STARTUP INDIA

Quote Unquote

"Our role is not to come down on startups as government but only to facilitate and act as enablers. We have to remove the clutter that exists in our system such as the time spent in keeping papers, answering regulators...There has been a 50% jump in the financing of startups in the last one year"

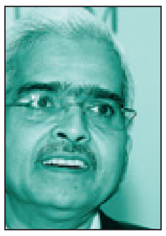
Nirmala Sitharaman, minister of commerce and industry

"Whether we are in a bubble only time will tell. We have gone through different cycles. There is a pattern that funding comes and goes and the lesson is to be prepared when the winter comes"

Jayant Sinha, minister of state for finance

"We have to turn the youth from job seekers to job creators. Startups are crucial for large scale job creation. The PM's visit to the US has created a direct relationship between India and Silicon Valley and our startups will gain immensely from it"

Amitabh Kant, secretary, department of industrial policy and promotion



"In India starting a company is like entering the Chakravyuh like Abhimanyu. It is easier to get in than get out. The insolvency and bankruptcy laws have been introduced and will really help in providing an exit option"

Shaktikanta Das, secretary, department of economic affairs

Modi Launches Action Plan: Promises Tax Breaks, Ease of Starting Up

New Delhi: Declaring that true entrepreneurs were not money-chasers but those possessed by a sense of empathy to solve problems, prime minister Narendra Modi on Saturday rolled out the red carpet for Indian startups, promising them tax breaks, simplified procedures and freedom from *inspector raj*.

He said the government would as far as possible try and stay out of the way of startups, as he exhorted young entrepreneurs to try and solve India's big problems, scale up the spirit of 'jugaad' endemic to the country and become job creators.

"Startup does not mean billion-dollar revenues and thousands of workers. Even if a startup gives employment to five, that will take India forward," the prime minister said in a speech punctuated by spells of laughter as the audience lapped up his wisecracks on himself, government functioning and the opposition for stalling legislations.

Modi's speech was the grand finale of the day-long Startup India event, the first of this kind and scale organised by the government targeted at India's white-hot startup ecosystem. The day saw back to-back sessions featuring some of the biggest names in the startup world, notably Uber founder Travis Kalanick, SoftBank's Masayoshi Son and Nikesh Arora and founders of Indian unicorns such as Flipkart, Snapdeal, Ola, Paytm and ShopClues.

Startup activity has been on a roll in the last couple of years in India, attracting the attention of big name investors from Silicon Valley and propelling valuations of several young companies in billions of dollars.

Most of India's startup successes have been around the world of technology or use technology as a key differentiator. Modi urged Indian entrepreneurs to think of solutions outside the world of IT and also tackle India's fundamental problems.

"Startup founders' success is not just about entrepreneurship...It's about risk taking, a spirit of adventure... A startup entrepreneur has a sense of empathy when he sees a problem. That does not let him sleep. He wants to create a solution," he said, urging entrepreneurs to tackle problems faced by India's farmers and artisans.

On its part, the government would do all it can to make life easy for startups, he said, as he unveiled its much-awaited Startup Action Plan that promises no tax on profits for the first three years, no capital gains tax on assets sold to fund a startup, a self-certification-based compliance system for new firms, no inspection for three years and a single-point interaction hub.

The prime minister also said the government would have a ₹10,000 crore fund for startups, financed by annual contributions of ₹2,500 crore for four years and another ₹2,000-crore credit guarantee fund for the sector. Startups would get a role in government procurements, get a 80% cut in patent registration fees and the government would also have an exit policy for startups to get out of failed businesses, he said.

(Reporting by Ruchika Chitravanshi, Kirtika Juneja, Surabhi Agarwal, Neha Alawadhi and Biswarup Gooptu)

BOUQUET OF BENEFITS

- **Capital gains tax exemption** for investors in startups
- **Three-year income-tax holiday** for startups
- **No capital gains tax** on assets sold to fund a startup
- **Easy registration** through portal and app
- **90-day exit** regime for startups through bankruptcy law
- **Simple compliance** regime for startups and relief from inspections
- **A ₹10,000-crore** corpus to support startups
- **₹2,000-crore credit** guarantee fund for startups

Tax-Friendly Regime for Startups in Budget: Jaitley

Startup India launch the final break from conventional *licence raj*, says the finance minister

New Delhi: In line with government's commitment to create a favourable ecosystem to foster entrepreneurship, finance minister Arun Jaitley has promised to roll out a tax-friendly regime in the upcoming Budget for startups. He said the government and the RBI will add to the bankers' ability to lend to startups, in the process giving a boost to private investment.

"We have already worked on an entrepreneur-friendly taxation regime. There are some steps that can be taken up by notifications, which would be taken forthwith. Others require legislative provisions, which can only come as part of the Finance Bill when the Budget is presented in order to create a friendly taxation regime for startups," Jaitley said at the Startup India programme.

The day-long event on Saturday rolls out the action plan for the flagship programme that seeks to drive job creation by supporting budding entrepreneurs. Jaitley added that the government will also launch a Stand Up India scheme under which bank branches will lend to women and SC/ST entrepreneurs. Almost 3,00,000 new entrepreneurs will be created over the next two years, he said.

"We did well to break off from it (*licence raj*) in 1991 but it was only partial. It was partial because there was an invisible role of state, control over land permissions, foreign investment proposals and of course the political nods (were needed)..." *– Our Bureau*

Almost 3,00,000 new entrepreneurs will be created over the next two years, said Jaitley

Overheard

Whine and Wine

When a representative of a wine-based startup raised a question to the panel of secretaries on the taxes levied on alcohol businesses, DIPP secretary Amitabh Kant immediately addressed the matter to DEA secretary Shaktikanta Das, citing his love for the beverage. "So, this question is (for the one) who enjoys wine the best, Shaktikanta Das." To which Das said: "I thought we were not expected to let out the secret."

The Unusual Suspects

FM Arun Jaitley said that while he had been coming to the Vigyan Bhavan for many launches he was used to seeing the "usual suspects" in the front rows. The Startup India launch was different, he said, since he did not know most of the entrepreneurs, which was a great sign for the country. He also said that the tremendous response that the event had generated from startups warranted booking of a stadium instead of an auditorium.

Entrepreneurs First, Please

In quite a departure from the usual government affair, officials and organisers were asked to vacate the chairs to let the startup founders sit and attend the event due to paucity of space. Over 1.5 lakh people had requested to attend the Startup India launch but only a couple of thousand could be accommodated in the packed halls of Vigyan Bhavan.

Just a Matter of Time

"6 pm" turned out to be one of the most oft quoted replies of the secretaries panel to a majority of questions being asked by the startup community in the first half of the Startup India event. For all policy-related hurdles that the young entrepreneurs raised, the bureaucrats told them to wait for the announcement of the Start Up India Action plan at 6 pm.

