

From a Peenya Shed to Series B

Vayu Fenestration Pvt Ltd — financing a Bangalore aluminium-window start-up through its life cycle

Caselet for Venture Capital and Private Equity · Session 1: Entrepreneurial Finance — Introduction and Overview · Prof. V. Ravichandran

How to use this caselet. Read the story stage by stage, then work through the five lessons. Every number comes from the companion Excel workbook (same name, .xlsx), where all assumptions sit on the Inputs tab and can be changed. Amounts are in ₹ lakh (₹1 crore = ₹100 lakh). Years Y1-Y8 count from founding. **Vayu Fenestration, its people, investors and all figures are hypothetical teaching material.**

The five lessons

- Lesson 1 — Revenue, profit, growth, the funding gap and funding requirements
- Lesson 2 — Working capital, the operating cycle and the cash conversion cycle
- Lesson 3 — Raising equity on projections: the VC method, dilution and the cap table
- Lesson 4 — Opportunity cost and the cost of capital
- Lesson 5 — Present value of future cash flows: what value is and how it is created

The opportunity

Arjun Rao, 34, spent ten years as a project engineer with a Bangalore real-estate developer, earning ₹18 lakh a year. On site after site he saw the same problem with windows. The established branded players offered quality but quoted lead times of eight to ten weeks and premium prices. Local fabricators were cheap and quick, but missed dates, used thin sections and leaked in the monsoon. Builders in Sarjapur, Whitefield and along the Outer Ring Road needed something in between.

Arjun's idea was simple: **“branded quality at local speed.”** Aluminium windows and sliding systems, designed and fabricated in Bangalore, measured and installed by a disciplined team, delivered in three weeks. The customer was not the home buyer but the builder — a customer who buys in bulk, negotiates hard, pays on running bills, and holds back retention money until the project is handed over.

In Session 1 terms, Vayu had a real customer need (opportunity), a founder with site knowledge (resources) and a promise of reliable delivery (operations). What it did not have was money — and its customers would make the money problem worse the faster it grew.

Stage 1 · Bootstrapping in a Peenya shed (Year 1)

Life-cycle stage: Development / Startup · Funding: founder savings, family, bootstrapping

Arjun resigned and put in ₹25 lakh of his savings. His family added ₹10 lakh in exchange for a 10% stake. He rented a 4,000 sq ft shed in Peenya Industrial Area, bought second-hand cutting and crimping machines for ₹8 lakh, hired six fabricators and paid himself ₹6 lakh — a third of his old salary. He measured every site himself.

Aluminium extrusion suppliers wanted cash on delivery. Builders paid running bills in about 75 days and held back 5% retention until handover. By year end Vayu had billed ₹60 lakh of villas and two small apartment blocks and made a small loss of ₹4.4 lakh. Of the ₹35 lakh raised, only ₹4.2 lakh was left in the bank: ₹19.2 lakh was sitting in receivables, retention money and stock, and ₹8 lakh in machines.

Year	Revenue	Growth	PAT	CFO	FCF	Financing	Cash	CCC days
Y1	60	–	(4.4)	(22.8)	(30.8)	35.0	4.2	123

The dilemma. A 140-unit apartment project wants a quote for next year. Winning it would triple sales — but Vayu cannot even fund this year's receivables. Should Arjun bid?

Stage 2 · The first big order and the bank (Year 2)

Life-cycle stage: Survival · Funding: bank term loan and cash credit

Vayu won a 120-unit apartment order. To machine profiles to the builder's tolerances Arjun needed a CNC machine. His bank sanctioned a ₹30 lakh machinery term loan at 10.5% under a collateral-free guarantee scheme for small enterprises, and a ₹40 lakh cash-credit limit against receivables and stock.

Sales tripled to ₹180 lakh and Vayu reported its first, tiny profit (₹0.1 lakh). But the larger builder paid in 90 days, inventory grew for the bigger project and suppliers still allowed only 20 days. Cash flow from operations was **minus ₹42.1 lakh** — worse than in Year 1.

Year	Revenue	Growth	PAT	CFO	FCF	Financing	Cash	CCC days
Y1	60	–	(4.4)	(22.8)	(30.8)	35.0	4.2	123
Y2	180	200.0%	0.1	(42.1)	(63.3)	66.2	7.2	138

The dilemma. The bank says the cash credit is fully drawn against Vayu's drawing power. Two more builders want quotes. Should Arjun accept slower payment terms to win them?

Stage 3 · Building the VayuLine brand (Year 3)

Life-cycle stage: Startup → early rapid growth · Funding: bank debt, retained profit

Competing on price against established brands was a losing game. Arjun launched the “VayuLine” range: a small display studio on Sarjapur Road, a 10-year warranty, acoustic and monsoon-tested sliding systems, and regular meetings with architects. Marketing jumped from 2% to 6% of sales.

