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Pre-investment Due diligence and Audit Practices of Venture Capital Firms in India

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Abstract - The pre-investment due diligence is a comprehensive systematic investigation, verification and evaluation of the prospective project before funds are committed. The paper aims to develop a comprehensive due diligence and audit framework to facilitate consistent evaluation of investment proposals. A brief literature review concerning the pre-investment assessment activities has been presented. In order to develop a pragmatic comprehensive framework, which requires a great deal of information and documents to be perused, the Focus group interview method has been adopted. The resultant discussions had been summarized under various heads - Business proposal screening, Term sheet, Current Valuation and Capital structure, amount of funds needed, structuring the deal, the antecedents of the core management team including the promoters, details of the product/service, nature of completion, industry/sector attractiveness etc. The paper as part of due diligence and audit process suggests the list of documents. The framework suggested would enable venture capital firms to adopt consistent and robust practices resulting in risk mitigation of its investments in new business ventures.

keywords - Pre-investment, due diligence, audit process, risk mitigation, venture capital

1.0 Introduction

Venture Capital firms keep receiving various business proposals and carry out the risk assessment all the time. In this oft risk assessment process, the concerns are bipartisan. It is very often said that finding a good venture capitalist is very difficult for a good potential project but in the business of venture capital investment finding a good prospective project is an equally difficult task. The fear of repeating the Microsoft story is still quite palpable in the world of venture capital investing, hence the importance of achieving a fine balance between not losing the right project and not choosing the losing one. Here lies the importance of pre-investment due-diligence.

The pre-investment due diligence is a comprehensive systematic investigation, verification and evaluation of the prospective project before funds are committed. The whole process is designed to achieve the risk-reduction for investors, clarification of inherent issues and challenges involved in the proposal and set the protocol of interaction among the three parties involved – investor, venture capitalist and the project management which very often is an entrepreneur. It goes through a circuitous route and turns topsy-turvy many a times before it finds an exact fit. This

tardy process takes a very long time and requires a lot of effort on behalf of the parties but its negligence is perilous and may warrant death for all three parties.

The world of Venture capital investment is very strange having very little to conform to set standards. Frequently the prospective projects are novel, innovative and venturing to the realms which are downright alien, unknown, uncharted and beyond risky. Venture Capital firms struggle to evaluate these inconsistent investment proposals consistently, leading to delays in investment decisions.

The itemized factors that necessitate the pre-investing due-diligence are:

i. Very long term commitment of capital
ii. Very long gestation period without any committed return
iii. Cost of failure vis-à-vis cost of due-diligence
iv. Large probability of not achieving the projections and need of further financing
v. Inexperience, ethical and legal misconduct of entrepreneurs

The aim of this paper is to develop a comprehensive due diligence and audit framework to facilitate consistent evaluation of investment proposals.

The screening, analyzing and evaluation process is very dynamic, it is rare that a venture capital firm gets to screen and evaluate two similar projects simultaneously. Hence the framework keeps evolving as the dynamics of the venture capital ecosystem keeps changing. But with the passage of time every firm gets the feel of its ecosystem and evolves a set of criteria that helps it in getting the initial screening and analysis done. This typically includes a set of investment criteria that lead them to the desired prospective project. Once these criteria are defined, a firm will tailor the process to answer specific questions.

Effectively the due diligence process carries out the SWOT analysis for all prospective stake holder in the business they undertake to invest in. The whole process of due diligence thus establishes the framework including several criteria in coherence with the vision, mission and investment philosophy of the venture capital firm for screening, and analyzing a variety of potential investment proposals on the horizon of the firm in general.

But in the complex Indian Economic system the process of due diligence takes special form of gathering and evaluating the information not only from the internal sources of the prospective project rather from other available external sources as well e.g. Market research firms, experts, background checking agencies etc.

2.0 **Literature review**

Gerald and Joel (2001) demonstrate that the potential investors face the real danger in not developing the complete understanding of the nuances of venture capital investing where the finances are put at stake at a very early stage,

mostly around a nascent concept. Camp, J. (2002) categorized the Due Diligence process into a set of activities consisting of Screening, Management, Business Opportunity, Intangibles, Legal and Financial.

