



Feasibility Study of Student Financing Startup Company for BRI Ventures Investments Study Case of: “Company A”

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ABSTRACT: The problem faced by BRI Venture is to determine the feasibility of investing in Company A, a start-up in the student financing market in Indonesia. The valuation of start-ups in Indonesia is difficult, making it challenging for BRI Venture to assess the viability of the investment. This study aims to provide a comprehensive analysis of the factors affecting Company A's business, both internally and externally, in order to make an informed investment decision.

The study focuses on three key research objectives: (1) to examine the macroeconomic and industry impact on Company A's business by using Porter's Five Forces model, PESTLE model, and market sizing; (2) to examine the internal aspects impacting Company A's business by using the VRIO model; and (3) to determine the valuation of Company A by using the DCF and relative valuation methods.

The findings of the study reveal that the Indonesian student financing market presents both opportunities and challenges. The PESTEL analysis highlights the increasing demand for student loans in Indonesia, creating growth opportunities for the industry. However, the Five Porter framework analysis highlights the intense competition, strong buyer bargaining power, and weak supplier bargaining power, which may make it difficult for new entrants to succeed.

The VRIO Framework analysis suggests that Company A has a number of sources of sustained competitive advantage, including adaptable repayment terms, technological capabilities, and market position, indicating that Company A's internal situation is strong. The Absolute Valuation and Relative Valuation results indicate that Company A valuation is between \$59 million and \$73 million. In conclusion, while the Indonesian student financing market presents a growth opportunity, BRI Venture must carefully consider the challenges and competition in the market before making an investment in Company A. The internal analysis of Company A suggests that it has a strong position in the market, with a range of assets and competencies that can offer a sustainable competitive advantage. The valuation results provide a range of potential equity stake that BRI Venture could ask for if an investment in Company A is made.

KEYWORDS: Discounted Cash Flow, PESTLE, Porter Five Forces, Valuation, Relative Valuation.

INTRODUCTION

Startup companies with considerable growth potential are awarded venture capital, a type of private equity financing[1]. These companies frequently operate in the technology sector, are young, and have a small workforce[2]. The emergence of e-commerce, the expansion of the middle class, and a surge in technological start-ups have all contributed to Indonesia's venture capital market's growth in recent years, which saw it exceed \$3 billion in 2019[3]. The purpose of venture capital is to make investments in companies at various stages of development and to provide assistance with finance, mentoring, and market access[4]. Due to the rising demand for alternate educational funding choices, fintech start-ups with a focus on student financing are also gaining popularity in Indonesia.

One of the biggest state-owned banks in Indonesia, Bank Rakyat Indonesia (BRI), has a venture capital division called BRI Ventures which two or their strategy are building a network of digital investor and co-invest with leading venture capital. Company A on the other hand is an Indonesian fintech stratup that provide student loans.

In 2021, BRI Venture has invested in 37 startups from various industrial sectors. Seeing the declining net profit performance makes BRI Venture from 2020 to 2021 by 27%[5]. Although there are many ways to evaluate venture capital's performance, the revenue and net income are the most obvious [6]. In order to strike a balance between net profit and total asset growth, it is essential for venture capital firms to pick the correct start-up to invest in. To make wise investment selections, they frequently combine the use of financial models, market research, and professional judgment. For investment analysis, BRI Ventures have their own framework. But with this framework BRI ventures get a decreasing net profit impact, even with increased total assets and investment. One of the companies



that did the pitching was Company “A” (disguised due to confidential issues) which is engaged in the *student financing industry*. The company is looking to raise \$15 million by 2022. Although the BRI venture has its own framework for conducting their investment analysis, the company hopes to receive input for investing in company A, with the hope of optimizing decision making. This study tries to answer whether Company “A” is feasible to be invested in terms of industry, internal company, and company valuation to get the appropriate equity stake.

RESEARCH OBJECTIVE

This research objective are (1) to find macroeconomic and industry impact on Company “A” business using Porter 5 Forces and PESTEL Model in regards of understanding external condition, (2) to find internal aspects impact to Company “A” business using VRIO Model, and (3) to determine Company “A” valuation using Intrinsic Valuation and Relative Valuation.

LITERATURE REVIEW

External Analysis

To determine whether the industry meets the company's requirements or not through external analysis. PESTEL analysis and Porter Five Forces analysis. PESTEL analysis examines an organization's whole macroenvironment in terms of its political, economic, social, technical, environmental, and legal aspects [7]. Business analysts utilize PESTLE analysis to resolve issues with venture capital. Having a clear understanding of the business and the industry that will be entered into or invested in can aid decision-makers. Porter 5 Forces Framework can define the necessary steps that ease the development and implementation of strategies and gain an understanding of the nature of competition in the sector in which the company competes [8]. Analyzing the industry that will be penetrated using this method helps to provide an overview of the competitive conditions in the industry so that decision makers at Venture Capital can make more optimal decisions.