It worked. Builders began specifying VayuLine by name. Gross margin rose from 24% to 27%, and some builders paid a 3% mobilisation advance. Revenue reached ₹420 lakh. But receivable days crept up to 95 as Vayu chased bigger builders, and bank borrowing rose to ₹69 lakh of term loans plus ₹110 lakh of cash credit — close to what the balance sheet could carry.

Year	Revenue	Growth	PAT	CFO	FCF	Financing	Cash	CCC days
Y2	180	200.0%	0.1	(42.1)	(63.3)	66.2	7.2	138
Y3	420	133.3%	6.5	(64.5)	(91.1)	95.6	11.7	132

The dilemma. A 600-unit township would be 30% of next year’s sales — from one builder known for paying in 120 days. The bank will not raise limits further. What now?

Stage 4 · The angel investor (Year 4)

Life-cycle stage: Rapid growth · Funding: angel equity plus bank debt

Through a Bangalore angel network Arjun met a retired real-estate executive who had built twenty projects in the city. She invested ₹120 lakh for a minority stake, joined the board, insisted on monthly MIS and audited accounts, and opened doors to three large developers.

The money paid for a second production line (₹120 lakh, part-funded by a further term loan) and the working capital for the township order. Revenue almost doubled to ₹800 lakh and PAT reached ₹27.1 lakh — yet operating cash flow was still minus ₹55.3 lakh.

Year	Revenue	Growth	PAT	CFO	FCF	Financing	Cash	CCC days
Y3	420	133.3%	6.5	(64.5)	(91.1)	95.6	11.7	132
Y4	800	90.5%	27.1	(55.3)	(150.7)	193.4	54.3	120

The dilemma. The angel wants 50% a year for five years. What stake should she receive for ₹120 lakh — and how much will later VC rounds dilute her?

Stage 5 · Series A venture capital (Year 5)

Life-cycle stage: Rapid growth · Funding: venture capital (Series A) plus cash credit

A Bangalore early-growth fund — call it Deccan Growth Partners — led a ₹450 lakh Series A. The money built a new plant in Bommasandra (₹400 lakh) and funded entry into Hyderabad and Chennai with two large developers. The term sheet gave the fund a board seat, a 1x liquidation preference and information rights.

Revenue reached ₹1,500 lakh. But the new plant and new-city receivables meant free cash flow was **minus ₹420 lakh** — the deepest hole in Vayu's history.

Year	Revenue	Growth	PAT	CFO	FCF	Financing	Cash	CCC days
Y4	800	90.5%	27.1	(55.3)	(150.7)	193.4	54.3	120
Y5	1,500	87.5%	66.4	(51.9)	(419.8)	457.9	92.4	110

The dilemma. The fund wants ₹2,600 lakh of revenue next year to justify a higher Series B valuation. Discounts and longer credit would get there. Should Arjun push?

Stage 6 · Series B, cash generation and exit options (Years 6–8)

Life-cycle stage: Early maturity · Funding: Series B, then internal cash

A larger growth fund invested ₹350 lakh in Series B to add capacity. With a strong brand, Vayu now collected advances, suppliers offered 45 days and collections tightened. Revenue grew to ₹2,600, ₹3,800 and ₹5,000 lakh. Operating cash flow turned positive in Y6 and free cash flow in Y7 — the first year Vayu funded its own growth.