The Centre for Private Equity and Entrepreneurship, Tuck School of Business at Dartmouth, USA (2004), has outlined the process into three broad categories of Due Diligence - – Screening, Business and Infrastructure. Sven and Johan (2007) highlight pitfalls of due diligence as perceived by both the disclosing and the receiving party.

Cheedradevi et.al (2012) in their study of sixteen venture capital firms of Malaysia find the dissimilarities between conventional investment decision making models and that of decision making models of venture capital investment. The four criteria that played most significant role in the process of screening and evaluation are: Integrity of entrepreneur or management team, leadership qualities, probability of early exit and high returns.

Bindiya and Priyan (2013) highlight the means through which the venture capital firms get to know about the prospective projects looking for the venture capital financing. As per their findings mostly this is done through by referrals from financial intermediaries, parent organizations, friends or former investees. Methodology of evaluation shows that legal intricacies are looked into by outsider legal experts but financial and business innards are evaluated by insiders of the venture capital firms only. The most interesting findings with respect to Indian Venture Capital Firms are that they prefer to invest in syndication with other venture capital firms, that too in the late stage of prospective project, most probably to mitigate the risk.

A later research including that of Jawwad Farid (2016) brings out that venture capitalists considered - size of the market; management expertise within the firm; legal concerns; location and environmental issues as significant factors.

3.0 Need of Study

All the above mentioned studies in the section of literature review on pre-investment due diligence allow us to develop understanding of the pre-investment processes in Indian Venture Capital Industry but most of these are carried out in the context of Foreign countries especially United States, where the venture capital is considered as an established form of financing and the concerned rules and regulation are well framed and well ingrained in the system.

Similar studies carried out in Indian Venture Capital Industry are few and far between and last such study was carried out in 2016. Since then India has made a leap in the ventures that had been financed with venture capital and establish a track of record handsome success particularly in technology based projects and e-commerce. Hence the review the whole process of pre-investment due diligence was needed to be done to get a fresh perspective of the emerging practices.

4.0 Methodology

To develop a comprehensive framework consistent with the objective of the study, a brief literature review was conducted to identify the conceptual frameworks available in the existing literature.

A brief description of research methodology is outlined in the table given below.

Research Methodology	
Research type	Exploratory
Research design	Descriptive
Data Sources	Primary and Secondary both
Method of data collection	Focus group Interview
Focus Group	Top Management of Venture Capital Firms in India
Type of sampling	Convenience
Population	Indian Venture Capital Firms listed on the website of Security & Exchange Board of India (SEBI)
Sample size	10 CEOs/Senior Executives of Venture Capital Firms in India
Contact Procedure	A list of probable exploratory points was shared first via mail and the actual discussion was conducted via Skype or in person.
Timing of Survey	March 2019 to October 2019

The Focus group discussion enabled to develop a deep understanding of the due diligence and audit practices they usually deploy as part of their pre-investment appraisal.

5.0 Analysis and Findings

The following facts and information about Due diligence and Audit practices emerged out of the literature review and the Focus group discussions:

5.1 Need of pre-investment due diligence

The complex landscape of Indian economy, its complicated regulatory framework and legal format necessitate an exhaustive pre-investment due diligence as per the venture capital firms. How well the understanding of these issues is developed, what strategies are developed to tackle them and how these issues are dealt with often makes the difference between success and failure. The methodology of risk mitigation in the nascent businesses need a very strong due diligence process and its outcome is often well pondered and hashed thread-barely prior to any decision of undertaking investment in the enterprise.

Most of the venture capital firms came out that transparency is a big issue and it is extremely difficult to extract correct information and verify the true nature of business in India where a lot of dubiousness exist. The integrity and business ethics of the stakeholders need to be more evolved in Indian economy where corruption and malpractices are everyday norms and investors are cheated regularly. The efficiency of public offices responsible for maintenance and accessibility of the information regarding the business is also troublesome. The maintenance of record, its digitization, archival and retrieval all these processes are cumbersome.

