BOMBAY STOCK EXCHANGE BROKERS' FORUM (BBF) | MUMBAI, INDIA
MARCH 2023 | VOLUME: 11 • ISSUE NO. 12 • ₹ 15/-

FORUM VIEWS

ARNAUD DELESTIENNE

Luxembourg - paving the way for India's green transition

Luxembourg Stock Exchange

NICOLAS MACKEL

Finance must continue to go global to benefit all

Luxembourg for Finance

TYLER WOOD

Avoiding analysis paralysis

CMT Association, Inc.

RAJKO DOLINSEK

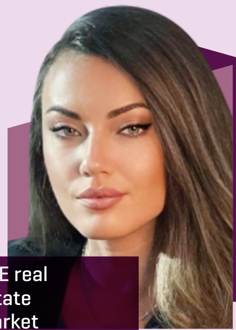
Personal development is a lifelong challenge

Informa Echo Agency

PANDIT DASA

Mindfulness & Mental Health in the workplace

Work Mindful Corp.



ALEXANDRA GRAPA

UAE real estate market

Oia Properties

FIONA ENGLISH

Making purpose real

Fiona English

KRISHNA KANHAIYA

Lending against shares and mutual fund

Mirae Asset Financial Services

BHAIRAV KOTHARI

Startup & finance

SuperCFO Advisory

NAMRATA JAIN

Mindful trading

Out Aloud

AVNISH ANAND

Digital transformation de-mystified

CaratLane - A Tanishq Partnership

DR. AKHIL SHAHANI

Future of education

The Shahani Group

RIDIMA WALI

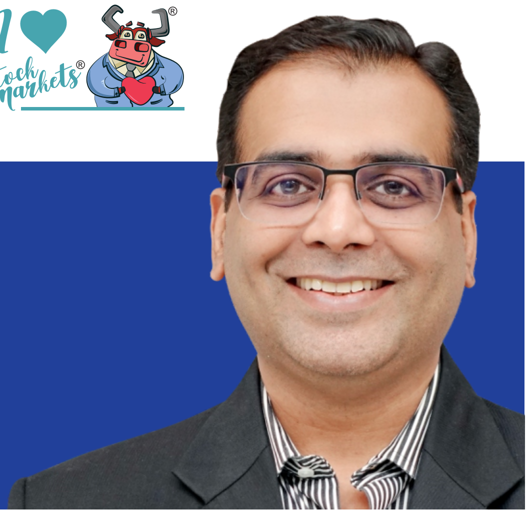
Why Listening = Leading?

Nyra Leadership Consulting

Inside:

WHO IS TO BE BLAMED – YOUNG TECHIE MR. A OR THE STARTUP?

Bhairav Kothari
Founder, SuperCFO



Mr. A, a young technology executive in his late twenties was happily earning around 15 Lakhs a year. A good son, and a loving husband, his dream was to travel the world with his family. To his luck, his fortunes changed. With influx of private equity funds and several unicorns looking for talent like him, he received a great job offer from a PE funded Startup. His Salary went up to35 Lakhs a year, and he also received a good number of ESOPs in addition to few other perks.

His new employer's share price kept rising (multi fold) with every funding round and so Mr. A kept on counting his millions. Now, Mr. A had to upgrade his lifestyle, since he was a millionaire (though still on paper)! He bought a nice big house (on a home loan), started undertaking foreign vacation trips (on easy EMI), bought a luxury car (on a vehicle loan), golf membership and more. His household expenses started increasing with all things branded. He started living life, King Size.

But one fine day, within a year of his joining, when he went to office, his employer told him that they were restructuring the business due to investor pressure to turn profitable; and hence his position was made redundant. And moreover, his last month's salary would be paid in installments over the next 2 to 3 months, since the company didn't have adequate funds!

Mr. A was shocked and didn't know how to react. He had upgraded his life so much that he was virtually living paycheck to paycheck. He had a large outstanding on his credit card and had EMIs to pay. Worried, he immediately started applying for jobs everywhere. But as with everything, when you want something, you don't get it. He just couldn't find even one employer who would even at least match his compensation and would only get offers closer to his earlier compensation. But that wouldn't work for him since his monthly EMI itself was much more than his earlier compensation. On top of it, he had expenses, other commitments. The more he kept on waiting to find the right job, the more he accumulated various types of loans. He soon maxed out on bank loans, so he started taking expensive personal loan at very high interest costs. And very soon, he started borrowing funds (wherever possible), just to service his interest cost. He tried to cash out his ESOP's, but since the Startup's value had crashed, his options value had reduced significantly, and moreover there were no buyers.

