

Knowledge Series - Top 20 Things an Investor Should Know Before Investing in Startups

Financials & Burn Rate

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In early 2021, a well-funded logistics tech startup proudly announced its expansion into 50 cities within its first year. The tech stack was solid, partnerships were in place, and the founding team came with pedigree. But beneath the surface, there was a brewing problem – the company was burning over ₹2 crore a month, with less than ₹20 lakh in monthly revenue and no visibility on profitability.

By mid-2022, despite raising over ₹20 crore in funding, the company ran out of cash. Salaries were delayed, and scale had become a liability, not a strength.

What went wrong? Investors had focused on top-line ambition but overlooked burn rate, margins, and cash runway – the basics of startup survival.

Why Financials Matter

Financials tell a story beyond just revenue. They reveal how efficiently a startup operates, how disciplined it is with capital, and whether it can survive long enough to achieve its next milestone.

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At the early stage, it is not about profitability – it is about financial control and foresight.

Key metrics to watch:

- a) Revenue – Is it growing steadily and backed by real customers?
- b) Gross Margin – Is the business model viable as volume scales?
- c) Burn Rate – How much money is the startup losing every month?
- d) Cash Runway – How many months before they run out of cash at current burn?
- e) Cost Structure – Are fixed costs ballooning? Is headcount ahead of revenue?

A Real-World Example - OYO Rooms

When OYO expanded rapidly across India and international markets, the speed of growth was unmatched – but so was the burn. The company scaled inventory, staff, and marketing aggressively, but by 2019 it was evident that its expenses far outpaced revenue in many geographies.

The company had to pull back, rationalise operations, and eventually focus on core profitable markets. The lesson: even well-capitalised startups must monitor financial discipline if they are to achieve long-term sustainability.

How Investors Should Read Early-Stage Financials

- a) Revenue Quality – Is it recurring or one-time? Are there early signs of customer stickiness?
- b) Unit Economics – Does each transaction generate a contribution margin?
- c) Monthly Burn – Is the burn rate justifiable for the stage and scale?
- d) Use of Funds – Is capital being used to build the business or to plug inefficiencies?
- e) Runway – Does the startup have at least 12–18 months of capital, or a plan to raise more?

Common Red Flags

- Overhiring early without matching revenue
- High CAC with no payback visibility
- Lack of monthly financial tracking or budgeting
- Founders unaware of their own runway or cost drivers

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Key Takeaway

A startup might be solving a great problem with a solid team, but if it runs out of cash, the story ends abruptly.

As an investor, you do not need perfect numbers—but you do need clarity, honesty, and control. Financial prudence signals founder maturity.

When a founder knows exactly how long the startup can survive, where money is going, and what it will take to get to the next round – that is a founder worth backing.