The second point that necessitates the strict and comprehensive pre-investment due diligence is the presence of 'deal-destroyers' in the Indian market. A variety of external factors affect the fruitful partnership of venture capital and entrepreneur. The political interference at local level, fragmented legal issues at various state-level, different labour compliances in different states, a variety of material resourcing restrictions, different level of compliances in statutory and regulatory issues at international, national and state level, all these need a very comprehensive and detailed scanning of issues before the funds are committed.

The third factor is the evolving economy itself. The economic tumult and the concerned regulatory issues, alongside with the related legal framework and compliances needed is still a work-in-progress. Red tape and bureaucracy's tardiness are also factored in. Once a venture capital firm undertakes a venture it commits itself for a long term. In this case it has to develop a two-pronged futuristic plan, forecasting its venture projections at micro level and also some factors at macro level.

Moreover, the different cultural norms, the language barriers, the local ethos, level of available infrastructure, the security needs keep on varying with the different landscape of vast Indian geographical terrain. All these factors emphasize an intensive pre-investment due diligence.

5.2 Getting first Information

All the venture capital firms stated that everyday numerous proposals hit their websites contact addresses. Most of these proposals are scanned at the low or middle level. Majority of these are junk and thus ignored. Sometimes a good proposal is found and brought to the notice of higher ups but it is once in a blue moon phenomenon. Many told that at least once it has also occurred that a good proposal had been received but failed to be noticed by the low level employees and later caused a heart burn. Hence sorting of the proposal for the eyes of higher ups done by lower level employees is a risk but can't be done away due to time needed.

The investment opportunity present themselves in galore, through various channels, again most of them are ignored. Mostly venture capitalists keep their ears to the ground and tune to the market to scan through all the buzz about the great upcoming opportunities.

Another source is the trusted colleague, fellow venture capitalist whose shared tid-bits carries more weight. A legal consultant's advice who does the screening for the venture capital firm about great potential venture is also much heeded.

A previous or serial successful entrepreneur's words also a valuable source as his track record demand faith and his words are taken seriously about the potential investment opportunities.

5.3 Business Proposal Screening

Once the venture capital firm has located an opportunity, it starts showing interest in that project. Most of the venture capital firms agreed that a three-dimensional approach is adopted. The outside team of legal and compliance consultants mostly called as "Investment Advisors" are given contract to evaluate the opportunity for legal and regulatory compliances. The second dimension is taken care by bringing in the "Specialists" who are in the business of analyzing a particular domain, business model, technology etc. The third line of screening is done by "Internal Investment Analysts", who examine the venture from different aspects keeping in view the vision, mission and strategy of the venture capital firm, its viability, worth, and value addition, etc.

All three again adopt two-way processes, in the first one the information is gathered from secondary sources, third parties and in the second one the concerned venture is requested to submit first an executive summary in a given format provided by venture capital firms. The summary is presented as the compendium of all the related information that helps the venture capitalist to carry out the preliminary assessment of the project.

At this stage, the most important assessment is done by the Internal Investment Analysts. They evaluate the project on various parameters. Whether it operates in the geographical terrain in which the company undertakes its project, does it fit within specific sector in which the company operates, is the product/service is marketed or projected to be marketed where the venture firm is having ease of operations, is the entrepreneur or management had a previous convivial and profitable relationship with venture capital firm, all these and various other angles are explored.

Once the venture capitalist finds the project interesting and decides to assess further a comprehensive detailed information sheet is shared with project management. This detailed information sheet is called as Q-sheet or Term-sheet. It is a complete documentation package requesting all round information so that a comprehensive assessment could be made.

Beside the enterprise' particulars, a comprehensive Term sheet includes following information:

i. A comprehensive business plan

What business idea actually the enterprise is going to work on in order to create, deliver and monetize. How does it intend to generate revenue?

What value will be provided to customer?. What risk it is going to assume?