Big Bang Has Just Begun but Startup Founders no Big Fish: SoftBank's **Son**

New Delhi: Where others see a big bubble, the man with biggest chequebook for India's Startup Inc sees the beginning of a Big Bang. Masayoshi Son, the founder of Japanese telecom conglomerate SoftBank, is unfazed by talk of a funding crunch or bloated valuations. Instead, he is only doubling down on India.

"If I rescale, I will only scale up," Son, 58, said at the Startup India event. Son's optimism about India matters because, through his India-born heir-apparent Nikesh Arora, SoftBank has become something of a bellwether for the country's attractiveness as a startup investment destination. So far, SoftBank has invested some $2 billion (₹13,000 crore) in Indian startups including online marketplace Snapdeal, cab aggregator Ola, budget hotels aggregator Oyo, housing.com and hyperlocal delivery service Grofers. Son is known to be an unconventional investor who has made, lost and regained a fortune that is now estimated to be worth around $12 billion. He is the biggest shareholder in Alibaba, making a bet on the company when it was but a speck on the internet horizon.

Son is now betting on the internet revolution, which he believes will be "a 100 times bigger" than the industrial revolution, and India's ability to profit from it. He has promised to invest $10 billion in India over the next few years, and said that he is more excited about the country's prospects every time he visits. Japan's second-richest man brushed off concerns about upcoming consolidation in India, "there will be more new companies popping up in India than consolidation... This is the beginning of the big bang."

Son, who lost the bulk of his fortune in the dotcom crash, cautioned Indian founders about being carried away with new-found wealth and attention. "Indian entrepreneurs should not misunderstand the big cheque from investors as (proof) that they are big fish."

"The first 5-10 years is a stage of harvesting where the focus should be on acquiring customers, gaining scale, improving customer service," he said. Son is on his third visit to India in less than two years. He met prime minister Narendra Modi on Friday.

–Surabhi Agarwal

Those who Make Magic See the Future Before Anybody Else: Uber's **Kalanick**

New Delhi: Travis Kalanick, who has built the world's most valuable startup, has a very distinctive view on what it takes to be an outstanding entrepreneur: such a person should be a crystal-ball gazer and a philosopher rolled into one.

No, he did not mean it literally. According to the CEO of Uber, a great startup founder will be someone like a Steve Jobs, who could see the future before anyone else. Kalanick made his point at the Startup India meet by whipping out his iPhone and saying Jobs visualised a product made in 2016 a decade before. "Those who make magic are the ones who are seeing the future way before anyone else does," he said.

And it's not just important to see the future, but see it clearly enough to distinguish what is real and what is not. That is where great founders are able to tell the "difference between perception and reality," Kalanick, 39, said.

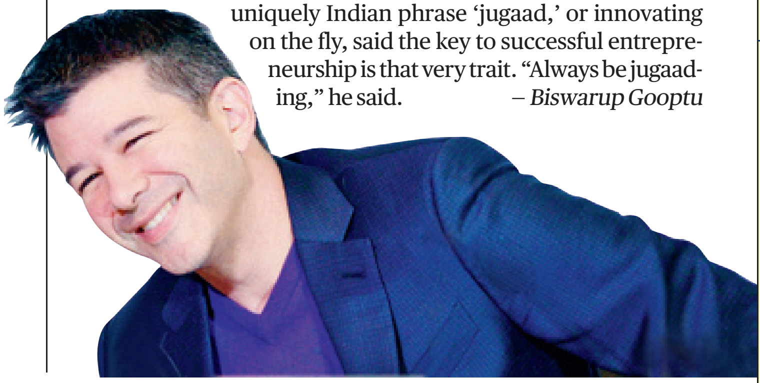
Kalanick was being watched from the front row by Bhavish Aggarwal, the founder of his biggest India rival Ola, as well as Masayoshi Son and Nikesh Arora of SoftBank, the men who have backed Ola and Uber's China competitor Didi Kuaidi. Uber has promised to invest $1 billion in India as it expands to new cities and develops new products and payment solutions. But the company has also had to face numerous regulatory challenges.

Kalanick admitted that the challenges in India are unique, and pointed to payments as one. "There are a few areas that matter, and the way we deal with that is by empowering the local teams to win in their cities," he said. Uber, which is valued at about $62.5 billion, recently said its Chinese unit was valued at about $8 billion, after raising about $1.2 billion.

The Uber chief executive, who told the audience that he had spent four weeks on a beach in Thiruvananthapuram a decade ago coding for a small startup, said India is at an "inflection point" and from here on innovation from this country will go global.

Kalanick, who is obviously no stranger to the uniquely Indian phrase 'jugaad,' or innovating on the fly, said the key to successful entrepreneurship is that very trait. "Always be jugaading," he said.

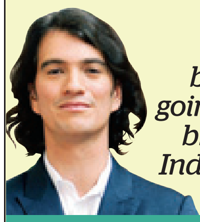
– Biswarup Gooptu



Quote Unquote

"India is Our Preferred Choice for an IPO"

Sachin Bansal, cofounder, Flipkart



"We will build a local business here...we are not going to thrust the New York brand here. Our market in India will be bigger than our market in Europe"

Adam Neumann, CEO, WeWork

Overheard

In the Name of the Father

Adam Neumann's style of presenting the company he cofounded, WeWork, struck a chord with the audience. From early stage to established startup founders, his impassioned speech about community and values in building a business found a connect with pretty much everyone, coupled with his gesture of bringing along his father and showing the importance of family. However, some people marvelled at how well he was able to make his company one of the most highly valued in the world (over $10 billion, or a decacorn), based on the same passionate pitch.

Poster Boy's Day Out

Vijay Shekhar Sharma was chitchatting with entrepreneurs and young people outside the tent where lunch was being served, a refreshing change from how most established names conduct themselves at government events. People asked him about funding, business models et al. "It's refreshing to see the so-called stars of the startup ecosystem mingle freely with young people and show willingness to help them out,"one of the onlookers was heard saying. Before breaking up, Sharma patted one of them and said "hoga hoga".

From Hustle to Jugaad

Travis Kalanick, founder of Uber, is famous for his mantra: "Fear is the disease, hustle is the antidote". So when he landed in India for the Startup India mission, he asked his team what the translation for hustle would be – no surprise that the answer was *jugaad*! So Kalanick has unveiled a new mantra for startup India: #AlwaysBeJugaading. He shared this on Twitter too: Working on my #startupIndia lingo before my big speech...just learned that Jugaad means HUSTLE #AlwaysBeJugaading.

