the reasoning. A market approach based on three closely comparable recent transactions may deserve more weight than a DCF built on management projections with no external corroboration.
- Primary with cross-check. Select one approach as primary, use the others to confirm the answer sits in a sensible range, and conclude on the primary. This is often the more honest presentation where one

approach is clearly better supported.

- Mechanical averaging. Taking a simple mean of three approaches without reasoning is the indefensible option. It gives equal weight to unequal evidence and communicates nothing about why the answer is what it is. Finally, resist the pressure to collapse the answer to a single number where the evidence does not support one. Many valuation purposes do require a point conclusion, and where they do, one must be given. But the report should still disclose the range the analysis supports and identify the assumptions to which the conclusion is most sensitive. A reader who understands the range will make better decisions than one handed a false precision - and a regulator or auditor who can see the range is far less likely to challenge the point within it.

Documenting the Choice of Approach

Whatever approach is selected, the reasoning behind the selection belongs in the report and not merely in the valuer's head. A reviewer's first question is almost never about the arithmetic within an approach; it is about why that approach was used at all, and why the alternatives were not. A properly documented selection states which approaches were considered, which were applied, and which were rejected and for what reason. Rejecting the asset approach because the company's value plainly does not reside in its balance sheet is an entirely adequate reason, but it needs to be written down. Rejecting the income approach because no reliable forecast can be constructed at this stage is similarly adequate, and similarly needs stating. Silence on the point invites the inference that the alternatives were not considered. This matters especially where the chosen approach produces a figure the reader may find surprising. A market approach that produces a value well below a recent headline round price will be questioned. If the report explains that the round price reflected a preference instrument, that the subject interest is ordinary equity, and that the two are not comparable, the question is answered before it is asked. If the report is silent, the reader concludes the valuer did not notice. There is a related discipline worth adopting. Where two approaches have been applied and they disagree, resist the temptation to present only the one that produces the more comfortable answer. Present both, and explain the divergence. In most cases the explanation is instructive in itself - the market approach may be capturing a sentiment the fundamentals do not yet support, or the income approach may be reflecting management optimism that peer pricing does not share. A reader who is shown both figures and told why they differ ends up with a better understanding of the business than one handed a single reconciled number.

PRO TIP

Write the approach selection rationale before building the model, not after. If you cannot articulate in three sentences why a given approach fits the evidence available, that is useful information about the approach - and it is better to discover it at the outset than after a week of modelling.

Case Study 6.1 - Method Selection Changes as the Company Scales

At seed stage, a consumer-tech company had no reliable forecast and was valued primarily by comparable early-stage transactions with a scenario cross-check. Two years later it has monthly cohorts, repeat purchases and a board-approved five-year plan.

For the later Series B valuation, the evidence has changed enough that DCF becomes supportable and the market approach becomes the cross-check. Method consistency does not mean using the same model forever; it means applying the method that best fits the evidence at each valuation date and explaining why the approach changed.

Practitioner Checklist

- Choose the method from the evidence available at the valuation date.
- Explain why alternative approaches were rejected or used only as cross-checks.
- Avoid long DCFs where the first few quarters themselves are not forecastable.
- Where multiple methods disagree, explain the divergence rather than mechanically averaging.
- Conclude on a range before forcing a point estimate for a statutory purpose.

Diagnostic question	If YES	If NO
Is there a reliable recent arm's-length financing in a relevant security?	Use it as market evidence and consider backsolve / allocation.	Rely more heavily on external comparables or intrinsic methods.
Can management forecast operating drivers beyond the next few quarters?	DCF may be supportable if convergence assumptions are explicit.	Do not make a long-horizon DCF the primary evidence.
Are close listed / transaction comparables available?	Market approach can carry meaningful weight.	Use broader evidence with larger adjustments and disclose the limitation.
Is a specific liquidity event genuinely identifiable?	PWERM / scenario modelling may fit better than continuous OPM.	Use OPM / broader scenario frameworks for uncertain timing.
Does the balance sheet contain most of the economic value?	Asset approach may be relevant.	Do not force NAV on an IP- or growth-driven startup.

Table 6.2: A method-selection decision grid for early-stage companies.

PART III - METHODOLOGY

Chapter 7: Building a Defensible DCF for a Startup

The discounted cash flow method is prescribed, expected and frequently required. Building one that survives an assessing officer, an auditor and an acquirer's analyst requires discipline in four specific places.

DCF area	Startup-specific risk	Review discipline
Revenue	Growth percentage detached from operational capacity	Build from customers, ARPU, churn, sales capacity and market share
Margins	Unsupported hockey-stick improvement	Bridge margin gains to scale, mix, CAC, gross margin and headcount
Discount rate	Plugged company-specific premium	Build components transparently and cross-check venture-return evidence
Terminal value	Hypergrowth carried into perpetuity	Show convergence and reconcile perpetuity / exit-multiple methods
Equity bridge	Ignoring future funding or preference stack	Reflect dilution and allocate value across actual share rights

Table 7.1: The five areas where a startup DCF most often fails review.

The Structure of the Model

A startup DCF has the same architecture as any other: forecast free cash flow to the firm over an explicit period, estimate a terminal value at the end of that period, discount both at the weighted average cost of capital to arrive at enterprise value, and bridge from enterprise value to equity value by deducting net debt and adjusting for non-operating items and surplus assets. The architecture is uncontroversial. The difficulty is entirely in the inputs, and it concentrates in four places: the length and content of the explicit forecast period, the treatment of losses and the path to profitability, the construction of the discount rate, and the derivation of terminal value. Each is examined below.

Discipline One: The Explicit Forecast Period

The explicit period must run until the business reaches a steady state - a point at which growth has moderated to a sustainable long-run rate, margins have stabilised, and reinvestment has settled into a consistent relationship with growth. For a mature business that may be five years. For a startup burning cash and growing at triple digits, five years is almost never enough, and a five-year model that applies a perpetuity formula to a still-hypergrowth final year will produce a nonsensical terminal value. Ten years is a common and generally appropriate explicit period for an early-stage company, with the honest acknowledgement that the later years are convergence assumptions rather than genuine forecasts. That is acceptable and it is standard practice, provided the model shows the convergence explicitly - growth stepping down year by year toward the terminal rate, margins rising toward a defensible mature-state level, reinvestment falling as

growth slows. Build revenue from drivers rather than from a growth percentage. Customers acquired, conversion rate, average revenue per customer, retention and churn, expansion revenue. A driver-based build can be tested against reality: if the model requires the company to acquire a certain number of customers in year four, the sales headcount and marketing spend in that year must be capable of delivering it, and the reader can check whether they are. A top-line growth percentage cannot be tested against anything.