Is the model labour intense? Capital intense? Technology driven? Is it novel? Is it scalable?

What will be gestation period to make the model fully functional?

Will the acquisition of more customer will lead to economies of scale and add to profitability?

Does the model predicts the coherence between revenue generation and value creation for its customers?

ii. Current Valuation and capital structure

Valuation is always a negotiable concept and it largely depends on the need of the project and the convincible projections it creates in the mind of investors. No unique and single formulae exist to predict the exact value of the business.

Venture capital firms favour a lower valuation allowing them to acquire a large stake in the enterprise. It creates for them a better prospect and lesser risk and high motivation to invest. The key factors that will go into a determination of valuation include:

Following factors add to the valuation of the enterprise:

a. The business prowess, techno-savvy inclination, past experiences in leading a successful enterprise of the person at the helm
b. The large size of the market, the high growth rate of the market opportunity
c. The status of the technology – acquired or proprietary. An indigenous in-house developed technology demands higher valuation
d. The stage of the product/service development. If the product/service is already developed and just needed to be delivered the valuation increases
e. The recurrence of the revenue generation opportunity of the business model, i.e the cycle of revenue generation may sustain for several subsequent rounds.

f. The capital-efficient utilization of the business process i.e., the minimum of capital employment is needed before the enterprise turns profitable.

g. Valuations of comparable companies existing in the market.

h. Are other investors also in fray and seem interested in investing in the enterprise? If yes then the valuation will be high.

i. The existing economic conditions, strong conditions generate higher valuations.

iii. Amount of Funds needed

The requirement of fund should be stated very clearly, detailing the heads where the effective employment of capital is required. Mostly the venture capital firm show less interest in the projects needing anything less than a quarter million as the cost of due diligence is quite high and the low return does not justify the investment.

The quantum of fund required to be raised now and over the life of the company is also asked here.

iv. The type of contract which the project offers to venture capitalists (Structuring the Deal)

Here an array of instruments are available and the project's management state the various choices detailing the reasons and leaving the options open to the venture capital firms for further negotiation. The most frequently offered and agreed upon contracts are:

Convertible Preferred Stocks

Convertible Promissory Notes

Participating or Non-Participating Preferred Stocks

Simple Agreement for Future Equity

Alongside these contracts many other regulation and ownership issues e.g Veto rights of Investors, Anti-dilution Protection, right to participate in future financing, Insurance obligation, Stock option issues, Registration rights, Drag along rights, Right to first refusal, Exclusivity/no shop rights, Redemption rights are also detailed. The discussions also included confidentiality issues, dispute resolution etc.

v. Details of "The Team" i.e., company's founder, management and entrepreneur

This is the central theme around which the report is build up as it is a buzz word in the venture capital industry that venture capitalist prefer to put their money in people rather than the project. A project with

experienced, competent, skilled entrepreneur and management team having strong knowledge base are sought after. Especially if the entrepreneur is a serial one meaning he/she is a pro in the field and has the capability to carry the whole project on its own shoulder, knows exactly what is to be done without much hassle. At the same time deficiencies are also to be described so that the issues can be sorted out and the compensatory replacements could be pointed.

vi. Financial results and projections and the basic premises on which these projections are based

Most of the Term Sheets require 3 to 5 years details in case of existent and running projects. All the heads should be clearly stated and any anomaly should be pointed out and explained. These records are absent in case of upcoming enterprise which is yet to start its operations.

Existent or upcoming, in both the cases projections for 5 to 10 years are needed for cost and revenue. The assumptions or premises on the basis of which these projections are made should be expressed clearly and must be realizable.

A detailed Credit Monitoring Analysis report is also demanded by most.

vii. Details of product and/or service

The most probable points in this section are:

What problem does the product/service solve? What opportunity does it pursue? Is it a tough problem with a prior non-existent solution and the project presents the novel solution? At the same time the solution shouldn't be so simple that within a short span the copycat enterprises boom up cutting into the profitability of the project.

Is the product/service innovative, radical improvement or just an incremental improvement on the existing product/service as the solution of the problem?