Internal Analysis

Internal analysis will give investors in venture capital a general understanding of how a firm does business and is suited for such investments. Using frameworks like the VRIO Model can aid in the analysis. The primary goal of the VRIO analysis is to assess the situation within the business and to identify the distinctive resources and competencies that provide it an edge over competitors [9]. With VRIO method and framework, business analysts at Venture Capital can classify the level of competitive advantage of a company. The results of this method can help decision makers in investment decision making processes

Financial Analysis

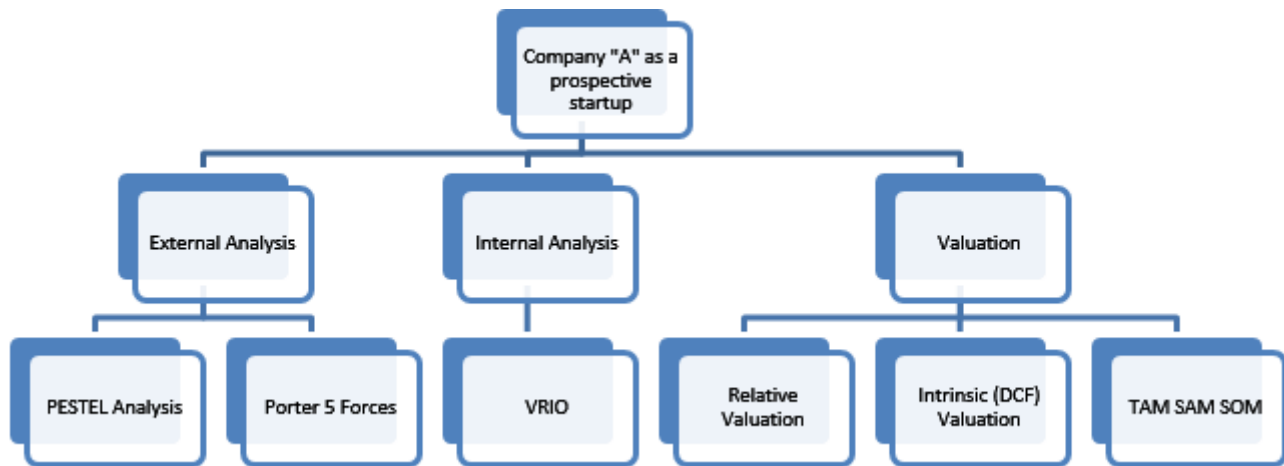
The Financial Analysis carried out will help the financial condition of a company, and aims to help creditworthiness, profitability, and the ability to generate wealth for decision makers. One of the things that can be done is to calculate the valuation of a startup [10]. Financial Analysis using Intrinsic Valuation and Relative Valuation. DSA

RESEARCH METHODOLOGY

As for data collection for this study, both primary and secondary data will be gathered. In order to gather reliable information and a deeper knowledge of the problem. The primary data is directly taken from the object under investigation in order to support the information gleaned from secondary sources via the interview technique, while secondary data will be gathered from literature studies, websites, publications, and industry overviews.

Conceptual Framework

In the conceptual framework below, it can be seen that the research flow starts from Company “A” as a startup candidate to be invested in.



After all the results of the analysis are obtained, recommendation is purposed to the Head of Investment from BRI Venture as a references to make a decision to get optimal results, in the hope of overcoming the problem in the research problem.

FINDINGS

According to the analysis, **it would be possible to enter the Indonesian student financing market**, but only with prudence and after carefully considering the difficulties encountered. The PESTEL study emphasizes the demand for student loans in the nation, which creates a growth opportunity for the sector. But the Five Porter framework study emphasizes the fierce competition, robust consumer negotiating power, and weak supplier bargaining power, which may make it challenging for new entrants to flourish.

As assessed by the VRIO Framework, it appears from the analysis that Company "A" has a number of sources of sustained competitive advantage, including adjustable repayment terms, technological prowess, and market position. This shows that Company "A's" internal situation is robust, having a range of assets and competencies that can offer a sustainable competitive advantage.

According to the DCF findings, Company A is worth IDR 1.1 billion, or \$73 million. While IDR 902 million, or \$59 million, is the outcome of the relative valuation. As a result, BRI Ventures recommends valuing Company A between \$59 million and \$73 million, a range they believe to be reasonable.

PURPOSED RECOMMENDATION

Purposed Implementation for BRI Venture with the existing solution is to conduct Due Diligence with Company A because the company's external and internal conditions are quite feasible. After calculating the Pre Money and Post Money valuation with a fundraising value of \$15 million, there is a difference in the ownership results from the Author's calculation and those submitted by Company A. Purposed implementation for BRI ventures related to Company A's equity ownership if the investment is made is to negotiate, at least the ownership is 0.28% - 5.10% higher than that proposed by Company A.

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