OUR INSIGHT

There is one test we apply to every startup forecast before looking at anything else. Take the terminal year revenue and express it as a share of the total addressable market the company has itself defined. If the model implies the company captures a share that no competitor in that market has ever achieved, the forecast is not a forecast - it is an aspiration. That single check has saved more valuations from failure than any refinement of the discount rate.

Discipline Two: Losses, Burn and the Path to Profitability

Most startups being valued are loss-making, and the model must handle that properly rather than assuming it away.

- Model the burn honestly. Negative free cash flow in the early years is a real cash requirement. It must be funded, and the model should be explicit about the funding assumed - whether from existing cash, committed facilities, or future rounds.
- Justify the margin trajectory. The single most challenged assumption in any startup DCF is the improvement in margin over the forecast period. It must be attributed to identifiable causes - operating leverage on fixed costs, improving gross margin from scale or mix, reducing customer acquisition cost as brand builds - not simply asserted as a trend.
- Carry forward tax losses correctly. Accumulated losses shelter early profits from tax. Model the carry-forward, apply the statutory time limits, and be alert to the provisions restricting carry-forward where shareholding changes substantially - a point of real significance for a company that has raised several rounds.
- Reflect dilution from future funding. If the plan requires further capital, the existing shareholders will be diluted. A per-share value that ignores necessary future rounds overstates what today's shareholders will actually receive.

Discipline Three: The Discount Rate

The discount rate is where most startup DCFs are attacked, and where a clear, built-up, component-by-component derivation pays for itself. The weighted average cost of capital combines the cost of equity and the after-tax cost of debt in proportion to a target capital structure. For most startups, which carry little or no debt, the cost of equity dominates and often is the entire answer.

The company-specific risk premium is the component that attracts the most scrutiny, because it is the most judgemental. The defence is granularity: rather than a single unexplained increment, set out the specific risks

being compensated - dependence on two founders, concentration of revenue in three customers, a single unproven product line, regulatory uncertainty in the sector - and attribute a reasoned amount to each. A reader may disagree with the quantum but cannot say the reasoning was not disclosed. A discipline worth applying: whatever rate the build-up produces, sense-check it against target returns observed in the venture market for companies at the same stage. If the build-up produces a materially lower rate than the market demonstrably demands for that stage, something in the build-up is understated - most likely the company-specific premium.

Discipline Four: Terminal Value

For an early-stage company the terminal value can represent the overwhelming majority of the total present value. Given that, it deserves considerably more attention than the single formula line it usually receives. The perpetuity growth method computes terminal value as the final-year free cash flow, grown by a perpetual rate, divided by the difference between the discount rate and that growth rate. Its critical constraint is that the perpetual growth rate cannot exceed the long-run nominal growth rate of the economy in which the company operates. No business grows faster than its economy forever. A perpetual growth rate above long-run nominal GDP growth implies the company eventually becomes the entire economy, and it is an immediate and fatal red flag to any reviewer. The exit multiple method instead applies an observed multiple - of revenue, EBITDA or earnings - to the terminal year metric. Its advantage is that it grounds the terminal value in observable market evidence rather than in a formula. Its risk is that applying today's multiple to a company ten years hence assumes market conditions and the company's growth profile at that point resemble those observed now.

PRO TIP

Compute the terminal value both ways and reconcile them. If the perpetuity method implies an exit multiple far outside the observable range for mature companies in the sector, the perpetuity assumptions need revisiting. This reconciliation takes ten minutes and is the single most effective defence against a challenge to terminal value.

The Bridge from Enterprise Value to Equity Value

The final step is routinely rushed and frequently wrong. Enterprise value represents the value of the operating business to all capital providers. Getting to the value of the equity requires deducting the claims that rank ahead of it and adding the assets that were excluded from the operating forecast. That final point is the important one, and it is where most startup DCFs stop short. Having arrived at a total equity value, dividing it by the fully diluted share count assumes every share has identical economic rights. In a company with preference shares carrying liquidation preference, that assumption is simply false, and the resulting per-share figure will overstate the value of ordinary equity. The allocation problem is taken up next.

Reviewing Your Own Model Before Anyone Else Does

A startup DCF should be subjected to a structured self-review before it leaves the building. The checks below take under an hour and catch the overwhelming majority of the issues a reviewer would otherwise raise.

- Market share test. Terminal year revenue as a percentage of the company's own stated addressable market - is the implied share achievable, and has any competitor achieved it?
- Headcount test. Does the forecast revenue per employee in the later years remain within a plausible range for the sector, or does it drift to a level no comparable business has reached?
- Reinvestment test. Is the capital expenditure and working capital investment in each year consistent with the growth being forecast in the following year? Growth without reinvestment is a modelling error, not an operating strategy.
- Terminal growth test. Does the perpetual growth rate sit below the long-run nominal growth rate of the economy, and does the implied exit multiple fall within the observable range for mature companies in the sector?
- Funding test. Is the cumulative negative cash flow in the early years actually funded in the model, and has the resulting dilution been reflected?
- Bridge test. Does the enterprise-to-equity bridge account for every claim ranking ahead of ordinary equity, including the preference stack? Any test that fails does not necessarily mean the model is wrong. It means an explanation is required, and the explanation belongs in the report. A model that fails a test silently will be challenged; a model that fails a test and explains why the failure is appropriate in the circumstances generally will not. It is worth running these checks with somebody who did not build the model. The person who constructed a forecast over several weeks develops a familiarity with it that makes implausible outputs look ordinary. A colleague seeing the terminal year for the first time will notice within seconds that the implied revenue per employee has tripled, or that the company is assumed to hold a market share no participant in the sector has ever held. That fresh reading is the closest thing available to seeing the model as a reviewer will see it, and it costs an hour of somebody else's time.

Case Study 7.1 - DCF Sensitivity: The Cost of an Aggressive Terminal Assumption

Illustrative base case: enterprise value is Rs. 240 Crore at a 24% WACC and 5% terminal growth. Lowering WACC to 22% increases value to approximately Rs. 276 Crore; increasing terminal growth to 6% lifts it further. The model appears precise, but a relatively small change in two assumptions moves value by tens of crores.