If it is replacement, in what aspect it is better? Cheaper? Or faster model? Or is this the “New world model” in the sense that it provides new functionality.

The pricing and associated revenue generation are to be detailed on unit basis. The two important parameters to be stated are “Customer Acquisition Cost” (CAC) and “Customer Retention Cost” (CRC). At start the CAC is quite high as compared to CRC but to attain profitability the CAC has to gradually decrease until CRC overtakes it.

Technology involved should be hard to copy and execute so that a workable barrier to the entry of competitors could be created.

It should be proprietary to avoid the future legal issues.

Timing of the technology is also a very important consideration. When the whole world is looking for 3D printing one can't keep investing in conventional method manufacturing technology.

viii. Target Market

For VC fund to consider an investment opportunity, founders building a startup need to operate in at least $1Bn market, otherwise the math simply does not end up and VCs lose money on their investment, or not return enough capital for LPs. Also important to acknowledge market dynamics, what are the key driving forces behind market fluctuations, it could be consumer behaviour monitoring, purchasing power increase/decrease, movement of talent within the market, etc. It is a case by case example as different markets have different underlying forces driving the market dynamics.

ix. Competitive Landscapes

This sections requests details as follows:

Current market position for an existing and running enterprise

The type of penetration demanded for success, the marketing, advertising and distributing strategy required.

The position of the enterprise in the market it is trying to penetrate. The dominant industry players, incumbents, their offerings, the competitive advantage they possess, all these information are to be provided in this section.

Customer adoption cost and customer loyalty retention cost also feature here.

x. Sector and Industry evaluation

The rising industry and the sector showing high growth rate provide boost to all the companies existing in that industry and sector, hence a comprehensive analysis report is needed. In case enterprise does operate in a mediocre sector it must justify its uniqueness, its novel offering, operating pattern, innovative business model to attract investors.

xi. Details of enterprise operations.

The cost and step wise break-up of the business process and the associated cost at each step is needed here.

xii. Details of enterprise' various stakeholders eg. Employees, Suppliers etc.

A comprehensive and detailed scenario is to be presented alongside with policy and procedure adopted in this area. The prominent employees, their qualification, skills and contribution are described. The important suppliers and creditors are also mentioned stating the unique nature of their contribution towards the sustenance and growth of enterprise.

xiii. Exit Strategy

This section deliberates the exit potential of the enterprise for the venture capital firms and the time-scale over which it is possible.

It also states the comparative position of the enterprise with respect to other similar enterprises in the market. The benchmarking with other similar companies at a similar stage of development creates a clear indication of the journey of the enterprise over the period of time with comparable entities.

Here the enterprise lists the pitch made by other investors, and the level of interest shown by the other players in the market leading to a higher potential valuation.

xiv. Clear indication of the potential returns to the investors

This is mostly the last point and the most important one too. The higher the assurance of profit generation of the enterprise, higher is the chance to be accepted by venture capital firms for future investments.

Once the complete Term sheet is received by the Venture Capital firm,, all three teams responsible for pre-investment due diligence start pouring over it. The minutest details are examined, and the authenticity of the statements made in the Term sheet is verified from different sources. As soon as this is finished and teams nod their go ahead for next step the stage is set for the Personal Discussion between the venture capitalist and founder/entrepreneur.

5.4 Meeting with the founder/entrepreneur (Personal Discussion)

The start of investment in a project is also the start of a long or sometimes a very long term relationship culminating at the exit from the enterprise. A relationship of such a length where two parties are to interact and consult each other very frequently and in all probability will be facing and discussing novel situations, sorting intermittent crises, navigating atypical circumstances needs a solid foundation.

The mutual understanding of each other's vision, clear synchronization of the goals and a very dynamic and coherent chemistry is a must between the Venture Capitalist and the entrepreneur.

Many a Venture capitalists express their opinion that they are not as inclined to evaluate the business idea or model as they are to meet and understand the entrepreneur/founder/ management team in control of project.

