Let's understand
Valuation

Simplest Explanation Ever!

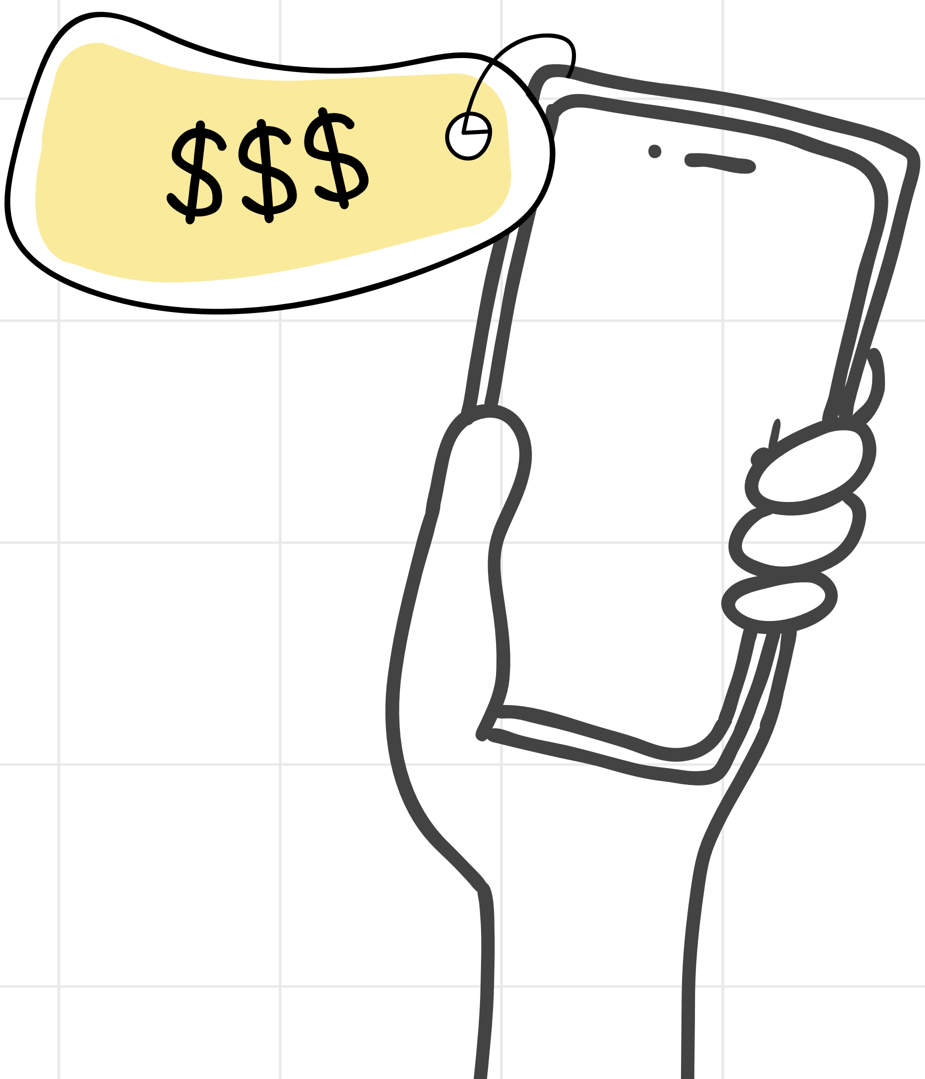
Suppose you decide to buy a smartphone

When buying a smartphone, you think about the camera, battery, speed, brand, and extras it offers.

But the most important thing is the price.

Why?

Because it decides if the phone is affordable and worth the money.



Why do we value a company?

You assess whether a mobile's price is high by considering-

pricing features popularity reviews etc.

Similarly,

when an investor seeks to own a part of a company,

They evaluate its valuation using the same logic as we apply when valuing a mobile.

