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Indian start-ups get back to basics

As investors tighten belts and revalue assets, a harder look at discounts, cashbacks and like issues, with far more stress on generating cash and profit

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TREADING CAUTIOUSLY

- Investors pumped in \$5 bn in start-ups in 2015
- As global investors tighten belts, Indian start-ups are impacted
- Investors seek to look at business value than valuation of business
- Morgan Stanley writes down investment value in Flipkart by 27 per cent
- Now, investors are focusing on business fundamentals
- Start-ups shed jobs, cut down on high spends and focus on building sustainable business

India's start-ups have a new catchphrase — back to basics.

Traditionally, these businesses have focused on fundamentals — invest to grow while ensuring one doesn't burn money in chasing eyeballs that do not translate into revenue and profit.

The year 2015 was an aberration, with soaring valuations and nearly ₹36,000 crore or \$5 billion in venture capital and private equity money pumped into start-ups. Now, with a global reset by investors to tighten their belts and relook at how businesses are run, India has also been hit.

Several entities that followed the burn-cash model have been forced to shed jobs and improve their business models. Among the more known names, Zomato, Housing and TinyOwl have shed jobs. Flipkart, the largest e-commerce company and the most highly valued start-up, saw investor Morgan Stanley mark down the value of its (minority) stake by 27 per cent.

While factors such as growing competition and not meeting the growth targets could have influenced this, the message for the rest of the start-up system was clear — pull up your socks.

"One thing which certainly happened was that the valuations of B2C (business to consumer) companies weren't justified. What you're seeing is more in terms of right-sizing or to be fairly valued," said Sanjay Nath, managing partner at Blume Ventures. "I wouldn't use the term 'bubble', as that would signify India's fundamentals are not strong. That's definitely not the case."

START-UP STREET

The fundamentals of India as a market are very strong, he adds. There's a huge growth in smartphone sales, the uptake of third-generation (3G) technology data connectivity is growing and 4G services are coming in. Growth in tier-II and tier-III cities is very high, and as these are highly underpenetrated, the opportunities are immense.

"Recession is when good companies are built. I'm not saying there's one, so these are good times," says Shashank N D, co-founder and chief executive officer of Practo, a health care technology entity.

To grow fast and outdo the competition, several start-ups in the B2C space, especially the segments of foodtech and hyperlocal, began to offer discounts and cash-backs, despite making a loss on each such transaction. This unsustainable model of business is on the way out. Investors now are pressurising companies in their portfolio to focus on operational efficiency, improve productivity, keep costs low and move to profitability.