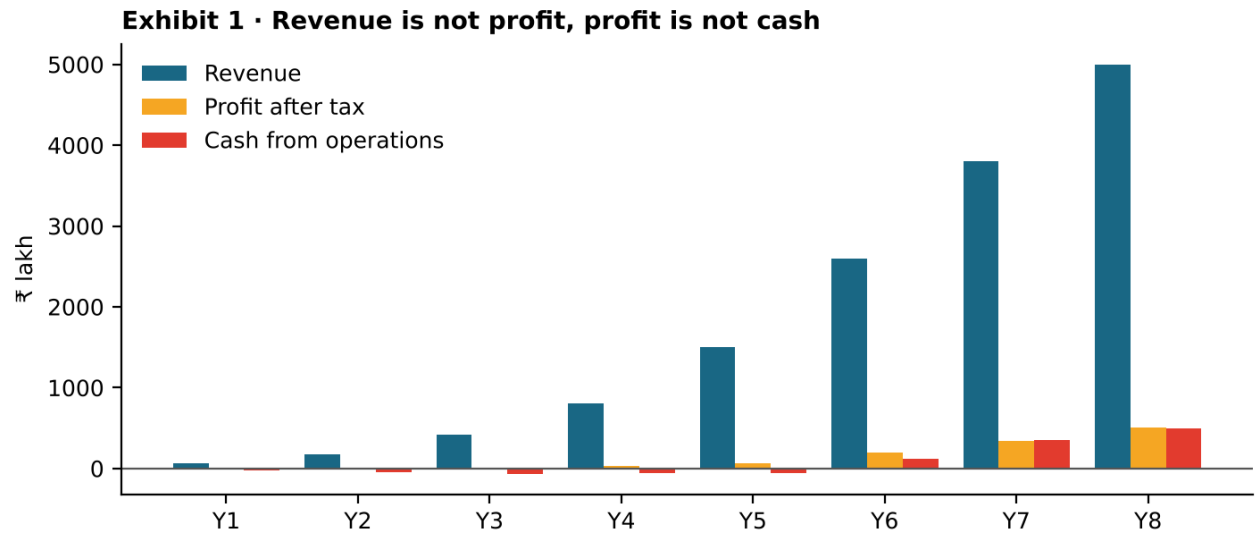
By Y8 three exit routes were on the table: a strategic sale to a national building-products company, a private-equity buyout, or an SME-platform IPO. At 15 times Y8 profit of ₹503 lakh, the equity would be worth about ₹7,546 lakh (₹75 crore).

Year	Revenue	Growth	PAT	CFO	FCF	Financing	Cash	CCC days
Y6	2,600	73.3%	194.5	118.4	(195.2)	348.6	245.8	88
Y7	3,800	46.2%	338.3	347.0	134.6	(52.6)	327.8	69
Y8	5,000	31.6%	503.1	493.8	278.7	(71.9)	534.6	64

The dilemma. At 15x Y8 profit, who gets what — and which exit should the board prefer?

Lesson 1 · Revenue is not profit, profit is not cash

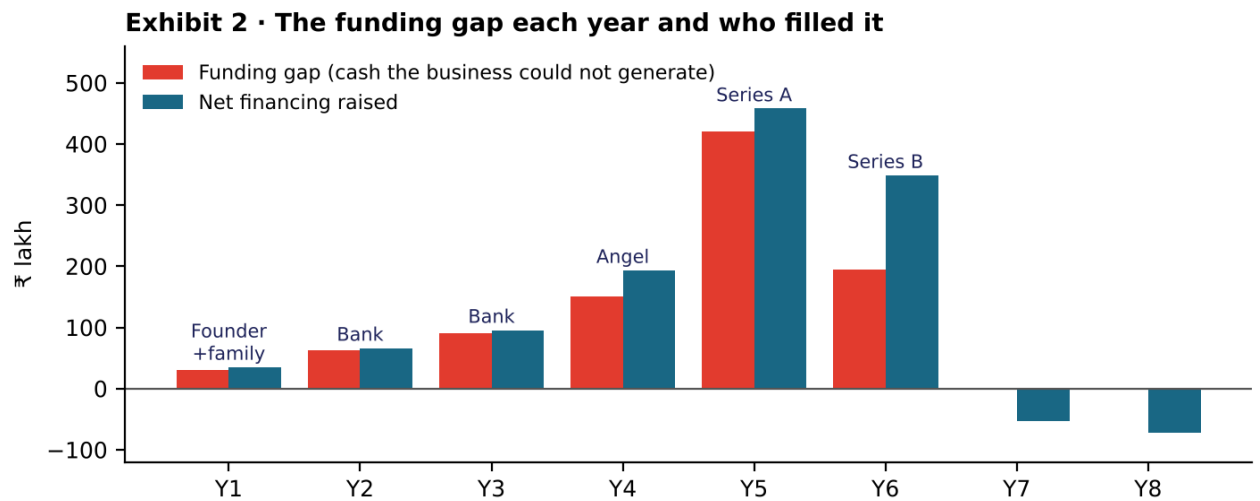
Over eight years Vayu's revenue grows from ₹60 lakh to ₹5,000 lakh — more than eighty times. It reports a profit from Y2. Yet cash flow from operations stays negative until Y6, and free cash flow until Y7. Exhibit 1 shows the three numbers side by side.