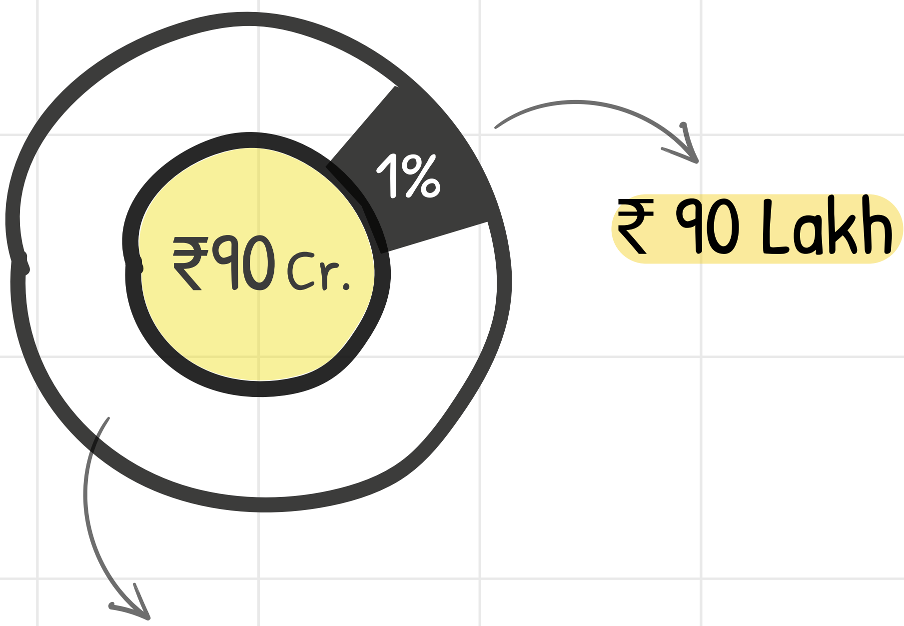
Matlab?
Dhanda Kma ke
dega k Nhai!

Let’s understand this with the latest episode from Shark Tank India:

The founder asked for-

₹ 90 Lakh for a 1% Equity

To find the company's total value:



for 100%,

90 × 100 = Rs 90 Cr.

So, The total value of the company is **Rs 90 crore**

Founders of Gulabo Jaipur

Let's understand how they got their valuation:

Business	Type	Product
Clothing	D2C (Direct to Consumers)	Traditional Dresses

What does this company sell?

How does this company sell its products?

What kind of clothes does this company specialize in?

Important Questions Before Valuing a Company:

- Sharks always ask founders about their background, education, and roles in the business.
- They want to know the unique qualities of the product, its price, and its popularity on social media.
- They examine industry growth trends.
- They assess the overall market size to determine the company's worth.

But the key question that every Shark focuses on is the company's

SALES / REVENUE

They inquire about past sales, current performance, and future projections.

determined using the Revenue Multiple method.

The multiple, typically Varies between 2-5x of Revenue based on growth potential and product uniqueness.

Projected revenue	Revenue multiple (x)
8 Cr.	5 (x) Assumed

Company Valuation = 8 × 5 = 40 Cr.

However, if the company is asking for 90 Cr, which is like an 11x multiple, it's considered expensive.

Their projected EBITDA is calculated as **15% of their sales revenue**

For example,

With projected revenue at Rs.8 Cr, their EBITDA would be Rs.1.2 Cr, as shown below:

Calculation of Projected EBITDA

Projected EBITDA = EBITDA × Sales Revenue
Projected EBITDA = 15% × 8
Projected EBITDA = 1.2 Cr.

Earnings

Interest
Tax
Deprication
Amortization

Anupam noticed that the company's valuation seemed to be about 75 times its EBITDA.

So Basically, valuation is calculated by multiplying EBITDA with a certain factor called the multiple.

EBITDA × Multiple = Valuation.

Applying this formula to their case, with a valuation of 90 Crore and an EBITDA of 1.2 Crore,

The multiple appeared to be 75 times.

Why did the company want 90 Lakhs if it was already making 1.2 Crore profit?

The founders explained that they were seeking mentorship to help scale their business to new heights.