They want to understand them as person, their personality type, background, temperament, ethics, leadership style, and most important they keep looking for flaws that may later prove to be fatal to the enterprise.

They would like to have a detailed understanding of their business/technological/engineering vision, their plan for execution of these ideas, their prowess in entrepreneurship, implementation of various strategies of revenue generation, customer acquisition and their loyalty retention,

The most important of all, their capacity and capability to navigate the enterprise during a crisis it may face. They want a person who is rational, dependable, consistent and very sure of his/her convictions but at the same time a flexible one, willing to review the assumptions, reexamine strategies, reconsider the change of course if and when it is required.

But the most importantly it is the expression of their vision, and a clear blue print presentation in front of venture capitalist of the problem they intend to solve, the solution they intend to deliver, the solution which is deliverable and monetizable for a reasonable cost, which is scalable and achievable, that grabs the deal.

A significant number of the venture capitalists are of the opinion that this is the most important stage of due diligence. They are of the opinion that they principally invest more in right people with right idea at the right time in the right place. Mostly CEOs they backed at the start of their funding were still at the helm at the sale of the company or IPO.

Another emergent opinion expressed was that opportunities and market play more significant role in the success of venture rather than the people but none the less meeting and understanding the mindset of the people at the helm of the enterprise is also very vital for the success.

None the less, this is the same state where entrepreneur/founder/management of the project also judges the venture capitalists. How beneficial the association would be for the growth of enterprise? How agreeable would be the venture capitalist to the goals of project? What quantum of funds venture capitalists would like to bring? Would that be

sufficient? Will it be a participating or non-participating association? All these points are hashed about. It's more of a two way discussion rather than an interview.

Once the venture capitalist and the entrepreneur/founder/management of the venture met and hit off the anvil a long process of review of the original documents starts.

5.5 Review of Documents

The list of documents to be reviewed are given in Table 2.

Table 2. List of Documents

	• Previous 3 to 5 years Financial statements e.g. Balance Sheet, Profit and Loss Account, Schedules of Assets and Liabilities, Creditors and Debtors, Cash Flow etc.
	• The detailed Financial Projections and the premises based on which these projections have made
	• The details of existing capital structure and any prior investment agreements
	• Certificate of Incorporation or Registration, Memorandum of Directorship or Association, Corporate Charter, Bylaws, Minutes of Annual General Meetings, and other corporate records.
	• All existent Supplier Contracts
	• Any transactions carried out with insiders eg. Within the enterprise with its officers, shareholders, or directors or their affiliates, or in some cases with any other sister concern)
	• Pending litigation issues or outsider claims
	• All Intellectual rights papers, copyrights, patents etc.
	• Any bankruptcy proceedings, or governmental actions
	• Background details of the Founders, Patrons, and Promoters and their Reference checks
	• Scanned info about the enterprise and founders on social media
	• A comprehensive check of the behavioural pattern of the founders/promoters eg. Misconduct, harassment, discrimination etc.
	• A comprehensive analytical report of existent competition
	• Proof of the right of ownership of business or key products, confidentiality agreements and Invention Assignment Agreements

5.6 Managing the Due Diligence Process

An informed decision about a business proposal needs a thorough research for assessing the potential returns and identifying the potential risk. This stage needs the presence of specialists. Chartered Financial Analysts, Chartered Accountants, Legal Consultants, Industry Experts, Business and Technology Consultants take over the process of assessment and evaluation. The activities associated with are given in Table 3.