The lesson is not to avoid DCF. It is to show the sensitivity, reconcile the implied terminal multiple to observable mature-company evidence and make clear how much of total value comes from years beyond the genuinely forecastable period.

Practitioner Checklist

- Build revenue from operational drivers rather than a top-line percentage.
- Model cash burn and the funding required to survive the negative-cash-flow period.
- Tie margin improvement to explicit operating drivers.
- Build discount rate components transparently and test them against market return expectations.
- Reconcile terminal value by perpetuity and exit-multiple methods.
- Do not divide total equity value by shares until preference rights and future dilution are addressed.

PART III - METHODOLOGY

Chapter 8: The Market Approach - Comparables and Transaction Evidence

Market evidence is the most persuasive material a valuer can produce, and the easiest to misuse. Comparability is a conclusion to be established, not a label to be applied.

Evidence source	What it reflects	Main adjustment issue
Listed trading comparables	Minority, liquid market pricing	Size, growth, margin, liquidity and stage differences
Precedent M&A transactions	Control pricing, often with synergies	Control, deal-specific synergies and transaction timing
Recent startup financing	Price of a specific security with negotiated rights	Backsolve / allocation across preference and ordinary classes

Table 8.1: Three market evidence sources are useful, but not economically interchangeable.

Two Sources of Market Evidence

The market approach draws on two distinct bodies of evidence. Guideline public companies provide multiples observed in continuous trading of minority interests in listed businesses. Precedent transactions provide multiples observed in completed acquisitions, typically of controlling interests, in the private or public market. The two are not interchangeable and the difference matters. Trading multiples reflect the price of a small, liquid, non-controlling stake. Transaction multiples reflect the price of control and usually incorporate a premium for it, together with any synergies the specific acquirer expected to realise. Applying a transaction multiple to value a minority stake without adjustment overstates it; applying a trading multiple to value a controlling stake without adjustment understates it.

Selecting Comparables Properly

The credibility of the entire approach rests on selection, and selection must be defended on stated criteria rather than assembled by convenience.

OUR INSIGHT

Keep the rejects. When you screen forty companies down to six, document why each of the thirty-four was excluded. It feels like unnecessary work at the time. It is the single most effective response to the challenge that the comparable set was chosen to produce a desired answer - and that challenge arrives in almost every contested valuation We have seen.

For most startups the practical choice narrows to a revenue or gross profit multiple, because earnings are negative. Where a revenue multiple is used, it is essential to pair it with an explicit view on growth and

margin - a revenue multiple applied without regard to the quality of that revenue is close to meaningless. Two companies with identical revenue but gross margins of thirty and eighty per cent should not attract the same multiple, and a valuation that gives them the same multiple has not done the work.

Adjustments: Getting from Peer Multiple to Subject Value

The peer multiple is a starting point, not a conclusion. Several adjustments typically stand between it and a defensible value for the subject company.

- Size and stage adjustment. Listed peers are larger, more established and less risky. A downward adjustment to the multiple is normally warranted and should be quantified and reasoned rather than applied as a round number.
- Growth differential. Where the subject grows materially faster or slower than the peer median, the multiple should reflect it. A growth-adjusted multiple makes this explicit.
- Discount for lack of marketability. Shares in a private company cannot be sold readily. Studies of restricted stock and pre-IPO transactions support a discount, and quantitative models based on the cost of a hypothetical put option provide a more defensible derivation than a citation to a range.
- Discount for lack of control, or premium for control. Depends on whether the interest being valued carries control and whether the multiple source reflected control.
- Normalisation of the subject's metrics. Remove one-off items, related party transactions on non-commercial terms, and founder compensation set below or above market, so that the subject's metric is measured on the same basis as the peers'.

PRO TIP

Present the peer set as a table showing each company's growth, margin and multiple side by side, and place the subject company in the same table. A reader can then see immediately where the subject sits on each dimension and whether the selected multiple is consistent with that position. This single presentational choice pre-empts most of the questions a reviewer would otherwise raise.

Using Recent Funding Rounds as Evidence

The company's own recent financing is often the most directly relevant market evidence available, and it should be used - but carefully, and with three specific cautions. Where a genuine, recent, arm's length priced round exists, the backsolve technique described in the next chapter converts it into a total equity value and then allocates that value across every class in the capital structure. That is almost always a better use of the evidence than treating the headline post-money figure as the company's value.

Presenting the Market Approach

The market approach is the most intuitive of the three approaches for a non-specialist reader, which makes presentation unusually important. A well-presented market analysis can be understood and tested by a board member, an investor or an assessing officer without specialist training - and that transparency is itself a form of defence. Show the full peer set with its metrics, not merely the concluded multiple. Show the range, the

median and the quartiles, and state where within that range the subject has been placed and why. Show the adjustments applied between the peer multiple and the concluded multiple, each separately quantified. A reader who can follow every step from observed market data to concluded value has very little left to challenge.

Case Study 8.1 - Revenue Multiple Without a Margin Check

Two SaaS companies both report Rs. 30 Crore of ARR. Company A has 82% gross margin, 115% net revenue retention and 70% growth. Company B has 48% gross margin, 85% retention and 25% growth.

Applying the same ARR multiple to both because they share a sector label would be analytically weak. A defensible market approach presents growth, margin and retention alongside the multiple, places the subject relative to the peer distribution and explains the selected point within the observed range.

Practitioner Checklist

- Document the peer-selection criteria before selecting the multiple.
- Keep the rejected peer list and reasons for exclusion.
- Put subject growth and margin beside peer metrics, not in a separate page.
- Do not mix trading and transaction multiples without addressing control / synergy differences.
- Treat a recent preference round as evidence for that security and allocate / backsolve before inferring ordinary-share value.

Peer-screening field	What should be retained in the file
Business model	Revenue source, customer type, geography and product / service similarity
Scale and stage	Revenue, funding stage, market capitalisation and maturity differences
Growth and margin	Current and forward growth, gross margin, EBITDA / contribution margin
Multiple basis	EV / Revenue, EV / EBITDA or other metric, with period and source date
Decision	Included / excluded with a short written reason
Subject placement	Where the subject sits versus median / quartiles and why the selected multiple follows

Table 8.2: The peer-screening record is the best defence against cherry-picking.