₹ lakh	Y1	Y2	Y3	Y4	Y5	Y6	Y7	Y8
Revenue	60	180	420	800	1,500	2,600	3,800	5,000
Growth	-	200.0%	133.3%	90.5%	87.5%	73.3%	46.2%	31.6%
EBITDA	(3.6)	7.2	29.4	80.0	180.0	390.0	608.0	850.0
Profit after tax	(4.4)	0.1	6.5	27.1	66.4	194.5	338.3	503.1
Less: increase in working capital	(19.2)	(45.5)	(78.3)	(101.7)	(177.7)	(170.4)	(110.6)	(153.6)
Cash flow from operations	(22.8)	(42.1)	(64.5)	(55.3)	(51.9)	118.4	347.0	493.8
Capital expenditure	(8.0)	(25.0)	(40.0)	(120.0)	(400.0)	(350.0)	(250.0)	(250.0)
Free cash flow before financing	(30.8)	(63.3)	(91.1)	(150.7)	(419.8)	(195.2)	134.6	278.7
Funding gap	30.8	63.3	91.1	150.7	419.8	195.2	0.0	0.0
Net financing raised	35.0	66.2	95.6	193.4	457.9	348.6	(52.6)	(71.9)
Closing cash	4.2	7.2	11.7	54.3	92.4	245.8	327.8	534.6

Three ideas to take from the table:

- **Revenue** is what Vayu bills. **Profit** is revenue minus the costs matched to it. **Cash** is what actually arrives and leaves. They differ because builders pay late, hold retention, and because stock must be bought before windows are installed.
- **Growth consumes cash.** Each year's extra sales need extra receivables and stock before they produce cash. The faster Vayu grows, the larger the gap.
- **The funding gap** is the negative free cash flow. Someone must fund it every year: the founder and family in Y1, the bank in Y2–Y3, the angel in Y4, the VCs in Y5–Y6. Only in Y7 does the business fund itself.



Lesson 2 · Working capital, the operating cycle and the cash cycle

Vayu's cash goes round a loop: buy aluminium extrusions, glass and hardware → fabricate → install on site → raise a running bill → wait for the builder to pay → wait again for retention money at handover. The **operating cycle** measures that loop in days. Suppliers who give credit and builders who pay advances shorten the part Vayu must fund itself — the **cash conversion cycle**.

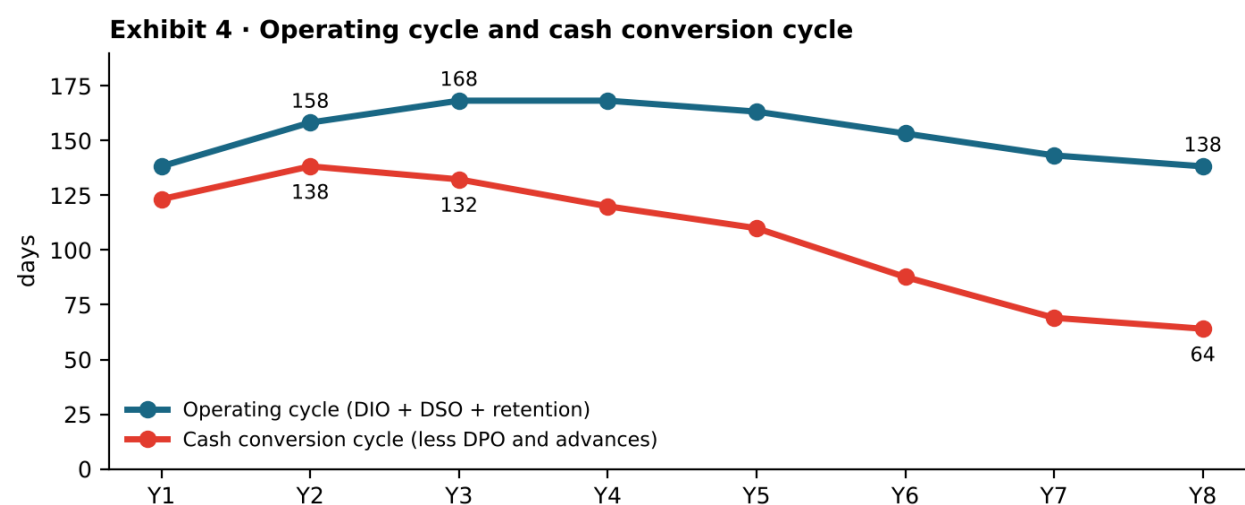
Operating cycle = inventory days (DIO) + receivable days (DSO) + retention days

Cash conversion cycle = operating cycle – payable days (DPO) – customer-advance days

Net working capital = receivables + retention + inventory – payables – customer advances