"Entrepreneurs Don't Really Need the Government, Sops and Schemes"

:: Ronnie Screwvala

Every strong initiative needs an evangelist...and for entrepreneurship in India, our prime minister donned that mantle very well last evening. Every entrepreneur needs to lead from the front, inspire thousands to follow her/his vision and think at scale; and so we have a role model here in PM Modi. By the way his last disclosure as per the RTI Act said he has never taken a day off since becoming the PM – something all of you looking to start up in India would need to get used to.

Our statistics says India had about 5,000 startups in the last year, but let's face it: we need 1 million first-generation entrepreneurs in the next three years and 10 million in the next seven, for a county of close to 1.3 billion people. We believe we are an entrepreneurial country and it's in our DNA, a lot of it coming from the fact that we have a legacy of family businesses, but most of them have not scaled and the next generation is not looking to take it forward. Not much has changed from when I decided I wanted to be an entrepreneur more than 30 years back. It was very tough then. No funding, no VC or PE. Family pressure was to get a good degree and job and tread the safe path.

I believe we do not need sops from the government nor funding from VCs to jump into the world of startups; you need to get over your fear of failure. Once we cross that red line, knowing we will fail – not once but 100 times and learn how to get up and go forward – that's when we will be a nation of many million startups.

Entrepreneurship is about courage and the ability to take risks and then stay with it. Entrepreneurship is about people and teams and culture. Then comes capital and funding. My deepest concern of late is the benchmark everyone has: "for starting up I need to be funded." But if you see the real success stories, they're of people who failed many many times before they succeeded and the same ones who started with no funding and yet learnt to bootstrap.

As an entrepreneur you do not really need the government or the sops. We need the government to make it easy to do business and we are heading in the right direction.

For all of you waiting to startup – bring your own bugle (or drum or sitar) and running shoes, set your sights on the peak and settle for nothing else. As a country we have this one more big chance. The odds are an even 50/50. And remember: it is not just about starting up; it's about staying the course. Are you ready?

(The writer is founder, Unilazer Ventures)

Living Bootstrapped

Meet these founders who have grown businesses and made them profitable — without a rupee from the funding ecosystem

:: Rajiv Singh

When Sunil Patro decided to move back to India from the US in 2010, he knew it was not going to be easy. And not just because he was leaving a lucrative six-figure dollar job after working for a decade in senior engineering and product roles at global technology companies. The 35-year-old was planning to sink ₹20 lakh from his personal savings and turn into a bootstrapped entrepreneur, relying purely on his own investment.

Five and a half years after starting up, Patro may have pulled off the impossible. "It's a popular perception that a bootstrapped startup struggles to break even and turn profitable," says the founder of SignEasy, a cloud-based mobile-first solution for businesses and professionals to electronically sign, fill and send documents from smartphones, tablets and the web. "I have shattered this myth."

Based out of Bengaluru and San Francisco, the document-signing app has had over 3.5 million downloads across 150 countries since inception, has processed over 10 million documents and boasts over 1 lakh paid users. What's more, the startup has been featured among the best business apps by Apple consecutively in 2014 and 2015, ranks among the top 10 downloaded apps and top 50 grossing business apps, and has been making profits for the past three years now, claims Patro.

Patro is of the firm belief that SignEasy is where it is today thanks in a large part to his determination to bootstrap the venture, rather than embark on wooing venture capitalists (VCs) for funds.

"Staying bootstrapped takes a lot of grit, patience and faith in the product," he reckons, adding that the uncertainty of treading a lone path – without VCs to hand-hold – is what scares off a lot of new-age entrepreneurs from bootstrapping.

As the fledgling startup ecosystem in India sees a frenzied scramble among entrepreneurs to get their ventures funded, some as young as a month, the art of bootstrapping – starting a business with one's own capital and continuing to finance it from the venture's cash flows – is fast becoming extinct. The virtues of staying bootstrapped – financial discipline, focus on profitability and the freedom to pursue one's direction being just three of them – are being forgotten as a rash of entrepreneurs gets lured by a perceived short cut to success: venture capital funds.

Earn, Burn, Perish

The results, consequently, have been disastrous. Founders who have got hooked to the dope of 'earn and burn' are realising that access to capital is sounding the proverbial death knell for their startups, which are succumbing to pressure from investors to either scale quick or perish.

"It's sad," laments Patro. While there is nothing wrong in looking out for funding, the key question to ask is: would it radically change the game by putting the startup on the growth highway, or is it a mere stairway to a swanky office or a random jump in headcount, asks Patro, who has been approached by various venture capitalists over the last couple of years but has so far resisted the temptation. "We never felt the need to raise capital," he asserts.

Patro isn't the only one who hasn't got seduced by the allure of VC money. Sridhar Vembu too has been wooed by countless from the tribe over the years, but steadfastly decided to stay bootstrapped. The 47-year-old founder of Zoho Corp, one of the largest software product companies from India with about 3,000 employees and over

5 Tips to Grow the Bootstrapped Way

1. **Be Financially Disciplined:** Earn rate is more important than burn rate; remember you are getting users by providing them value as opposed to burning cash
2. **Target Profits:** It's not an option but the only way out; focus on creating a sustainable business model
3. **Learn to Course-correct:** If things aren't working out, get back to the drawing board and tweak the blueprint
4. **Customer is King and Queen:** You have no investors and shareholders to worry about, so focus sharply on the customer
5. **Stay Lean and Mean:** Keep overhead costs at the lowest; build nimble teams that can quickly respond to market changes

N NARASIMHA MURTHY

"Growth of a company is not directly proportional to the quantum of funding"

Sunil Patro, 35, founder, SignEasy, a document-signing app

FOUNDED IN: 2010

REVENUE: Privately held, declined to share

PROFITABLE: Yes, since last three years

HEADCOUNT: 20 across Bengaluru and San Francisco

CONSUMERS: 3.5 million downloads across 150 countries

BOOTSTRAPPED FOR: 5 years

"We have had VCs express interest in Zoho at least on 100 occasions...Once we reached profitability, we found it very liberating to not have financially minded investors"

Sridhar Vembu, 47
founder, Zoho, a software product company
FOUNDED IN: 1996
REVENUE: Privately held, declined to share
PROFITABLE: Yes, since inception
HEADCOUNT: 3,000
CONSUMERS: 1 lakh institutional clients
BOOTSTRAPPED FOR: 19 years

1 lakh institutional clients globally, recalls one such encounter with a VC that happened quite early in his career, in the mid-'90s.

When Zoho, which started as a network management software company called AdventNet in 1996, was a tiny yet profitable firm, a VC stopped by at its promotional booth at a tradeshow overseas. On being asked about the size of the market served by the startup, Vembu replied: "Probably less than $10 million worldwide." Startled, the VC took a dig: "Why are you so unambitious?" Unfazed, Vembu replied that he was using a tiny niche as a way to get the company to profitability and reinvest the profit to grow into bigger markets.

And this is exactly what Vembu has been doing.