PART IV - CAPITAL STRUCTURE & INSTRUMENTS

Chapter 9: Backsolve, OPM and the Option Pricing Framework

A recent priced round tells you what one class of shares is worth. Converting that into the value of every other class - including the ordinary shares your employees hold - requires an allocation framework.

OPM / backsolve input	Typical source	Why it matters
Observed financing price	Executed subscription / financing documents	Calibrates one class to market evidence
Preference breakpoints	Articles and shareholders agreements	Determines where each class begins to participate
Time to liquidity	Board / investor exit expectations	Longer time increases option value
Volatility	Listed peer equity volatility, adjusted where needed	Drives value of out-of-the-money ordinary claims
Risk-free rate	Government security yield aligned to horizon	Time-value input

Table 9.1: Core OPM inputs and the evidence expected behind them.

The Problem the Framework Solves

A company raises capital by issuing Series B compulsorily convertible preference shares at one hundred rupees per share. The press release reports a post-money valuation. The founder assumes the ordinary shares are also worth one hundred rupees each. The employees holding options assume the same. All of them are wrong, and frequently by a very wide margin. They are wrong because the Series B shares are not the same instrument as the ordinary shares. They carry a liquidation preference entitling the holder to receive their investment back before ordinary shareholders receive anything. They may participate in the residual after receiving that preference. They may carry anti-dilution protection, a dividend preference, a redemption right, or a right to block a sale below a threshold. Each of those rights has economic value, and every rupee of value attributable to them is a rupee that is not attributable to the ordinary shares.

The Backsolve Method

The backsolve method - more formally, the current value calibration to a recent transaction - reverses the usual direction of analysis. Instead of estimating total equity value and allocating it, it takes the one price actually observed in the market, and solves for the total equity value that would produce that price when the allocation framework is applied. The output is internally consistent by construction: it reproduces the observed transaction exactly, and every other class is valued on the same footing. This is why backsolve has become the dominant method for valuing ordinary shares in venture-backed companies for financial reporting and for ESOP purposes, and why it is increasingly expected by auditors reviewing share-based payment charges.

OUR INSIGHT

The backsolve output frequently surprises founders, and the surprise is almost always in one direction. In a company that has raised several preference rounds with stacked liquidation preferences, the ordinary share value can be a small fraction of the headline round price. That is not a flaw in the method. It is an accurate statement of where the value sits, and founders are far better served knowing it than discovering it at an exit.

The Option Pricing Method

The option pricing method rests on an insight that is elegant once seen: each class of shares in a company with layered preferences is economically equivalent to a call option on the company's total equity value, struck at the point in the waterfall where that class begins to participate. Consider a company with a single preference class holding a liquidation preference of five hundred million rupees. If the company's total equity value at exit is below five hundred million, the ordinary shareholders receive nothing - their claim is out of the money. Above that threshold, they participate in the excess. Their position is precisely that of a call option with a strike price of five hundred million on the company's equity value. Because it is an option, it can be valued using option pricing theory - and because option values are positive even when out of the money, ordinary shares carry value even where the current equity value sits below the preference stack.

Constructing the breakpoints

The method works by identifying every equity value at which the distribution of an incremental rupee changes. These breakpoints define a series of tranches, and a Black-Scholes call option is valued at each breakpoint. The value of each tranche is the difference between successive option values, and that tranche value is then distributed among the classes participating in it.

The Inputs and Where Judgement Enters

- Total equity value. In a backsolve, this is the solved output. In a forward application, it is the input derived from the income or market approach.
- Time to liquidity. The expected period until an exit event. This is genuinely judgemental and materially affects the answer - longer horizons increase option value and therefore increase the value allocated to ordinary shares.
- Volatility. Estimated from the equity volatility of listed comparables, unlevered and re-levered to the subject's capital structure. Startup volatility assumptions are high and should be supported by peer data rather than asserted.
- Risk-free rate. The government securities yield matching the time to liquidity.
- The capital structure itself. The single largest source of error. Every right in every shareholders' agreement and articles amendment must be captured accurately.

PRO TIP

Before modelling anything, build a clean capital structure schedule from the primary documents - the articles, every shareholders' agreement and every amendment - not from the cap table spreadsheet the company maintains. In a meaningful proportion of engagements the spreadsheet and the documents disagree, and the documents govern. Finding that discrepancy is often more valuable to the client than the valuation itself.

When the Framework Is and Is Not Appropriate

The option pricing method is well suited to companies with several preference classes, a genuinely uncertain exit horizon, and a range of possible outcomes - which describes most venture-backed companies through the middle of their lives. It is less well suited at the two extremes. Where a company is very close to a specific, identifiable liquidity event with a reasonably known value - an agreed acquisition, an imminent listing - the probability-weighted expected return method is generally more appropriate. That method models the specific scenarios, distributes the proceeds under the waterfall in each, discounts each scenario, and weights by probability. It requires more information but produces a more precise answer when that information genuinely exists. At the other extreme, where a company has a single class of shares and no preferences, the allocation problem does not arise and the framework adds nothing. Total equity value divided by the share count, adjusted for outstanding options, is the correct answer. The complexity should be deployed only where the capital structure actually creates it. One practical caution to close on. The option pricing method is sensitive to the time to liquidity and the volatility assumption, and both are genuinely judgemental. Disclose both, state the basis for each, and show how the ordinary share value moves across a reasonable range of each. A reader who can see that sensitivity will trust the central figure far more than one who is given it alone.

Case Study 9.1 - Why the Ordinary Share Can Be Worth Less Than the Round Price

A startup closes a preferred round at Rs. 250 per Series B share. The investor receives a 1x liquidation preference and anti-dilution protection. Ordinary shares carry none of those rights.

A backsolve calibrates total equity value so that the Series B security reproduces the observed Rs. 250 price when the full capital structure is modelled. The resulting ordinary-share value is Rs. 170 in the illustrative model. The Rs. 80 difference is not a discount chosen by the valuer; it reflects the value of the additional economic rights embedded in the preferred security.

Practitioner Checklist

- Build the cap table from executed constitutional documents, not only the management spreadsheet.
- Identify every liquidation preference, participation right, conversion feature and anti-dilution adjustment.
- Support time-to-liquidity and volatility with contemporaneous evidence.
- Run sensitivity on the inputs that materially move ordinary-share value.
- Use PWERM rather than OPM when a specific near-term liquidity event is genuinely identifiable.