₹ lakh	Y1	Y2	Y3	Y4	Y5	Y6	Y7	Y8
Inventory days (DIO)	45	50	55	60	60	55	50	50
Receivable days (DSO)	75	90	95	90	85	80	75	70
Retention days	18	18	18	18	18	18	18	18
Operating cycle (days)	138	158	168	168	163	153	143	138
Payable days (DPO)	15	20	25	30	35	40	45	45
Customer-advance days	0	0	11	18	18	26	29	29
Cash conversion cycle (days)	123	138	132	120	110	88	69	64
Receivables	12.3	44.4	109.3	197.3	349.3	569.9	780.8	958.9
Retention money	3.0	9.0	21.0	40.0	75.0	130.0	190.0	250.0
Inventory	5.8	18.7	46.2	94.7	175.1	274.2	364.4	479.5
Less: payables	(1.9)	(7.5)	(21.0)	(47.3)	(102.1)	(199.5)	(327.9)	(431.5)
Less: customer advances	0.0	0.0	(12.6)	(40.0)	(75.0)	(182.0)	(304.0)	(400.0)
Net working capital	19.2	64.6	142.9	244.6	422.3	592.7	703.3	856.8
Bank cash credit	0.0	40.0	110.0	160.0	220.0	280.0	300.0	300.0

Exhibit 3 · Working-capital days and balances (₹ lakh)



In Y2 and Y3 Vayu waits about 168 days from buying aluminium to collecting its last rupee, and must finance around 132 of those days itself. In those years every ₹100 of extra sales tied up roughly ₹27–38 of extra working capital. The bank's cash credit covered only part of it, because a bank lends against a share of receivables and stock ("drawing power"), not

against growth plans.

From Y4 the brand starts to pay back in cash: builders pay advances, suppliers extend credit, and collections tighten. By Y8 the cash conversion cycle has fallen to about 64 days. A simple lever shows what is at stake: cutting receivable days by 15 in Y5 would have released about ₹62 lakh — roughly 14% of the Series A cheque.

Lesson: working capital is the hidden investment in a growing business. Managing the cycle — prices, terms, advances, supplier credit, collections — is as much a source of finance as a bank or a VC.

Lesson 3 · Raising equity on projections — the VC method

There is no stock-market price for Vayu's shares, so every equity round is a negotiation (Session 1, Principle 4). Investors usually price an early-stage round with the **venture capital method**: estimate what the company could be worth at exit, decide what return they need, and work out what share of that exit value their money must buy today.

Step 1 — exit value. Projected Y8 PAT ₹503 lakh × exit P/E 15 = ₹7,546 lakh.

Step 2 — required multiple. $(1 + \text{target return})^{\text{years to exit}}$

Step 3 — final stake. Investment × required multiple ÷ exit value.

Step 4 — allow for later dilution. Stake at entry = final stake ÷ retention (the share left after later rounds).

Step 5 — price. Post-money = investment ÷ stake at entry; pre-money = post-money – investment.

Exhibit 5 · Pricing each round, starting from the last

Round	Invests	Amount	Target	Years	Multiple	Final stake	Entry stake	Post-money	Pre-money
Series B	Y6	350	30.0%	3	2.20x	10.2%	10.2%	3,435	3,085
Series A	Y5	450	40.0%	4	3.84x	22.9%	25.5%	1,764	1,314
Angel	Y4	120	50.0%	5	7.59x	12.1%	18.1%	665	545

The angel needs 7.6x her money in five years, so she must own 12.1% at exit. Because Series A and Series B will dilute her, she must buy 18.1% at entry — an implied pre-money value of about ₹545 lakh for the whole company. The projections are the price tag: if investors believe a lower Y8 profit or a lower multiple, the founder gives away more of the company for the same cheque.