Privately held and profitable since inception, Zoho now has twin headquarters in the US and India – Pleasanton in California and Chennai, respectively – and offices in London, Tokyo, Beijing and Austin. Starting as a network management company, over the years Zoho has diversified into two more verticals – ManageEngine, which makes software solutions that help IT professionals manage corporate IT assets, and Zoho.com, which makes cloud-based business apps.

"We have grown at a rate that is comfortable for us to manage," explains Vembu, adding that superfast growth introduces strains on cultures that many companies don't survive. "They grow big fast but lose their soul."

Vembu has remained bootstrapped for two decades now, and is in no mood to disturb that run. His advice to a new-age entrepreneur in a tearing hurry to get funded would be in the form of two questions. "Why are you in such a rush to find yourself a new boss who may be worse than the old boss you are running away from?" And if there is an answer to the first question, the second one will leave any funds-seeking entrepreneur stumped: "In what sense can VC money bring you freedom?"

When bootstrapped, one thinks of creative ways of solving problems rather than throwing money at them

Pallav Nadhani, founder of data visualisation company FusionCharts, knew the value of freedom since 2001. "As of now, we just want to build great products, and not get distracted," says the 31-year-old entrepreneur who has stayed bootstrapped for the past 15 years.

It's this spirit that gave the company a new lease of life a couple of times. "As a company, we've almost been killed twice," says Nadhani.

The first near-death experience was in end-2006 when one of Nadhani's European competitors copied FusionCharts' code and started selling cheaper products. In response, Nadhani made his entire product free, as the next version was just round the corner.

Then, in 2008, when Steve Jobs decided to ban Flash on Apple's operating system, FusionCharts was plunged into yet another existential crisis. The company's entire product was in Flash, and it was almost impossible to build everything in JavaScript in just a few months as the company had been working on the Flash product for over seven years. The solution was almost unthinkable: Nadhani partnered with his top competitor. "In hindsight, it was a win-win situation," he contends, adding that what helped him think out of the box was bootstrapping. "When bootstrapped, you think of creative ways of solving problems, rather than throwing money at them."

Today, FusionCharts has over 25,000 consumers across 118 countries, has had over 7,50,000 downloads of its product, employs 70 people and boasts of multi-million dollar revenues, claims Nadhani. The company was a profitable venture from Day 1, and by the time it came to know about venture capital, it had enough money in the bank to fund itself, he contends.

Nadhani maintains that one should delay raising funds as much as possible and should think of taking the plunge only when it can help an entrepreneur seriously scale up the business. "Don't raise funds just because it's glamorous."

That raising capital has been glamorised more than most other things in the startup ecosystem over the last few years has only put additional pressure on entrepreneurs to follow the herd. "I keep meeting entrepreneurs who are more passion-

The Benefits of VC Funding...

MENTORING: VCs are the guys who have been there, done that. They have seen startups succeed and fail. So their insights are of great value

OBJECTIVITY: You might become emotionally attached to your venture; VCs bring in objectivity

NETWORKING: It's not only ideas but also networking – a forte of VCs – that takes a business ahead

HIRING: You might be brilliant in ideating but when it comes to hiring the best talent, it is usually the experienced eyes that can spot the right guy

CREDIBILITY: A strong financial backing helps get acceptance amongst clients and consumers

SHARED RISK: By buying into your startup, VCs are buying into an opportunity – as well as the downside

BIG PICTURE: Entrepreneurs can tend to be micro-focused on their own product or service; VCs have a bird's eye view of market trends

...and the Downsides

LOSS OF INDEPENDENCE: The VCs have the right to veto key decisions. Every step you take, they would be watching you

MANDATORY EXIT: Venture capitalists are not philanthropists. And their investments have a fixed time frame so they will exit sooner rather than later

LACK OF FINANCIAL DISCIPLINE: Too much capital ensures you hire too fast, pursue too many ideas, and spend massively on marketing, advertising and PR

EGO CLASH WITH FOUNDERS: Remember Rahul Yadav of housing.com and his nasty public spat with his VC? It tells the story. You can't fire your VC, but a VC can fire you

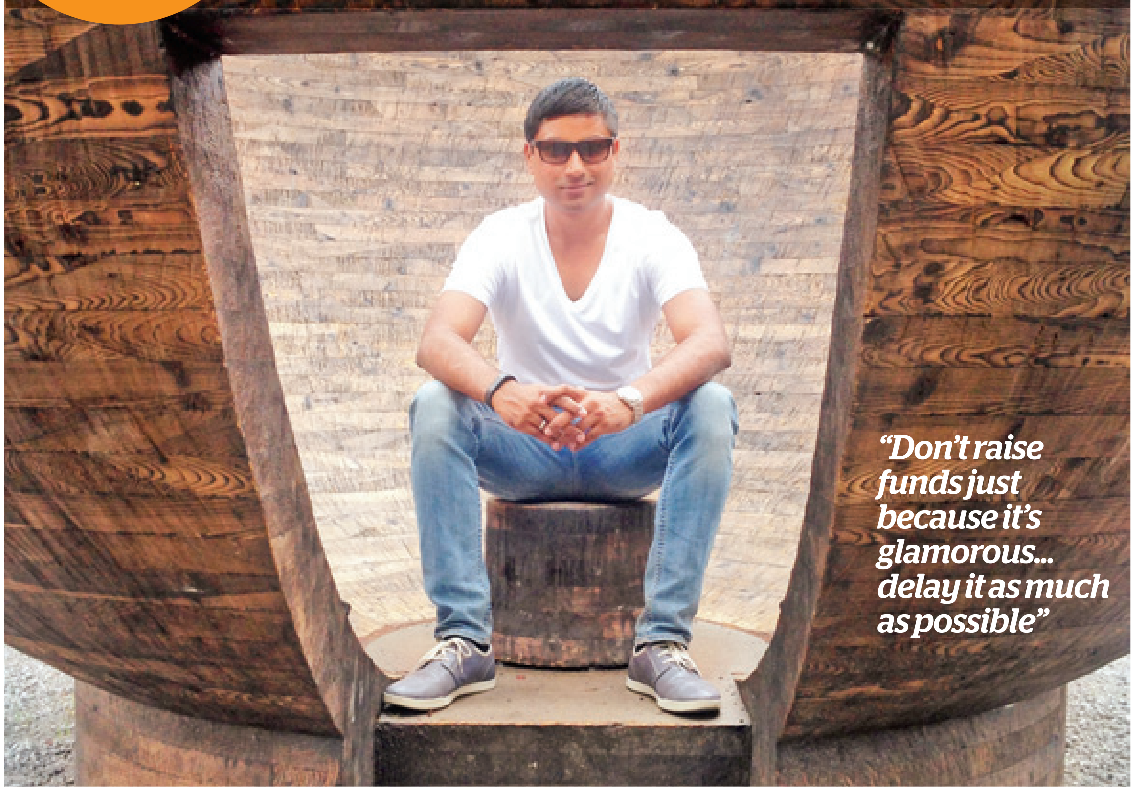
MISALIGNED GOALS: You may want to take one step at a time. But your VC wants the best returns on his investments and it can only happen if you run like Usain Bolt