PART IV - CAPITAL STRUCTURE & INSTRUMENTS

Chapter 10: Waterfall Analysis and the Economics of the Cap Table

The cap table shows who owns what percentage. The waterfall shows who gets what money. In a venture-backed company these are two entirely different questions.

Term	Economic effect	Waterfall consequence
1x non-participating preference	Investor chooses preference or conversion	Creates a breakpoint / conversion indifference point
Participating preference	Investor receives preference then shares residual	Reduces ordinary proceeds across a wider exit range
Preference multiple	Raises priority return before ordinary participation	Pushes ordinary participation threshold higher
Pre-money option pool	Dilution borne by existing shareholders	Reduces founder ownership before new money
Anti-dilution	Changes conversion ratio in specified down-round states	Alters payoff exactly in adverse outcomes

Table 10.1: Cap-table percentage is not the same thing as economic ownership.

Percentage Ownership Is Not Economic Ownership

A founder holding forty per cent of the shares of a company that sells for one thousand million rupees does not receive four hundred million. What they receive depends on the liquidation preference stack that sits ahead of them, whether the preference is participating, whether any participation is capped, whether any investor elects to convert, and where the option pool sits. In an adverse outcome the answer can be zero on a forty per cent holding, and in a strong outcome it can be close to the pro rata figure. The percentage tells you almost nothing on its own. The waterfall is the model that answers the real question. It takes a given exit value and distributes it through the priority stack, step by step, until it is exhausted - showing exactly what each class and each holder receives at that value. Run across a range of exit values, it produces the payoff profile of every position in the company.

OUR INSIGHT

In negotiation, founders concentrate almost exclusively on the headline valuation and treat the preference terms as legal detail. It is the wrong emphasis. A lower headline valuation with a clean one-times non-participating preference will very often deliver more money to the founder than a higher valuation with participating preference and a two-times multiple. Model both before you sign. The comparison takes an afternoon and it is frequently the most valuable afternoon of the entire raise.

Building the Waterfall

Step five is the one that requires care. A convertible preference holder faces a choice at exit: take the liquidation preference, or convert to ordinary shares and take a pro rata share of the whole. They will rationally choose whichever is greater, and the model must test that election at every exit value rather than assuming one behaviour throughout. The point at which the election flips - the conversion indifference point - is a breakpoint in the waterfall and a critical input to the option pricing allocation described in Chapter 9. A well-built waterfall is presented as a chart with exit value on one axis and proceeds to each holder group on the other. The shape of that chart communicates more to a board in thirty seconds than a page of narrative. It shows the dead zone where ordinary shares receive nothing, the point at which they begin to participate, and the rate at which their share increases thereafter.

The Option Pool and Its Placement

The employee option pool is a routine feature of venture rounds and a routine source of misunderstanding. The critical question is not the size of the pool but whether it is created before or after the investment - the pre-money or post-money question. Where the pool is created pre-money, the dilution falls entirely on the existing shareholders, principally the founders. The investor's percentage is calculated after the pool has been established, so the investor is unaffected by it. Where the pool is created post-money, all shareholders including the new investor are diluted proportionately. The difference on a meaningful pool size is substantial, and it is economically equivalent to a reduction in the pre-money valuation - which is precisely why investors ask for it.

PRO TIP

When comparing term sheets, convert every offer to an effective pre-money valuation after adjusting for pool placement and preference terms. Two term sheets quoting identical pre-money numbers can differ materially once the pool is placed and the preference is modelled. The headline number is a marketing figure; the effective number is the one to negotiate on.

Anti-Dilution in Operation

Anti-dilution protection adjusts the rate at which an investor's preference shares convert into ordinary shares if the company subsequently issues shares at a lower price. The two principal formulations produce very different outcomes. Broad-based weighted average adjusts the conversion price to a weighted average of the old price and the new, with the weights reflecting the number of shares outstanding before the issue and the number newly issued. Because a small issue at a low price barely moves the weighted average, the protection is proportionate to the actual dilution suffered. This is the market standard and the formulation founders should press for. Full ratchet resets the conversion price to the new issue price regardless of the size of the new issue. A single share issued at a low price can reset the entire prior round's conversion price, transferring a very large amount of value from founders and employees to the protected investor. Full ratchet appears mainly in distressed and down-round financings, and where it appears it should be negotiated hard - a sunset provision, a carve-out for small issues, or a conversion to weighted average after a period are all achievable

compromises. For valuation purposes, anti-dilution provisions must be modelled as contingent rights rather than ignored. They alter the number of ordinary shares into which each preference class converts in the states of the world where they trigger, and they therefore alter the allocation of value in exactly those adverse scenarios in which the ordinary shares are already most vulnerable.

Reading the Waterfall as a Management Tool

The waterfall is usually built for a valuation and then filed. That is a waste of a useful instrument. Kept current, it answers questions the board asks constantly and would otherwise answer by intuition: at what exit value does the management team begin to make meaningful money, what does an additional round at a given price do to that threshold, and what would a proposed change in preference terms cost the ordinary shareholders across the range of plausible outcomes. It is also the honest basis for a conversation with employees. An option grant expressed as a number of shares tells an employee very little. The same grant, explained against a waterfall showing what it delivers at three plausible exit values, tells them what they actually hold. Companies that have this conversation openly tend to have better-aligned teams and fewer difficult discussions at exit, when the arithmetic becomes unavoidable. Keeping it current is not onerous. The waterfall needs rebuilding only when the capital structure changes, which for most companies means once or twice a year. What it needs, critically, is to be built from the executed documents each time rather than updated from the previous version - because the terms that matter most in a waterfall are precisely the ones that get negotiated late and recorded in an amendment nobody circulates.

Case Study 10.1 - Same Headline Valuation, Different Founder Outcome

Term Sheet A offers a Rs. 100 Crore pre-money valuation with a 1x non-participating preference. Term Sheet B offers Rs. 110 Crore but requires a larger pre-money option pool and a 1.5x participating preference.

At a moderate exit value, the founder proceeds under Term Sheet B can be lower despite the higher headline valuation. A waterfall across Rs. 75 Crore, Rs. 150 Crore and Rs. 300 Crore exit scenarios reveals where the preference and pool terms transfer economics. This is why term sheets should be compared on effective payout, not only price per share.

Practitioner Checklist

- Model investor conversion elections at each exit value.
- Compare term sheets on effective founder economics, not headline pre-money valuation alone.
- Show pre-money versus post-money option-pool dilution explicitly.
- Model broad-based weighted-average and full-ratchet anti-dilution separately.
- Keep the waterfall current after every financing, amendment or secondary transaction.