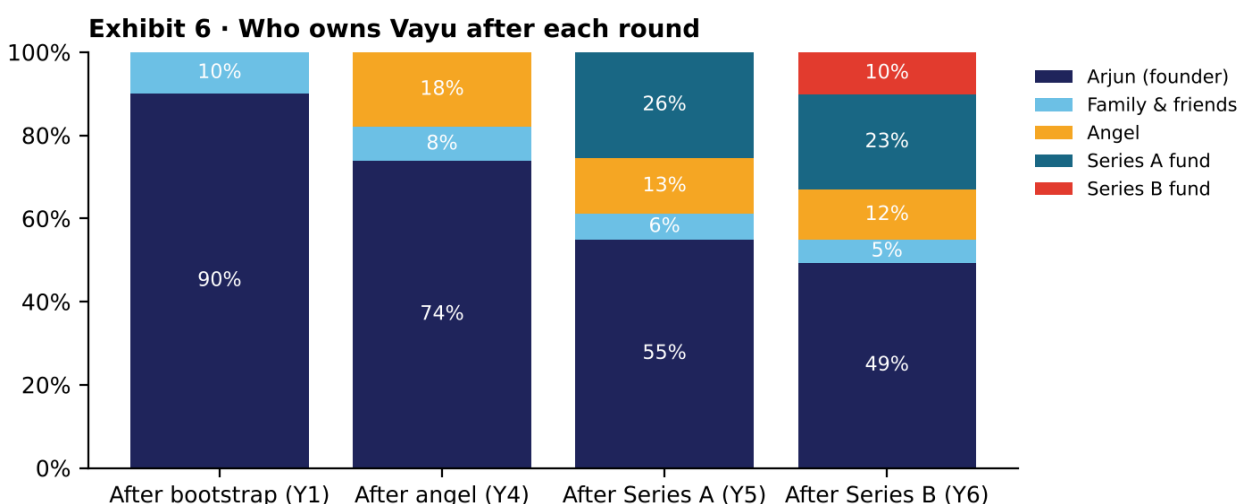


Exhibit 7 · Cap table and returns at a 15x exit

Shareholder	After Y1	After angel	After A	After B	Invested	Exit value	Multiple	IRR
Arjun (founder)	90.0%	73.8%	54.9%	49.3%	25	3,723	148.9x	86.9%
Family & friends	10.0%	8.2%	6.1%	5.5%	10	414	41.4x	59.3%
Angel	0.0%	18.1%	13.4%	12.1%	120	911	7.6x	50.0%
Series A fund	0.0%	0.0%	25.5%	22.9%	450	1,729	3.8x	40.0%
Series B fund	0.0%	0.0%	0.0%	10.2%	350	769	2.2x	30.0%

Arjun's stake falls from 90% to 49.3%, yet his ₹25 lakh becomes worth about ₹3,723 lakh. A smaller slice of a larger, properly funded company can be worth far more than all of a cash-starved one. Each investor earns exactly its target return in this base case — the risk is that the projections are not met. Real term sheets also carry liquidation preferences, anti-dilution protection and an ESOP pool, which this caselet leaves out.

Lesson 4 · Opportunity cost and the cost of capital

Opportunity cost is the value of the best alternative given up. When Arjun left his job he gave up ₹18 lakh of salary a year, and his ₹25 lakh of savings could have earned about 7% in a bank deposit. Neither appears in Vayu's accounts, but both are real costs to him (Session 1, Principle 1).

₹ lakh	Y1	Y2	Y3	Y4	Y5	Y6	Y7	Y8
Accounting profit (PAT)	(4.4)	0.1	6.5	27.1	66.4	194.5	338.3	503.1
Salary given up	12.0	9.0	6.0	0.0	0.0	0.0	0.0	0.0
Return given up on savings	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.8
Economic profit to the founder	(18.1)	(10.7)	(1.3)	25.3	64.7	192.7	336.6	501.3
Cumulative economic profit	(18.1)	(28.8)	(30.1)	(4.8)	59.9	252.7	589.2	1,090.5

Measured this way, Arjun was worse off than if he had stayed employed for the first three years — cumulatively by about ₹30 lakh. Only in Y5 does his cumulative economic profit turn positive. That is the hidden price of founding a company.

The **cost of capital** is the same idea seen from the investor's side: the return they could earn elsewhere on an investment of similar risk. Each source of money has its own cost:

- **Bank debt:** 10.5–11% before tax, about 8.1% after tax because interest is tax-deductible. Cheaper because it is repaid first and is secured.
- **Mature-company equity (CAPM):** risk-free 7% + beta 1.3 × equity premium 7% = 16.1%.
- **Venture equity:** angel 50%, Series A 40%, Series B 30% target returns (illustrative textbook ranges). The premium over CAPM pays for the high chance of failure, shares that cannot be sold easily, the investor's time on the board, and projections that are usually too optimistic.
- **WACC** = equity weight × cost of equity + debt weight × after-tax cost of debt.

₹ lakh	Y1	Y2	Y3	Y4	Y5	Y6	Y7	Y8
Required return on equity	30.0%	30.0%	30.0%	50.0%	40.0%	30.0%	25.0%	20.0%
After-tax cost of debt	8.2%	8.1%	8.1%	8.1%	8.1%	8.2%	8.2%	8.2%
WACC	30.0%	19.0%	19.1%	35.3%	33.6%	26.7%	22.5%	18.2%

Lesson: nothing is free. Founder time, family money, bank loans and venture capital all have a price. Early equity is the most expensive money because it carries the most risk. As Vayu builds a track record, audited accounts and a board, its cost of capital falls — and a lower discount rate alone raises its value.

Lesson 5 · Present value of future cash flows — what value is and how it is created

What is value? The value of a business today is the present value of the cash it will generate for its investors in the future, discounted at a rate that reflects the risk of that cash. Revenue, profit and growth matter only to the extent that they turn into cash — soon enough and safely enough.