UNFULFILLED PROMISES: VCs have a lot on their plate and your startup is just one of their portfolio companies. So you don't always get what's promised

NO GUARANTEE OF SUCCESS: You are backed by a VC, but statistically, you might fail. After all, only one out of every 10 startups that get VC money succeeds

Pallav Nadhani, 31
cofounder, FusionCharts, a data visualisation company

FOUNDED IN: 2001
REVENUE: Privately held, declined to share
PROFITABLE: Yes, since inception
HEADCOUNT: 70
CONSUMERS: 25,000 across 118 countries; has had over 7,50,000 downloads of its product
BOOTSTRAPPED FOR: 15 years



"Don't raise funds just because it's glamorous... delay it as much as possible"

ate to raise money than to build a business," contends Praveen Sinha, a serial entrepreneur and founder of online fashion retailer Jabong. Sinha, along with cofounder Arun Chandra Mohan, moved operationally out of Jabong late last year.

No Passport to Success

Sinha maintains that a venture-capital-led intervention early in a startup's journey may not be in the best interest of the venture. At times, it takes the focus of the entrepreneur away from building the company to delivering on a time-bound return or exit for the investor. That some startups with reasonable long-term potential have had to merge with a competitor early in their journey is testimony to this scenario, he avers.

> **The pressure of giving a time-bound return rather than building the business is another deterrent to opting for funding**

K Ganesh, serial entrepreneur, who remained bootstrapped in two of his ventures IT&T and Marketics, too believes that glamourisation of fundraising has created an impression that funding is a passport to success.

"Unfortunately, it's not. It's only a milestone," says Ganesh, adding that entrepreneurs might be getting swayed by the hype. Any behaviour that gets rewarded will get repeated, he contends, adding that while there is nothing wrong in celebrating funding, one must also celebrate bootstrapping.

Bhavin Turakhia, the 37-year-old serial tech entrepreneur and cofounder of Directi, for sure has been celebrating bootstrapping since 1998. Turakhia took a loan of ₹25,000 from his father and cofounded Directi in 1998 along with his brother Divyank. Starting from the kitchen of an apartment, Directi, a technology and web services firm that has built a bouquet of brands such as Ringo, Flock, Zeta, Radix and Media.net, has grown leaps and bounds even as it remains firmly bootstrapped.

Directi now serves over 9 million consumers, has a headcount of over 1,500, revenues of $200 million, a net worth of $500 million and

Bhavin Turakhia, 37

cofounder, Directi, a technology and web services firm

FOUNDED IN: 1998

REVENUE: ₹1,350 crore

PROFITABLE: Yes, since inception

HEADCOUNT: 1,500 across India, China, the UAE and the US

CONSUMERS: 9 million globally

BOOTSTRAPPED FOR: 18 years

"A bootstrapped mindset is much more important than a bootstrapped company"

THE CASE FOR VENTURE CAPITAL

The Real Villain is not the VC but 'Change'

The idea that "the investor made me do it" is both naïve and born out of bitterness and defeat

:: **Sandeep Murthy**

The tension in the air surrounding the venture ecosystem is palpable at the beginning of 2016. The world has not gone to plan. Ironically this is not a new thing – it seems to happen with relative frequency. Yet whenever it happens it causes large amounts of consternation. Entrepreneurs and investors get anxious. They have made promises to each other as well as employees and other investors, which they have to defend. When external factors impact life, the easiest explanation is to find a villain. This is simple and convenient, but is both untrue and a wasted opportunity to learn and improve.

Entrepreneurs and investors are jointly trying to imagine and create a new world. There is no straight line to this process... it is a series of assumptions and iterations – a process of Experiment, Fail, Learn, Repeat. However like all good stories, the characters of greed and fear (of missing out) enter the plot and irrational exuberance sets in. This creates market hype and bubbles. Eventually the dust settles and the excess ends. When the music stops only those businesses that focused on delivering a true customer value proposition survive.

So what happens to the others that were born out of greed and fear?

Like any Darwinian system, they adapt or perish. But warriors (and make no mistake, all entrepreneurs are warriors) will not go quietly into the night. India's venture ecosystem has lived through a period of extreme hype and is now entering a phase of rationalisation. This is normal and healthy. Unfortunately, so is the blame game that comes with this phase.

Players in the venture ecosystem like to believe that they control the world. We believe that we are Gods in our domains, bending the market to our visions. If this were true, it would make life as an entrepreneur a cakewalk. Life is nowhere near that simple. Trying to control the market and drive timing of adoption of services is impossible. The market has too many forces pulling it in varying directions that cause the best-laid plans to have to be continuously revisited. If we study history just a little bit, we will realise that extreme moves of markets (both up and down) are as natural as the waves in the ocean.

So the true villain in our fantasy is not the entrepreneur or the investor but that evil character known as change.

Understanding all of this is intellectually valuable, but it doesn't stop the emotional response that comes when things go bad. Entrepreneurs and investors have a shared vision of wanting to improve the world, but they have entered the game from very different starting points.

Investors got their ticket to play the "Build a Better Future" game by making promises to other investors of certain returns in a defined period of time. In contrast, entrepreneurs got their entry by sacrificing a comfortable job and a consistent paycheck. When the world is good, these differences are overlooked, but when the evil "change" rears its ugly head, these two different entry points become the source of friction.

In a David and Goliath world where the investor is viewed as a larger-than-life character who makes decisions on who gets a chance to play and who doesn't, the idea that "the investor made me do it" is an easy idea to sell, but this view is both naïve and born out of bitterness and defeat.

When the markets turn they affect all people equally, but successful entrepreneurs aren't lashing out. They are by definition smart, visionary people, who have understood the base motivations of the people they work with. They know that while investors share a passion for changing the world, they have other constituents that they are responsible to. So no matter how good the times are and how shared the future vision is there are other factors that investors will always have to contend with and so they need to take that into account when they make decisions on how to build their company.

The second truth is that once the investor gives the entrepreneur money, it is the entrepreneur who controls the hiring, spending and pace at which the business will scale. Investors can weigh in with thoughts and opinions, but the day-to-day decisions are driven by the passion of the entrepreneur – and that is the way it should be.

So, while I can appreciate the reasons for all of this anxiety and angst, the reality is that successful entrepreneurs have understood the value that venture capital can provide and have managed to use that money effectively in up and down markets. The unsuccessful ones should take a break from finger pointing, look internally and consider how they can manage the situation better the next time around. If they are true entrepreneurs they will learn and the next time around they will let the success of the business do the talking.