Table 3. Due Diligence Activities

Due Diligence Activities
• Comprehensive analysis of business plan or business model. Evaluation of technology and its potential.
• All round in-depth interaction with all the stake holders including management, employees, customers, suppliers and competitors,
• Exhaustive Consultation with industry experts about sector and industry prospect in the particular economy
• Thorough background and reference checks of the top management/entrepreneur/founder, including speaking with friends, classmates, previous business associates and other peers.
• Extensive financial audits, including verification of financial projections, basic premises and capital utilization heads.
• Detailed legal audit, verifying all documents of registration, incorporation, association, employment contracts, vendor contracts, material procurement contracts, environmental and civil compliances, labour compliances, patents, copyrights etc.
• Detailed human resource audit, including HR policies, the Compensation & Benefit plan, Corporate governance, Talent Acquisition policies, Employment demographics etc.
• Assessment of market potential

5.7 The Pre-investment Audit

The following six step analytical approach for early stage ventures is given below (Table 4):

Table 4. Audit Process

1. The requisition of data and information is made from the enterprise itself.
2. The same data and set of information is collected independently with the help of secondary and primary sources eg. Employees, directors, advisers, appraisers, suppliers, bankers, competitors, etc.
3. Both sets of data are compared and analyzed.
4. Gaps are identified and clarifications are asked. A SWOT analysis is done and strengths and weaknesses are listed in the business idea/plan/process/ model, the financial data, legal compliances, technology, organizational processes and the deal itself.
5. The results of SWOT analysis is presented and compared against the result of the analysis done simultaneously by the Internal Investment Analysts. A board identifies what looks favorable and what is unfavorable about the investment
6. All the gaps identified and assessment about the potential risk/ reward laid bare in front of the board to evaluate the fit of the venture with venture capital firm's investment strategy.

Data Requirement:

A vast set of data is collected and numerous information are gathered. Actually this is the stage where the tempers are frayed and at times both the parties come to loggerhead. Mostly the data heads are:

- Business Plan/Model/Process
- Technological details, Patents, Copyrights
- Industry Analysis Report
- Sector Assessment Report
- Market Evaluation
- Marketing plan
- Products and Services detail
- Competition Ecosystem evaluation
- Suppliers' List
- Operations details

- Research and Development activities lists
- Financial analysis of projections including
    - Capital requirement
    - Capital Utilization Heads, Timeline and Plan
    - Balance sheet
    - Income & Expenditure statement
    - Profit & Loss Account
    - Cash flow Statements
    - Cash Monitoring Analysis or forecast (most important projection- examines the changes in cash due to business activities. It will be indicative for future additional funding requirements).
    - Use of proceeds
    - Financial plan assumptions
    - Risk/ Return Analysis
    - capitalization table
- Human Resources Documents,
    - HR Policies,
    - Comp & Ben,
    - Corporate Governance,
    - Organization chart,
    - resumes of key personnel,
    - job descriptions,
    - Talent Acquisition policies
    - Employee diversity situation
    - appraisals
- Legal Documents
    - Ownership documents
    - Registration Certificate
    - Memorandums, and Byelaws
    - Business licenses,
    - Insurance policies,
    - Director and Broker fee agreements, bylaws, etc.

- Valuation Documents
  - The teams of independent professional valuer is brought in, these people configure the whole business process/model and put a figure on every input and output, consider the cost of acquired assets, technology, people, etc. along with the future sales proceeds. All these are added and a ball park figure is reached as the valuation of the business.

For a company already in business the investor mostly looks at past financial data, and for a new start-up he is guided by industry standards but in both the cases the accuracy of quantification of qualitative aspect of business model is essential. The projections made about the future performances must be in line with the funding quantum required so as to assure the attainability of profit.

The financial analysis underlines:

- The quantum of fund needed
- The duration of fund employment
- The heads in which the funds are to be employed
- The appropriate mode of funding
- The equity that the management is willing to concede to the investor

Evaluation of the projections is based on soundness, validity and consistency of the underlying assumptions.

Begin analysis of financial projections by reviewing the operating budgets (including forecasted revenue and expense projections). Next review the cash budgets that project how sales turn into cash which in turn is used to pay the cost of doing business and return profit. It reviews the sources and uses of the cash and helps the investor assess the company's credit and debt collection policies, trade credit and other financing activities, etc including identifying when cash would be required to avert a potential liquidity crisis. The final stage is to review the pro-forma statements such as the historical and projected profit and loss statements and balance sheets.

The investor must be able to assess the company's potential break-even point in terms of the sales volume required and the likelihood of achieving the same.

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