At the Series A date (start of Y5) we can value Vayu by discounting its expected free cash flows. Years Y5–Y8 are discounted at a stage-adjusted 25%; the cash flows after Y8 are captured in a terminal value using a long-run WACC of 14% and 6% growth.

₹ lakh	Y5	Y6	Y7	Y8
Free cash flow	(419.8)	(195.2)	134.6	278.7
Present value at 25%	(335.8)	(124.9)	68.9	114.2

Valuation build-up	₹ lakh
PV of Y5–Y8 free cash flows	(277.7)
Terminal value at end of Y8 = $FCF_{Y8} \times 1.06 \div (14\% - 6\%)$	3,693.1
PV of terminal value	1,512.7
Enterprise value	1,235.0
Add cash, less bank debt (end of Y4)	(222.7)
Equity value before Series A money (DCF)	1,012.3
Series A pre-money from the VC method	1,314.1

Two lessons jump out. First, **all of Vayu's value lies beyond Y8**: the next four years consume cash, so the present value of Y5–Y8 is negative and the terminal value is worth 122% of enterprise value. Second, the DCF (₹1,012 lakh) and the VC method (₹1,314 lakh) give different answers — the founder will quote one, the investor the other, and the gap is what gets negotiated.

Exhibit 9 · Sensitivity — enterprise value (₹ lakh) to the discount rate and long-term growth

Discount rate \ growth	4%	5%	6%	7%	8%
15%	1,393	1,594	1,847	2,171	2,604
20%	1,125	1,295	1,508	1,782	2,146
25%	910	1,054	1,235	1,467	1,777
30%	735	859	1,013	1,212	1,477
35%	593	700	832	1,003	1,231
40%	477	569	683	831	1,028

Higher risk means a higher discount rate and a lower value. Lowering risk — through a track record, governance and transparent reporting — creates value even if the cash flows do not change.

When does growth create value?

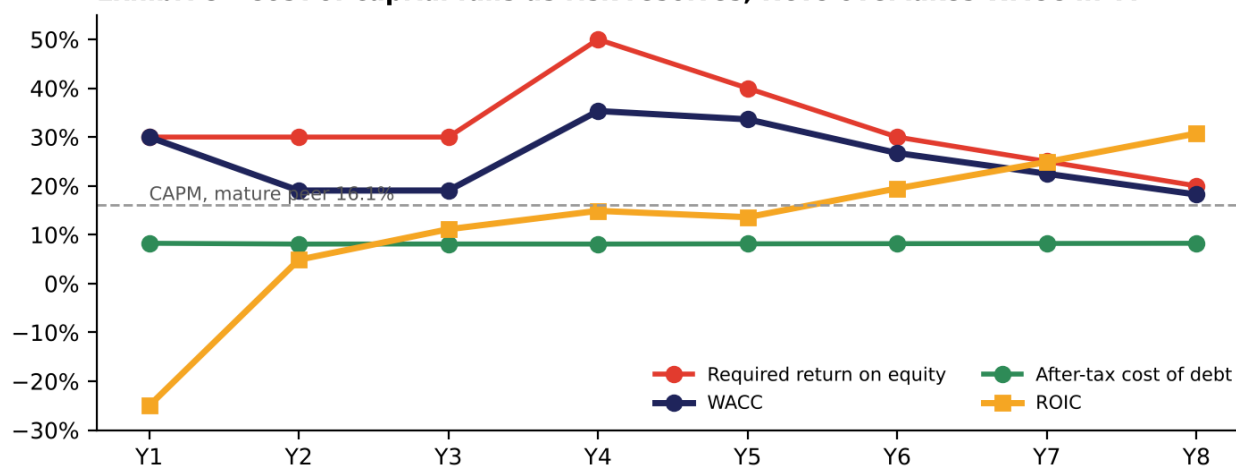
Value is created only when the business earns a return on invested capital (ROIC) above its cost of capital (WACC). The table below values a business with ₹100 lakh of next-year operating profit after tax and a 15% WACC, using $\text{Value} = \text{NOPAT} \times (1 - g \div \text{ROIC}) \div (\text{WACC} - g)$.

ROIC \ growth	0%	4%	8%
10%	667	545	286

ROIC \ growth	0%	4%	8%
15%	667	667	667
25%	667	764	971

Read across each row. With ROIC of 10% — below the 15% WACC — faster growth **lowers** value: this is growth bought with discounts and long credit. With ROIC equal to WACC, growth changes nothing. Only with ROIC of 25% does growth add value. This is Session 1's Principle 5: the goal is value, not sales.