(The writer is a partner at Lightbox Ventures, a VC firm)

THE CASE AGAINST VC FUNDING

"Many Funders take a 'Spray and Pray' Approach"

Five mistakes that entrepreneurs make when getting funded

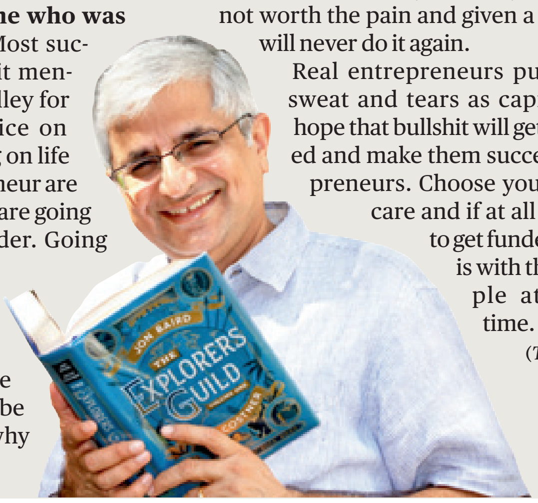
:: Bharat Gera

1 **Getting funded too early or too much is bad for the venture.** The Startup Genome Project identified that 'Premature Scaling' is the dominant reason for failure to scale. Basically, it means that you cannot simply pour money and get scale unless your product and market are ready. Putting it even more simply, selling lousy stuff at discounts doesn't make an Amazon or Flipkart. This may explain the large number of ecommerce companies that folded up in recent years.

2 **Getting funded by people who are not too interested in your venture.** In the eagerness to get funded, one tends to overlook the relationship between founders and funders. Too often when the going gets rough, differences crop up and lead to nasty battles. After funding, it is not that easy to walk away! Only a few of these spats go public and create controversy like the housing.com one, as most founders keep quiet and bear the pain.

3 **Getting funded by someone average.** Kauffman Foundation's report on venture capital in 2012 stated that the worst enemy of VCs is themselves. Average VC funds barely return the investor their money and often make bad investments or give bad advice to entrepreneurs. Unfortunately, the partner in a VC firm still makes 2% of funds invested even when the firm fails. Often the VC asking you take more money than you need at your stage of business is the one least interested in your venture's success.

4 **Getting funded by someone who was never an entrepreneur.** Most successful entrepreneurs credit mentors or coaches in Silicon Valley for their success. Getting advice on business models and coaching on life skills to cope with being an entrepreneur are more important than money. If you are going to get funded, choose a smart funder. Going with the one with big pockets and no real entrepreneurial experience will result in terrible advice. Business isn't run by spreadsheets; you need the real experience in the trenches to know what it feels like to be an entrepreneur. Now you know why several ventures are looking directionless or making constant pivots.



5 **Getting funded when you know that there is no passion in your venture.** Making a successful venture that goes public takes several years of dedicated effort and taking up a venture without passion just because you are getting funded will result in a lot of pain and heartburn in future. Many funders take a 'spray and pray' approach: they will fund 'clones' of successful business models. Founders are tempted to take up these opportunities as it is easiest to get funded when you 'follow the money'. This explains the rash of IITians doing food tech ventures or hyperlocal mobile applications.

Getting funded draws you into the 'bubble'; once you are in, there is no way out. Billions of dollars are being invested to discover the next Unicorn, most of which are not profitable ventures. Running a venture with no sight of profits is becoming fashionable. Everyone is going with 'valuations'; nobody knows when they can 'cash' out of the venture. Once you are into the 'funny money' game, there is no way out of it. All your notional wealth that you earned by efforts over the years can disappear; the 'bubble' burst might be right around the corner.

In recent years, we have seen euphoria over getting funded by venture capital. Celebrated by media and covered at many live events, founders that got funded seem to be getting all the glory. Ask them in private and many will tell you why it was not worth the pain and given a choice they will never do it again.

Real entrepreneurs put in blood, sweat and tears as capital. Others hope that bullshit will get them funded and make them successful entrepreneurs. Choose your path with care and if at all you choose to get funded, be sure it is with the right people at the right time.

(The writer is an early internet entrepreneur)

offices across the globe including Mumbai, Delhi, Bengaluru, Dubai, New York and Los Angeles, claims Turakhia. In 2014, cloud-based platform provider Endurance International Group acquired the web business of Directi in a $160-million deal.

Bring in the VCs

While most startups today are preoccupied with their next round of funding in order to keep the company alive, Directi has always remained focused on staying profitable and creating a sustainable business model, claims Turakhia. "A bootstrapped mindset is much more important than a bootstrapped company," he reckons, adding that though he has stayed bootstrapped, he is not against the idea of VC funding. "VC funding is just a stage in the growth of your company and not the ultimate goal," he maintains.

VC funding is just a stage in the growth of a startup and not the ultimate goal

Bhanu Chopra reached this stage of growth after staying bootstrapped for over a decade. Founded in 2004, RateGain – a cloud-based software company that provides hospitality and travel companies with rate intelligence, price optimisation, electronic distribution and brand engagement –went for VC funding in 2015. Reason: to take the company to the next level of growth, says founder Chopra. Over the last six months, RateGain has opened six offices across the globe including Bangkok, Barcelona, London and Washington, DC. It has expanded its product portfolio by launching an integrated revenue management and distribution platform and is in buyout talks with many companies.

Did staying bootstrapped help him in his entrepreneurial journey? Absolutely, says Chopra, pointing out the two top learnings. First, focus on getting the minimum viable product out in the market at the earliest rather than spending time on perfecting the product. And, second, focus on perfecting one product only. There is a tendency amongst startups today to focus on too many things, thinks Chopra.

Nemesh Singh, 35

founder, Appointy, an online scheduling software company

FOUNDED IN: 2008

REVENUE: Privately held, declined to share

PROFITABLE: Yes, since the last four years

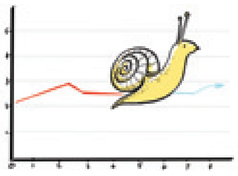
HEADCOUNT: 34, with offices in Singapore, the US and India

CONSUMERS: 85,000 businesses in over 110 countries

BOOTSTRAPPED FOR: 7 years

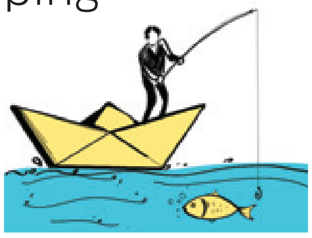
"Bootstrapping allows the founders to retain substantial skin in the game"

