

Startup Valuation Methods

What Indian Founders Need to Know

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₹ FUNDRAISING

📊 COMPLIANCE

💡 STRATEGY

WHY IT MATTERS

Why Valuation Matters

Your valuation determines **how much equity you give away**. Every percentage point you lose today compounds at every future round.

Rs 10 Cr Pre-Money

On a Rs 1 Cr raise:

10%

Equity diluted to investor

Rs 15 Cr Pre-Money

On a Rs 1 Cr raise:

6.67%

Equity diluted to investor

- ❏ That **3.33% difference** compounds at every future round — Series A, B, and beyond. Getting your valuation right from Day 1 is not optional.

DCF — Discounted Cash Flow

Projects future cash flows and discounts them back to present value using a risk-adjusted rate. The most rigorous and compliance-ready method.

How It Works

Build 3–5 year financial projections, estimate a terminal value, and discount everything back at your WACC or required rate of return.

Best For

Revenue-generating startups with **predictable growth trajectories** — SaaS, subscription businesses, fintech with recurring revenue.

Compliance Note

Under **Rule 11UA** of the Income Tax Rules, a **Registered Valuer** must prepare this report for statutory compliance purposes.

Required Inputs

- 3–5 year P&L projections
- Working capital assumptions
- Capex schedule
- Discount rate (WACC)
- Terminal growth rate

METHOD 2

Comparable Company Analysis

Compares your startup's metrics to similar funded companies in the market. Widely used by founders during fundraise conversations.

SaaS

5x – 15x Revenue Multiple

High multiples driven by recurring revenue and scalability

Marketplace

2x – 5x Revenue Multiple

Network effects valued, but take-rate and GMV matter

Services

1x – 3x Revenue Multiple

Lower multiples due to linear scaling and people dependency

- ❏ **Important Caveat for Indian Founders:** Indian startup multiples differ significantly from US benchmarks. A SaaS company valued at 20x ARR in Silicon Valley may command only 8–10x in the Indian market. Always use India-stage comparables.

Net Asset Value (NAV)

Values the company based on its **net assets** — **total assets minus total liabilities**. A balance-sheet-driven approach used primarily for compliance and early-stage businesses.



Best For

Asset-heavy businesses such as manufacturing, real estate, or hardware startups. Also used for early-stage companies with minimal revenue where future projections are unreliable.



Key Limitation

NAV does **not capture future potential**, brand value, intellectual property, or the team's execution capability — all of which are critical for high-growth startups.



Used By

Income Tax authorities for **compliance valuations**, particularly when assessing share allotments and determining fair market value for tax purposes.

NAV Formula

Total Assets

— Total Liabilities

= **Net Asset Value**

Divided by number of shares = Value per share

The Compliance Angle

Rule 11UA of the Income Tax Rules mandates a registered valuer report in several key scenarios. One well-prepared valuation report can serve multiple compliance needs simultaneously.



Share Allotments at Premium

Any allotment of shares above face value requires a registered valuer report to justify the premium



ESOP Exercise Price

Determining the fair market value for employee stock option exercise prices under the scheme



Transfer Pricing

Cross-border structures require benchmarking to ensure arm's length pricing for international transactions



Founder Tip: One valuation report, prepared by a Registered Valuer, can serve all three compliance needs above — saving time, cost, and audit risk.

Investor vs. Founder Perspective

Both sides come to the table with different valuation lenses. Understanding the gap — and how to bridge it — is the key to closing a round on favourable terms.



Founder's Approach

Typically uses **Revenue Multiples** — the method that produces the highest number. Anchors on market comparables, growth trajectory, and TAM potential.



Where the Deal Happens

The final valuation is always a **negotiated middle ground**. A third-party registered valuer report gives founders a credible, defensible anchor in this conversation.



Investor's Approach

Typically uses **DCF** — the most conservative method. Focuses on risk-adjusted returns, exit multiples, and downside protection.

A third-party valuation report is not just a compliance document — it is your **strongest negotiating tool** at the term sheet stage.

3 Valuation Mistakes to Avoid

These are the most common — and most costly — errors Indian founders make when approaching a fundraise or compliance valuation.

1

Using US Comparables for an India-Stage Startup

Different markets, different risk profiles, different multiples. A SaaS startup valued at 20x ARR in the US may only justify 8x in India. Using inflated benchmarks destroys credibility with sophisticated investors.