Exhibit 8 • Cost of capital falls as risk resolves; ROIC overtakes WACC in Y7



₹ lakh	Y1	Y2	Y3	Y4	Y5	Y6	Y7	Y8
NOPAT	(3.3)	2.9	16.6	45.5	90.5	221.8	366.5	529.3
Average invested capital	13.2	60.0	149.0	305.7	666.1	1,138.3	1,472.0	1,722.3
ROIC	-25.0%	4.9%	11.1%	14.9%	13.6%	19.5%	24.9%	30.7%
WACC	30.0%	19.0%	19.1%	35.3%	33.6%	26.7%	22.5%	18.2%
Economic value added	(7.3)	(8.5)	(11.8)	(62.5)	(133.5)	(82.4)	35.6	215.2

Vayu destroys economic value every year until Y6 — not because it is badly run, but because it is still paying for growth with expensive capital. In Y7 ROIC overtakes WACC and economic value added turns positive. That crossing point is what every investor in the cap table was betting on.

How Vayu created value — five levers

- **Raise margins:** the brand lifted gross margin from 22% to 30% — pricing power instead of discounts.
- **Shrink the cash cycle:** advances, supplier credit and faster collections cut the cash conversion cycle from about 138 days (Y2) to about 64 days (Y8).
- **Invest only where ROIC exceeds WACC:** each new line or plant must earn more than its cost of capital.
- **Lower risk, lower cost of capital:** track record, governance and audited numbers move the hurdle rate from 50% towards the CAPM floor.
- **Use the right money at the right time:** debt for assets and short-cycle working capital a bank can see; equity for risks a bank cannot carry.

Discussion questions

1. Revenue in Y1 was ₹60 lakh. Where did the founder's and family's ₹35 lakh go?
2. Sales tripled in Y2 and PAT turned positive. Why did operating cash flow get worse?
3. Calculate the operating cycle and cash conversion cycle for Y3. How many days of costs is Vayu financing, and who else is financing the rest?
4. Why could the bank not fund Vayu's growth on its own after Y3?
5. What stake did the angel need at entry, and why is it larger than the stake she ends with?
6. Why does a Series A fund require 40% a year when the bank charges 10.5%?
7. Arjun's stake falls from 90% to under 50%. Why might he still welcome every round?
8. Compare the DCF value and the VC-method value at the Series A date. Which would each side quote, and why?
9. If the fund pushes for growth through discounts that cut ROIC to 10%, what happens to value? Use the value-of-growth table.
10. In which year does Vayu start creating economic value, and which two levers made the biggest difference?

Key takeaways

- Revenue is not profit, and profit is not cash. A profitable, fast-growing venture can run out of money.
- Working capital is the hidden investment in growth. The operating cycle and cash conversion cycle show how many days of costs the venture must fund.
- Each life-cycle stage has its own funding sources: founder and family, then banks, then angels and venture capital, and finally internal cash.
- Every source of capital has an opportunity cost. Early equity is the most expensive money because it carries the most risk.
- Equity is priced on projections. The VC method converts projected exit value, target return and expected dilution into an ownership stake.
- Value is the present value of future cash flows at a risk-adjusted rate. Growth creates value only when ROIC exceeds WACC.

Glossary

Term	Meaning
Bootstrapping	Starting and growing a venture with minimal outside money, using the founder's savings, used assets and frugal operations.
Running bill	An interim invoice raised by a contractor as work progresses on a construction project.
Retention money	A percentage of each bill the builder holds back until handover or the end of the defect-liability period.
Cash credit	An Indian bank working-capital loan, drawn against a limit set by receivables and stock (drawing power).
Operating cycle	Days from buying materials to collecting cash from customers.
Cash conversion cycle	Operating cycle less days of supplier credit and customer advances — the days the business funds itself.
Free cash flow	Cash generated by operations after tax, investment in working capital and capital expenditure, before any financing.

Term	Meaning
Pre-money / post-money	The value of a company just before / just after new equity money comes in.
VC method	Pricing a round from projected exit value, the investor's target return and expected dilution from later rounds.
Opportunity cost	The value of the best alternative given up.
WACC	Weighted average cost of capital — the blended return required by lenders and shareholders.
ROIC	Return on invested capital — operating profit after tax divided by the capital invested in fixed assets and working capital.
Economic value added	$(\text{ROIC} - \text{WACC}) \times \text{invested capital}$: profit above the full cost of capital.

All names, companies, investors and figures in this caselet are hypothetical and created for classroom discussion. Concepts follow Leach and Melicher, Entrepreneurial Finance, Chapter 1. The companion Excel workbook contains every calculation and lets you change the assumptions.