“HE JUST COULDN'T FIND EVEN ONE EMPLOYER WHO WOULD EVEN AT LEAST MATCH HIS COMPENSATION AND WOULD ONLY GET OFFERS CLOSER TO HIS EARLIER COMPENSATION. BUT THAT WOULDN'T WORK FOR HIM SINCE HIS MONTHLY EMI ITSELF WAS MUCH MORE THAN HIS EARLIER COMPENSATION. ON TOP OF IT, HE HAD EXPENSES, OTHER COMMITMENTS. THE MORE HE KEPT ON WAITING TO FIND THE RIGHT JOB, THE MORE HE ACCUMULATED VARIOUS TYPES OF LOANS.”

This story is not just about one Mr. A, but many of them. But who is to blame here?

Is it Mr. A, who should have planned his finances well OR the Startup that gave more than industry average compensation to Mr. A, and influenced him indirectly to upgrade his lifestyle and then one fine day just fired him.

I think both are equally responsible.

Mr. A should have been cautious with his finances. These 3 golden principles would have helped him plan his finances well:

1. As Income increases, do spend, but keep expenses under control and save the maximum. These savings will not only help you in a worst-case situation, but over a period earn returns and will help you with wealth creation.

2. Build a reserve fund that can meet your commitments (EMIs, expenses, contingencies, etc.), for 6 to 12 months. That will give you the necessary breathing space, without putting undue pressure on you to pick a job, that you may not like, when you need one.

3. Ensure you have adequate Insurance Coverage - Life as well as for Health (for self and family)

> NAVIGATING A BUSINESS, WITH STRONG AND ACTIVE PARTICIPATION FROM THE FINANCE FUNCTION IS NO LONGER AN OPTION, BUT A MUST HAVE.

While on the other hand, the Startup should have also planned their finances and resources very carefully. Below are the 5 things the startup should have done on their end:

1. Have a robust financial budgeting model, to plan resources

2. Implement the practice of reviewing detailed rolling cash flow forecasts for the next 12 months, every week

3. Don't go overboard in hiring talent at high cost. Stay within market norms.

4. Remember: Revenue is Vanity, Profit is Sanity and Cash is Reality. So conserve cash

5. Engage a good CFO who can implement strong financial controls and discipline

If there was caution prevailing from day one, it would have helped the Startup to conserve cash and survive much longer; and would have also not hampered Mr. A's life so much.

Some of the best run companies have a very strong finance function. If you are running a self-fundedbusiness with revenues of above 200 Crores or if you have raised more than 50 Crores in Private Equity funding, you should get a full time CFO at the earliest (if you don't have one). Until then, depending on the growth stage and various ongoing requirements, don't hesitate to hire one. And if you are running a SME, you also have the option of hiring a virtual or a part-time CFO, whereby you can streamline your finance function with the help of an individual or a firm that specializes in doing so.

Navigating a business, with strong and active participation from the finance function is no longer an option, but a 'Must Have'.

Bhairav, pioneer of the Outsourced CFO services category in India, is a recipient of the Lifetime Achievement Award (Shared CFO Concept - 2022), Special Recognition Award from ICAI (2015), Best Freelance CFO Firm of India (2015) and the Best Young Entrepreneur Award in Financial Service Sector (2010).

He has rich experience of more than 25 years as a finance professional which includes public company listings (IPO), corporate strategies, private equity financing, mergers & acquisitions, cross border accounting, systems designing and implementation, cost restructuring and setting up of robust MIS systems.

His first IPO was at the age of 31. He was one of the youngest CFO to list in London.

At SuperCFO, he works with several entrepreneurs, to strengthen their finance function and assist them in scaling up their businesses.

He actively writes on LinkedIn and was part of their first batch of content creator accelerator program in India (https://www.linkedin.com/in/bhairavkothari/)