The Limitations of Bootstrapping

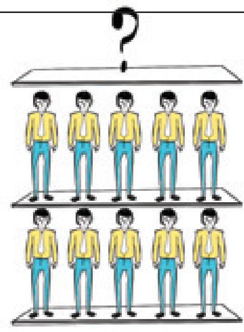


SLOW GROWTH: To start bootstrapping is easy but to stay so means you are compromising on growth as you don't have enough funds to scale quickly

EXHAUSTING PERSONAL SAVINGS: There is no fall-back option. Once you have ploughed all your personal savings into your venture, you are exposing yourself to uncertainties



LIMITED APPLICATIONS: It's not possible to bootstrap all business ventures, especially if the business is capital-intensive



MISSING TOP TALENT: Limited resources is a big constraint in attracting top talent as they might get lured by hefty pay packs offered by well-funded rivals

LAGGING BEHIND: Your adequately funded competitors will find it a lot easier to edge you out of the market with better marketing and promotional activities

HARDSHIP YEARS: As you won't be earning any money for quite a while, surviving the first few years could be traumatic

Abhishek Rungta, 38

founder, Indus Net Technologies, a digital company offering web and mobile technology solutions

FOUNDED IN: 1997

REVENUE: ₹42 crore

PROFITABLE: Yes, since inception

HEADCOUNT: 600 across offices in Kolkata, Chennai, Delhi, Mumbai, Boise (Idaho), London and Singapore

CONSUMERS: Across 40 countries

BOOTSTRAPPED FOR: 18 years

"Raising money is about losing control and giving away your ownership"

bootstrapped for a considerable period.

GirnarSoft, the parent company of auto portals such as CarDekho.com, ZigWheels.com and Gaadi.com, is one of them. The company was started with an initial investment of two laptops in 2008 and geared to work on offshore products and outsourced software development. Over the next eight months, it started sowing the profit generated from the outsourcing arm into building multiple online portals. So an online stock broking site, an astrology portal, a jewellery estore and CarDekho were started. Portals that did not gain traction were shut down and those that showed promise, like CarDekho, were persisted with.

For the first five years, revenues from the outsourcing firm and CarDekho were enough to sustain operations without VC funding, says Anurag Jain, cofounder of GirnarSoft. But after five years, once the idea got validated and there was significant organic traction, Jain decided to raise funds to gain marketing muscle and build a brand. "Although we've raised $75 million till now, we have always been operationally profitable," he claims, quickly pointing out that had it not been for the bootstrapping years, the company would have not achieved a strong foundation.

When you are "poor", you end up innovating more to build a sticky product, reckons Jain. The company did not have a customer-acquisition budget, so it relied heavily on search-engine optimisation and social-marketing strategies to get CarDekho to be the most visited auto portal in India.

Swearing by Venture Capital

Early bootstrapping also gave the company adequate time to prove its business model and helped in getting better valuations and lower equity dilution when it eventually raised its Series A funding in 2013. "Timing of raising VC money is critical," asserts Jain, adding that fund-

Initially Bootstrapped, Funded Later on

QUICK HEAL
an IT security solutions provider
FOUNDED IN: **1995**
BOOTSTRAPPED FOR: **15 years**
FUNDED IN: **2010**

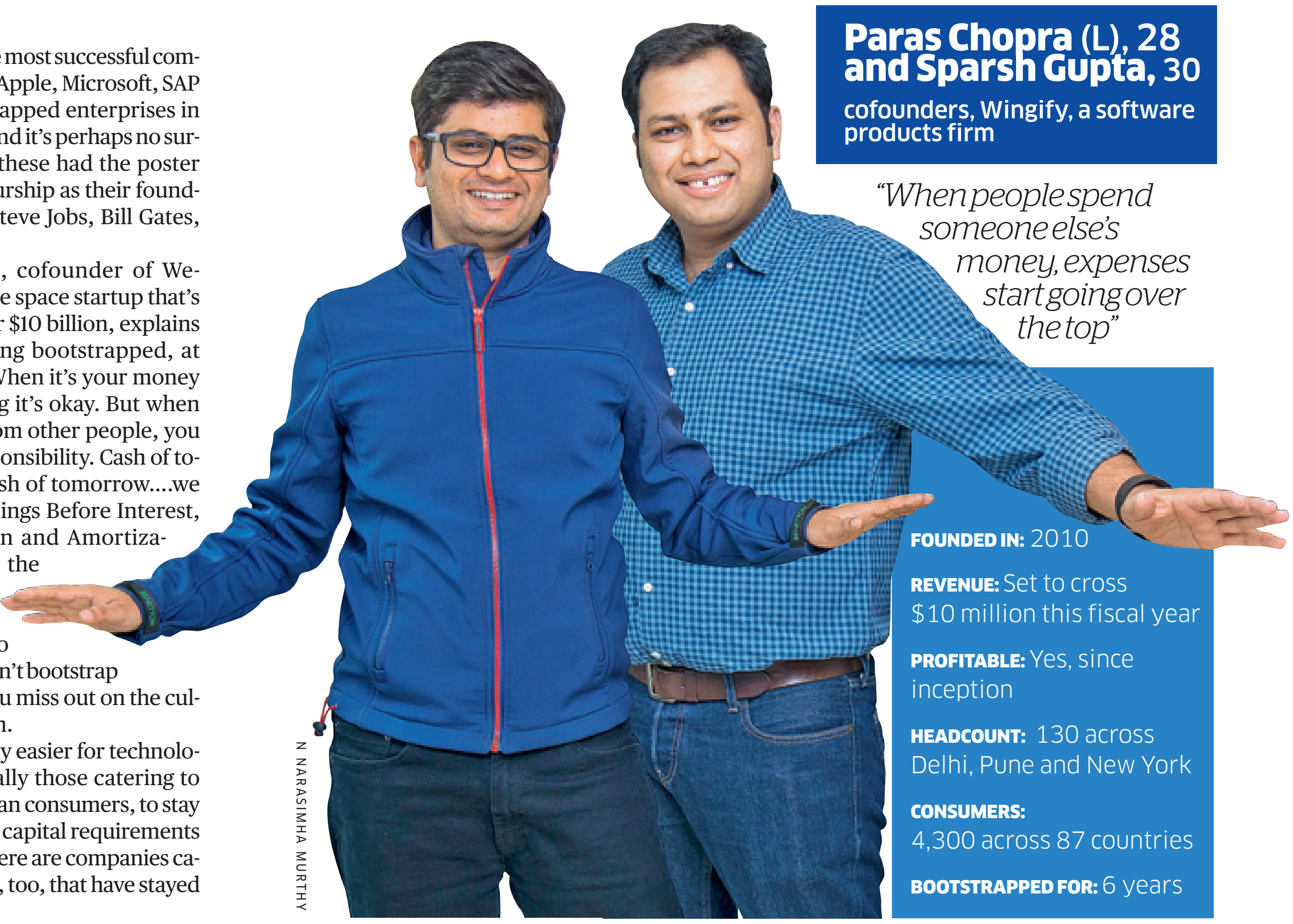
RATEGAIN
a software solution provider
FOUNDED IN: **2004**
BOOTSTRAPPED FOR: **10 years**
FUNDED IN: **2015**

The Global Angle

Globally, some of the most successful companies – think Dell, Apple, Microsoft, SAP et al – were bootstrapped enterprises in their initial stages. And it's perhaps no surprise that many of these had the poster boys of entrepreneurship as their founders: Michael Dell, Steve Jobs, Bill Gates, amongst others.