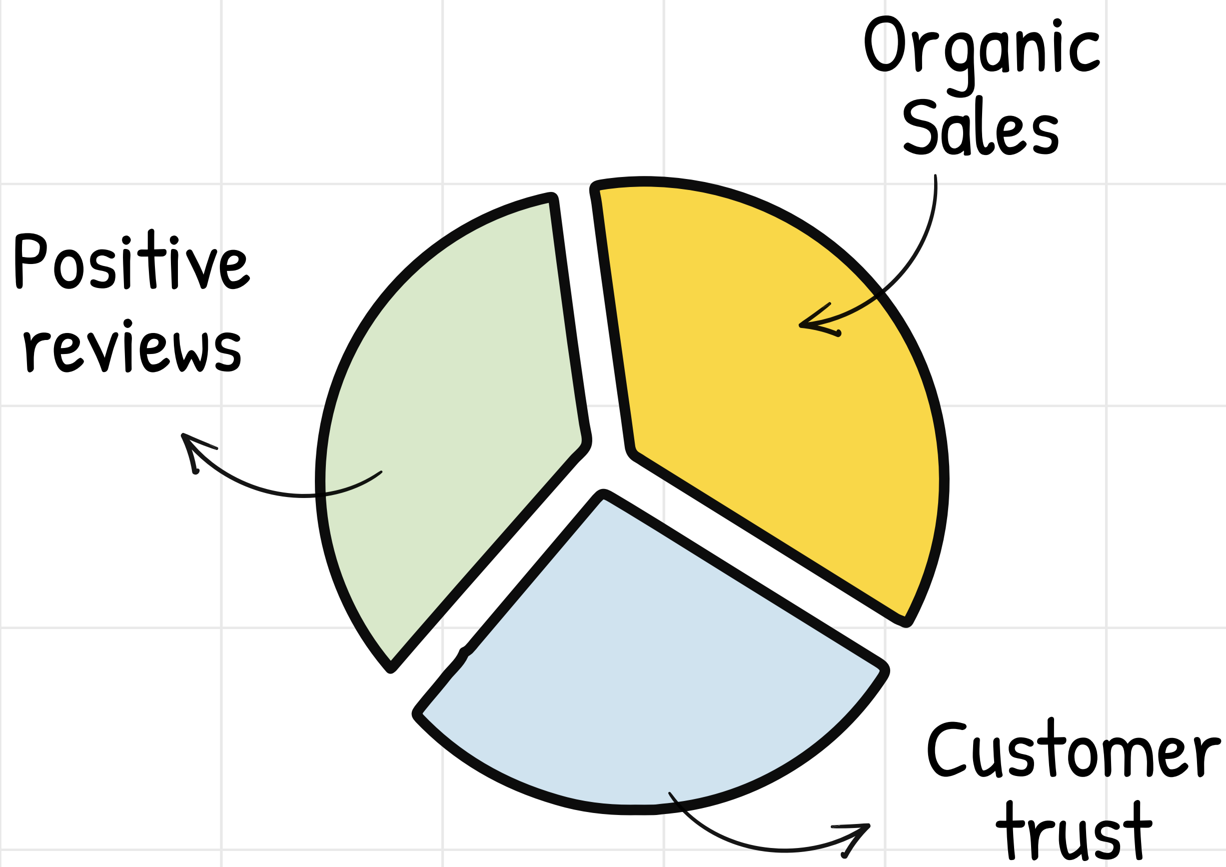
Is 90 cr Valuation justified?

Namita questioned the company's valuation of 90 Cr given its sales are only 8 Cr.

This valuation is **11 times** their sales,

Fair valuation, previously calculated 40 Cr, seems suitable.

The founders justified its valuation through various factors including



They projected sales of **20-25 Cr** for the next financial year.

So, According to the formula-

Projected Sales × Multiple = Valuation

20 Cr × 4.5 = 90 Cr

Comparing Gulabo Jaipur's Value with Competitors

Aman wanted to know about buyouts in the clothing/fashion industry,

Like those involving **Aditya Birla** and **Reliance**, and how they were valued.

Competitors

ADITYA BIRLA GROUP

TRENDS
GET THEM TALKING

This comparison gives insight into Gulabo Jaipur's valuation compared to industry rivals.

However, the founders are not very sure.

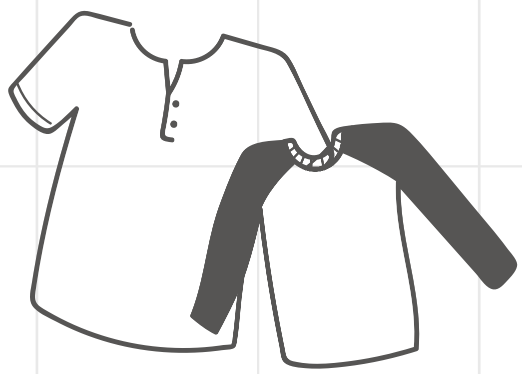
Vineeta shared that in the clothing/fashion industry,

A fair way to value a company is by using a multiple of 2-3 times its sales.

For Gulabo Jaipur, **with projected sales at 8 Cr:**

At 2 times sales: 8 Cr × 2 = 16 Cr

At 3 times sales: 8 Cr × 3 = 24 Cr



So, according to this method, the company's value should be between 16-24 Cr.

Were Gulabo Jaipur able to secure the deal from Sharks?

In the end, their business didn't make a deal because it was priced too high,

And they didn't know what other competitors were valued at.

Just like a costly smartphone with limited features, their business couldn't justify its high price.

Key Takeaways

- ☑ Valuing a business is important to know how much it's worth and if investors will be interested.
- ☑ Consider the business's current revenue, growth potential, industry comparables, and market conditions.
- ☑ Knowing what other businesses are worth helps to see where a company stands.
- ☑ Getting the valuation right is crucial for getting investments and keeping the business growing well.

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The Valuation School

Hope you have learnt something

REPOST to help others

SAVE - future Reference

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