PART IV - CAPITAL STRUCTURE & INSTRUMENTS

Chapter 11: Valuing Convertible Instruments - CCPS, CCDs, SAFEs and Notes

Almost no Indian venture round is executed in ordinary equity. The instrument chosen determines the regulatory treatment, the accounting consequence and the valuation method.

Instrument	Commercial feature	Valuation / accounting attention
CCPS	Preference + mandatory conversion	Read liquidation, conversion, anti-dilution and fixed-for-fixed terms
CCD	Debt-like accrual + mandatory conversion	Separate time value, conversion economics and classification questions
Convertible note	Future-round conversion with discount / cap	Scenario or option-based valuation of conversion terms
SAFE / SAFE-like contract	Future equity right without conventional debt mechanics	Indian legal / FEMA structure must be reviewed before copying overseas templates

Table 11.1: The instrument determines the valuation problem; the label alone is not enough.

The Instrument Landscape in India

The choice of instrument is not a legal formality. Under FEMA it determines whether the investment is treated as equity or as borrowing. Under Ind AS it determines whether the amount raised sits in equity or in liabilities, and whether a charge runs through profit or loss. Under the Companies Act it determines the approval process. And for valuation it determines the method entirely.

OUR INSIGHT

A SAFE is an American instrument that assumes an American legal environment. Founders frequently arrive with a SAFE template from an overseas accelerator and ask to use it unchanged. It cannot simply be dropped into an Indian structure and expected to behave the same way - the FEMA treatment, the Companies Act approval process and the accounting consequences all differ. What the parties want commercially is almost always achievable, but it needs to be built using Indian instruments. Have that conversation before the money moves.

Valuing a Convertible: The Component Approach

A convertible instrument is economically two things at once: a claim to a fixed amount, and a right to participate in the upside of the equity. The standard valuation approach values these components and combines them.

Discounts and Caps in Convertible Notes

A convertible note typically converts at the price of the next qualifying round, adjusted by two mechanisms that operate in the investor's favour. A discount allows the note to convert at a stated percentage below the next round price, compensating the investor for having taken risk earlier. A valuation cap sets a maximum valuation at which the note will convert regardless of the actual round price, ensuring the investor captures the benefit of value created between the note and the round. Where both apply, the note converts at whichever produces the more favourable outcome for the holder. For valuation purposes both features are options. The discount is straightforward: it is worth the discount percentage applied to the expected conversion amount, adjusted for the probability that a qualifying round occurs at all. The cap is more complex, because its value depends on the distribution of possible next-round valuations - it is worth nothing if the next round prices below the cap and increasingly valuable as the round price rises above it. Modelling it properly requires a view on that distribution, which in turn requires a view on the company's prospects.

PRO TIP

Model the cap before agreeing it. A cap set close to the company's current value looks reasonable in the room and can prove very expensive if the company performs well before the next round. Run the conversion mathematics at three plausible next-round valuations and look at the resulting ownership percentage. Founders are frequently surprised by the upside case.

The Accounting Consequence

Under Ind AS 32 and Ind AS 109, the classification of a convertible instrument between liability and equity turns on a specific test: whether the instrument will be settled by delivering a fixed number of the entity's own equity instruments for a fixed amount of cash. This is the fixed-for-fixed criterion, and it is where many venture instruments fail.

- A CCPS converting at a fixed ratio into a fixed number of equity shares will generally satisfy the criterion and be classified within equity.
- A CCPS converting at a variable ratio - because of an anti-dilution ratchet, a performance-linked adjustment, or a formula referencing a future valuation - may fail the criterion. The conversion feature is then a derivative liability, measured at fair value with changes recognised in profit or loss at every reporting date.
- The practical consequence is a fair value measurement obligation at each period end, and volatility in reported profit driven purely by movements in the company's own equity value.
- Where an instrument carries a redemption right exercisable by the holder, or a mandatory redemption date, it may be a financial liability in whole or in part regardless of the conversion feature. The importance of this for a founder is practical and often unwelcome. A company that structures a round with a performance-linked ratchet for good commercial reasons can find that it has created a derivative liability requiring annual independent valuation, introducing both cost and reported earnings volatility for the life of the instrument. If the company is on a path toward a listing, that volatility will appear in the restated

historical financial information. This consequence is entirely foreseeable at structuring stage and almost never considered there.

Choosing the Instrument Deliberately

The instrument is usually chosen by reference to what the last round used, or to what the investor's standard documentation provides. Neither is a reason. The choice should follow from four questions asked in order: is the investor resident or non-resident, and what does that require under FEMA; what approval process does the Companies Act impose for this instrument; how will the instrument be classified under Ind AS and what reporting burden does that create; and what does each party actually want economically. In the majority of Indian rounds the answer converges on compulsorily convertible preference shares with a straightforward conversion ratio, because that structure satisfies FEMA cleanly, follows a well-understood approval path, generally achieves equity classification, and delivers the commercial terms the parties want. Departures from it should be conscious and reasoned, because each departure carries a cost somewhere in that list of four questions - and the cost is frequently paid by a party who was not in the room when the choice was made.

Case Study 11.1 - Convertible Cap Economics Before the Next Round

A bridge instrument converts at the better of a 20% discount to the next round or a valuation cap. At a modest next-round valuation the discount drives conversion; at a strong next-round valuation the cap becomes more valuable and the holder receives materially more shares.

Before agreeing the instrument, management should model both mechanisms across a range of next-round values, then check the Indian legal, FEMA and accounting treatment of the actual instrument being used. The commercial shorthand "20% discount with a cap" is not enough for valuation or documentation.

Practitioner Checklist

- Choose the instrument after checking FEMA, Companies Act, accounting and commercial objectives together.
- Model caps, discounts and ratchets before agreeing them.
- Assess fixed-for-fixed and redemption terms before assuming equity classification.
- Do not import an overseas SAFE template without adapting the Indian legal and regulatory structure.
- Document each embedded economic feature and the valuation method used for it.

PART V - SPECIAL SITUATIONS

Chapter 12: Down Rounds, Secondaries, ESOP Pricing and Exit Readiness

The valuations that matter most are the difficult ones: the round priced below the last, the founder selling shares, the option grant that must be defensible years later, and the exit that examines everything.