Adam Neumann, cofounder of WeWork, a shared office space startup that's today valued at over $10 billion, explains the virtues of staying bootstrapped, at least at the start: "When it's your money and you keep failing it's okay. But when you raise money from other people, you take on a grave responsibility. Cash of today finances the cash of tomorrow....we were EBIDTA (Earnings Before Interest, Taxes, Depreciation and Amortization) positive since the second month of our business because we wanted it to be like that. If you don't bootstrap in the beginning, you miss out on the culture," says Neumann.

While it's relatively easier for technology startups, especially those catering to businesses rather than consumers, to stay bootstrapped as the capital requirements are relatively low, there are companies catering to consumers, too, that have stayed



N NARASIMHA MURTHY

Paras Chopra (L), 28 and Sparsh Gupta, 30

cofounders, Wingify, a software products firm

"When people spend someone else's money, expenses start going over the top"

FOUNDED IN: 2010

REVENUE: Set to cross $10 million this fiscal year

PROFITABLE: Yes, since inception

HEADCOUNT: 130 across Delhi, Pune and New York

CONSUMERS: 4,300 across 87 countries

BOOTSTRAPPED FOR: 6 years

ing has helped the brand scale faster.

Girish Mathrubootham, cofounder of Freshdesk, a cloud-based helpdesk software company, vouches for effectiveness of VC funding. "It's like a rocket fuel. You can expand at a faster rate with better access to great resources," he claims. Freshdesk was started in October of 2010 and it received its first round of funding of $1 million in December of 2011, so it stayed bootstrapped for a little over a year. "We had to make a choice – either stay bootstrapped and see slow but steady growth or go for VC funding and grow rapidly," he says.

When you are "poor", you end up innovating more to build a sticky product

Five years down the line, Freshdesk has over 50,000 customers across 120 countries, an employee headcount of over 550, and has had five rounds of funding in which it raised $93 million from Accel Partners, Tiger Global and Google Capital. The infusions have resulted in its valuation trebling every year for the past three years.

No Rubbishing VCs

Ask him if it's fair to portray VCs as villain, Mathrubootham jumps to the defence. "We need to put ourselves in the shoes of the VC," he says, adding that an investor wins only when an entrepreneur

Varun Shoor, 31

founder, Kayako, a customer service software company

FOUNDED IN: 2001

REVENUE: Privately held, declined to share

PROFITABLE: Yes, since inception

HEADCOUNT: 150 across four countries

CONSUMERS: 30,000 customers

BOOTSTRAPPED FOR: 14 years

"We will likely be raising a massive round in 2016. We need the fuel to fund our next phase"

Raj Sheth, 34

cofounder, Recruiterbox, a recruiting software company

"If the very reason you started the company gets forgotten or diluted with every funding round, it feels heavier to drag it to the finish line"

FOUNDED IN: 2011

REVENUE: $2.5 million

PROFITABLE: Yes, since 2014

HEADCOUNT: 40 across India and the US

CONSUMERS: 1,600 paying companies

BOOTSTRAPPED FOR: 5 years

wins. He points out that every clause that exists in a VC contract exists for a reason, especially to prevent a bad entrepreneur from running the business into the ground.

Though it's a sound business idea to stay bootstrapped and grow during the initial days, it is equally important to understand that, with VC funds, the company will eventually grow and will have multiple stake holders.

Varun Shoor is about to realise it after 14 years. Kayako, a customer service software company, was started in Jalandhar in November 2001 with zero investment. It neither had any angel investment nor did it borrow, says Shoor, the founder of Kayako. The domain was gifted by an online friend and the first copy of the product was sold to a customer from an internet chat room to fund the company, he says. Once the product got traction, Shoor decided to drop out of college and focus on Kayako.

"I didn't want to work for the 'man'," he says, explaining his move to stay bootstrapped for over a decade. "Other people's money is addictive. You end up working for the 'man' rather than pursuing your dream," he reckons. Getting funded too early also means that you end up with almost no room for mistakes as the investors expect the numbers to start kicking in pretty soon from the time of investment, he adds.

Kayako has a headcount of over 150, offices in four countries, over 30,000 customers, including the likes of NASA, Caltech, MTV, and Georgetown University. Shoor realises the flip side of staying bootstrapped for long: you do end up compromising on growth and the likelihood of ending up with what investors call a lifestyle business is high, he says. "We will likely be raising a massive round in 2016," he informs, adding that startups should remain bootstrapped at least during the formative years.

Why VC Funding Works

"It is a like rocket fuel. You can expand at a faster rate with better access to great resources"

Girish Mathrubootham, cofounder, Freshdesk, a customer support software firm

"Timing of raising VC money is very critical... funding has helped our brands scale faster and expand wider"

Anurag Jain, cofounder, GirnarSoft, which owns CarDekho.com

Abhishek Rungta, founder of Indus Net Technologies, believes that the early days are to learn the nuances of business, identify and refine the business model, get the right team and get the initial traction by achieving the right product-market fit.

"If you cannot bootstrap this phase, you may stand to lose out. And at times, it (funding) can be the kiss of death," says the 38-year-old entrepreneur who has stayed bootstrapped for over 18 years and intends to remain so.

Indus Net Technologies, a full-service digital company offering web, mobile technology solutions and digital marketing, was started in 1997 with a seed capital of ₹50. In 2014-15, the company posted revenues of ₹42 crore, had a headcount of over 600 across offices in Kolkata, Chennai, Delhi, Mumbai, Boise, London and Singapore and served consumers in over 40 countries.

Funding can help you speed up growth by giving up a part of your company, he says. "You have got to think hard whether it is worth it," maintains Rungta, who obviously doesn't see any merit of external funds as he is quite content with the pace at which the company has grown. Indus Net Technologies has been running at a operating profit margin of 32-34% over the last few years, he claims, adding that he would be investing heavily in growth, and would still manage to maintain a 30% margin.

Clearly, bootstrapping has its benefits, as does funding. The trick is to build a business with cash accruals for as long as possible, and then spot the right moment to bring on board the VCs – when the operation needs to shift gears and think bigger than it ever has in the past. That may be the end of the bootstrapped stage, but not the bootstrapped mindset –which will stand the enterprise in good stead in its next growth phase. ■