2

No Registered Valuer Report Before the Term Sheet

Skipping this step creates **due diligence delays** that can kill deals. Investors expect compliance documentation to be ready — not scrambled together after a term sheet is signed.

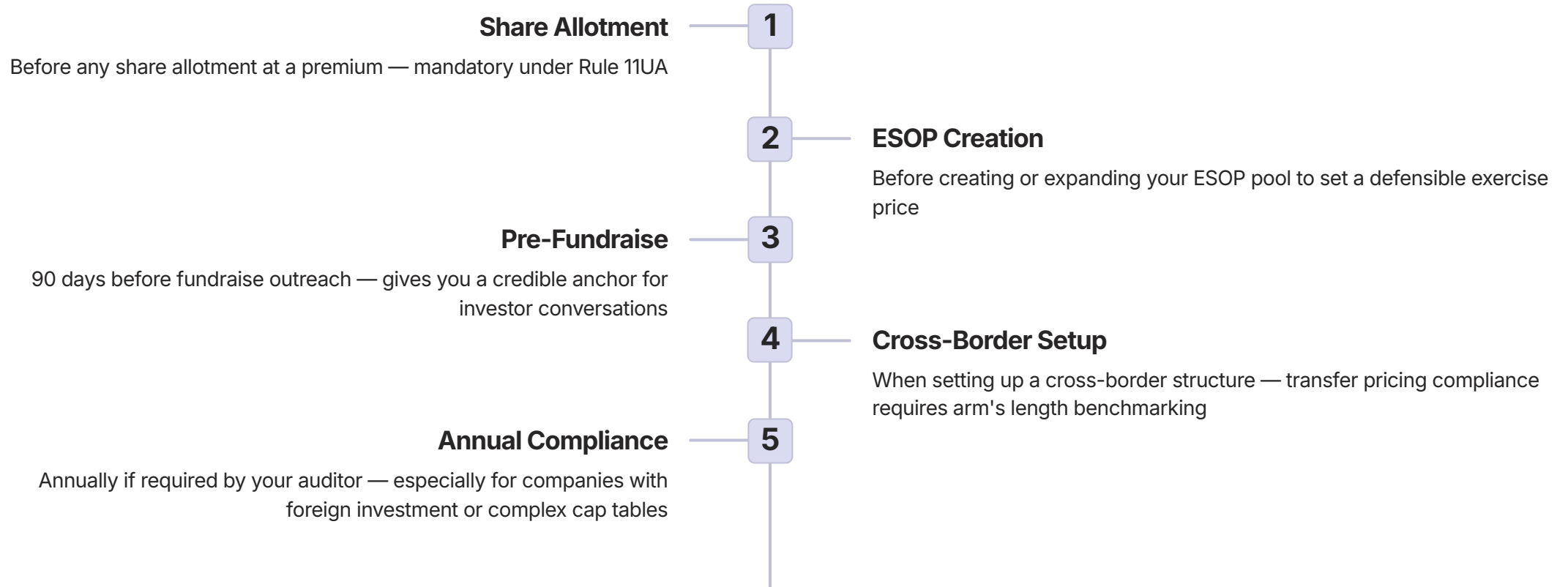
3

Ignoring the Fully Diluted Cap Table

Post-money valuation must account for **ESOP pools and convertible instruments**. Founders who ignore these often discover their effective dilution is far higher than they negotiated.

When to Get a Valuation

Valuation is not a one-time event — it is an ongoing strategic and compliance requirement at multiple stages of your startup's journey.



Need a Valuation Strategy Before Your Next Round?

We help founders get the **right valuation for their stage and structure** — whether it's for fundraising, compliance, ESOP design, or cross-border setup.



Fundraise Readiness

Valuation reports that strengthen your negotiating position with investors



Rule 11UA Compliance

Registered Valuer reports for share allotments, ESOPs, and transfer pricing



Cap Table Strategy

Fully diluted analysis including convertibles, ESOP pools, and future rounds

Schedule a Strategy Session

Book a 30-minute call to discuss your valuation needs

[Book Your Session →](#)

CA Adityavikram Banka

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Helping Indian founders navigate valuation, compliance, and fundraising strategy with clarity and confidence.

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