Situation	Valuation question	Key risk if ignored
Down round	What are the new rights worth after anti-dilution and preference changes?	Unexpected dilution / employee misalignment
Secondary	What is the value of the specific class being transferred?	Tax / FEMA mismatch and pricing disputes
ESOP	What is ordinary-share value and option fair value?	Wrong grant economics or accounting charge
Exit readiness	Can every historic valuation be produced and reconciled?	Diligence delay, indemnity or purchase-price friction

Table 12.1: Special situations are different manifestations of the same need for current ordinary-share economics.

Valuing Through a Down Round

A down round - a financing priced below the previous round - is a normal feature of a funding cycle and not, in itself, evidence of failure. But it creates a specific set of valuation and structuring problems that must be handled deliberately.

- Anti-dilution triggers. The lower price will activate the anti-dilution protection in earlier rounds. Model the adjusted conversion ratios before pricing, because the post-round cap table can differ dramatically from the pre-round one - particularly where any earlier round carried full ratchet protection.
- The preference stack relative to value. Where accumulated preferences exceed the new post-money valuation, the ordinary shares are deep out of the money. Their value is not zero - option pricing correctly attributes value to the possibility of recovery - but it may be very small, with serious consequences for founder and employee motivation.
- Structural terms attaching to the new money. Down rounds frequently carry higher preference multiples, participating preference, pay-to-play provisions requiring existing investors to participate or lose rights, and enhanced governance terms. Each changes the waterfall and must be modelled, not merely noted.
- Regulatory pricing constraints. A down round involving foreign investors must still respect the FEMA floor, and one involving existing shareholders must still respect the tax provisions on transfers below fair market value. A distressed price is not an exemption.

OUR INSIGHT

The most damaging thing a board can do in a down round is delay it. Every month spent defending a stale valuation is a month of runway consumed and a month of deterioration in the terms available. The companies that come through down rounds intact are the ones that priced realistically, took the dilution, restruck the option pool to re-motivate the team, and moved on. Structure honestly and quickly.

Secondary Transactions

Secondary sales - a founder, employee or early investor selling existing shares rather than the company issuing new ones - raise their own valuation questions, and the price in a secondary is often materially different from the price in a concurrent primary round. There are sound reasons for that difference. Secondary shares are usually ordinary shares without the preference rights attaching to the primary instrument, so they are worth less on a like-for-like basis. The seller may be motivated by liquidity needs and willing to accept a discount. The buyer receives no new information rights and no board seat. And the transaction brings no new capital into the company, so it carries none of the strategic value an investor may attach to being a primary participant. The tax and regulatory consequences differ too. A secondary is a transfer, engaging the transfer-side and receipt-side fair-market-value provisions under the applicable Income-tax law, and where a non-resident is involved it engages the FEMA transfer pricing rules and the FC-TRS reporting obligation. Where the seller is a founder, the transaction may also raise questions about the character of the receipt if it is connected to continuing employment. Each of these should be settled before the transaction rather than at assessment.

ESOP Valuation - Two Numbers, Not One

Employee stock options require two distinct valuations, and confusing them is one of the most common errors in Indian startup finance.

The first of these is where the discipline of Chapter 9 pays off directly. Setting an exercise price by reference to the last round price is both commercially harsh on employees and technically wrong, because the round price is the price of a preference instrument. A properly derived ordinary share value will generally be lower, producing a more attractive grant for the employee and a more defensible position for the company.

PRO TIP

Refresh the ordinary share valuation at least annually, and always immediately after a financing round. Grants made on a stale valuation are difficult to defend and can create both an accounting restatement and a perquisite tax exposure for employees. An annual valuation is a modest cost against that risk.

Preparing for the Exit

Every valuation a company has ever obtained will be examined at exit. A buyer's counsel will work backwards through every allotment, every transfer, every option grant and every conversion, and will ask for the supporting valuation in each case. Gaps in that record become indemnities, escrow amounts, price reductions or delays - and occasionally they end the transaction.

The exit-readiness checklist

None of this is difficult if it is done contemporaneously. All of it is difficult, and some of it is impossible, if it is attempted retrospectively under transaction timetable pressure. The distinction between companies that exit smoothly and companies that do not is very rarely the quality of the business. It is very often the quality of the record.

The Common Thread

Down rounds, secondaries, option grants and exits look like four separate problems and are in fact one. Each requires knowing what an ordinary equity share is actually worth, as distinct from what the last preference round was priced at. Every difficulty described in this chapter traces back to that single question, and every one of them becomes tractable once it has been properly answered. A company that maintains a current, properly derived ordinary share valuation - refreshed annually and after every round - can price a down round without guesswork, permit a secondary without creating a tax exposure, grant options at a defensible exercise price, compute its share-based payment charge without argument, and walk into exit diligence with the answer already documented. A company that does not maintain it will face all four questions eventually, and will face each of them under time pressure with the answer needed retrospectively. The cost of maintaining it is an annual engagement. The cost of not maintaining it is discovered at the least convenient moment available. There is a final point that applies across all four situations. Each of them arrives at a moment of pressure - a round that must close before runway runs out, an employee who needs liquidity, a grant that was promised at joining, an acquirer working to a signing date. Pressure is exactly the condition under which shortcuts are taken, and valuation shortcuts are the ones that surface later with interest. The company that has already done the work is not merely better documented; it is in a materially stronger negotiating position, because it is the only party in the room who knows with confidence what is actually being transferred.

Case Study 12.1 - Secondary Sale After a Preferred Round

A founder proposes to sell ordinary shares shortly after a Series C round. The Series C price is Rs. 420 per share, but the preferred security carries a liquidation preference and enhanced rights.

The secondary price should not automatically be set at Rs. 420. The ordinary-share value is derived from the current capital structure and rights, then the transfer is tested against the applicable tax and, if a non-resident participates, FEMA pricing rules. Doing this before the SPA is signed prevents the common situation in which a commercially agreed price cannot be cleanly supported by the regulatory file.

Practitioner Checklist

- In a down round, model anti-dilution and employee economics before agreeing the price.
- For a secondary, value the class actually transferred rather than applying the latest preferred-round price.

- Maintain separate ordinary-share and option valuations where the accounting / tax purposes differ.
- Refresh the ordinary-share valuation after a material round and periodically while grants continue.
- Maintain an exit-ready valuation register covering allotments, transfers, grants and conversions.

Valuation register field	What should be available at exit
Allotments	Board / shareholder approvals, valuation report, subscription documents and filings
Transfers / secondaries	SPA / transfer instrument, valuation, tax / FEMA support and reporting
ESOP grants	Scheme, grant approval, ordinary-share valuation, option valuation and accounting working
Conversions	Original instrument terms, conversion calculation, approvals and updated cap table
Historic assumptions	Board-approved forecasts and market evidence used at each valuation date
Reconciliation	A bridge explaining why values changed between rounds, grants and reporting dates

Table 12.2: An exit-ready valuation register turns diligence into retrieval rather than reconstruction.

PRO TIP

Run a dry diligence on the valuation register before an exit process starts. Ask a team member who did not build the historic files to retrieve the report, approvals, cap table and underlying evidence for three random corporate actions. Any gap found in that exercise is dramatically easier to fix before a buyer has asked the question.

CONCLUSION

Working With a Valuation Expert Before Your Next Round

A valuation engagement delivers far more than a number. How early you start, how clearly you define the purpose and how completely you provide the capital-structure and operating evidence determine whether the outcome is merely a certificate or a transaction tool.

Start Before the Term Sheet, Not After It

Instrument choice, preference terms, option-pool placement, anti-dilution, foreign-investor pricing, accounting classification and secondary-sale economics are all easier to change before a term sheet is signed. The 2026 tax landscape has removed the former angel-tax ceiling from current primary issues, but it has not removed the need to map Companies Act, FEMA, accounting and transfer-side tax consequences before closing.

A short valuation discussion before documentation is final can identify which numbers are actually required, which professional capacity is needed, what valuation date should be used and which terms materially change founder or employee economics. That conversation routinely prevents a late-stage certification problem from becoming a deal problem.

How to Brief a Valuer Properly

- State the purpose precisely: fundraise, Companies Act allotment, FEMA pricing, secondary, ESOP, accounting or another defined use.
- Fix the valuation date and expected corporate-action date.
- Provide executed articles, shareholders agreements, amendments, cap table and option register - not the cap table alone.
- Provide the board-approved business plan with operating drivers and supporting market evidence.
- Disclose matters that reduce value, including litigation, concentration, key-person and regulatory risks.
- Allow enough time for modelling, review and reconciliation across the different workstreams.

OUR INSIGHT

The clients who get the most from a startup valuation treat us as a structuring and decision adviser first and a signatory second. By the time a professional is asked only to certify a price that has already been agreed, most of the economic and regulatory choices are fixed. Bring the conversation forward and the same valuation exercise can improve the transaction, not just document it.

What a Good Startup Valuation File Contains

File component	Why it matters
Purpose / law / date memo	Prevents the same number being reused for the wrong purpose.

File component	Why it matters
Board-approved forecast + driver build	Shows the assumptions existed independently of the valuation conclusion.
Market evidence and peer-screening record	Supports comparables, multiples and market size.
Executed capital-structure documents	Ensures preference, conversion and anti-dilution rights are modelled correctly.
Sensitivity and scenario analysis	Shows the range around judgement-heavy assumptions.
Signed reports and filings	Creates the contemporaneous record that exit diligence will later test.

Table C.1: The valuation file is as important as the valuation number.

The Twelve Ideas Worth Carrying Away

- Startup valuation is a discipline of evidence, not false precision.
- Round price and ordinary-share value are different when rights differ.
- One company can have several correct valuations for different purposes.
- Map the 2026 legal framework before selecting the report or signatory.
- FEMA pricing is directional and should be tested before the commercial price is locked.
- Choose valuation method by stage and evidence.
- A startup DCF lives or dies on operating drivers and terminal assumptions.
- Comparable selection must be documented, including the rejects.
- Backsolve / OPM translate a preferred round into class-specific value.
- The waterfall, not headline ownership, determines proceeds.
- Convertible terms create valuation and accounting consequences before conversion.
- Maintain an ordinary-share valuation and a complete valuation register before exit pressure arrives.

ONE LAST THING BEFORE YOU CLOSE THIS GUIDE

If the number matters, make sure it can be defended.

A startup valuation becomes important the moment someone else has to rely on it - an investor negotiating ownership, a founder assessing dilution, an employee receiving options, a board approving a round, an auditor reviewing the charge, a regulator examining the transaction or an acquirer diligencing the history. If the structure is judgement-heavy or the file needs to survive scrutiny, that is where Elite Valuation can help.

You do not need to know whether the answer is DCF, backsolve, OPM, PWERM or a regulatory certificate before calling us. Send the term sheet, cap table, articles, shareholders agreement, financial model or transaction note. We will identify the valuation objective, the frameworks involved, the information required and the cleanest way to execute the assignment.

CALL US WHEN YOU ARE DEALING WITH

- A fundraising round where price, dilution and share-class economics need to be understood before signing
- A recent preferred round and a need to determine defensible ordinary-share or ESOP value
- A foreign investor, FEMA pricing question, conversion formula or cross-border secondary
- A down round, founder secondary, option-pool top-up or waterfall that changes who gets what
- An acquisition, merger, PPA, intangible asset or another transaction valuation
- A Companies Act, SEBI, Income-tax or AIF valuation requirement
- An auditor, investor or board challenge to a judgement-heavy valuation or model
- A financial model or diligence exercise where the number must be investor-ready and documented

EXPERIENCE	CLIENT ENGAGEMENTS	PROFESSIONAL CREDENTIALS	PRACTICE
15+ Years	500+	CA | CS | IBBI RV	Ex-EY | Pan-India

WHAT HAPPENS IN THE FIRST CONVERSATION

01
We understand the round / transaction
Purpose, investor, instrument, valuation date, rights, deadlines and what is already agreed.

02
We map the valuation workstreams
Commercial pricing, Companies Act, FEMA, accounting, ESOP or transfer-side tax requirements as relevant.

03
We define scope and next steps
Data, methodology, deliverables, timeline and the practical path to a defensible file.

BOOK A 15-MINUTE INTRODUCTORY CALL

Speak directly with our team before the term sheet, allotment, grant or transfer becomes difficult to change. A short first conversation is often enough to identify the right valuation path.

CALL	EMAIL	VISIT
+91 9879557558	sagarrvshah@elitevaluation.in	www.EliteValuation.in

Bring us the question before the round is signed, the grant is issued or the number turns into a diligence problem you have to defend retrospectively.

Elite Valuation | Independent Valuation and Boutique Advisory | Pan-India