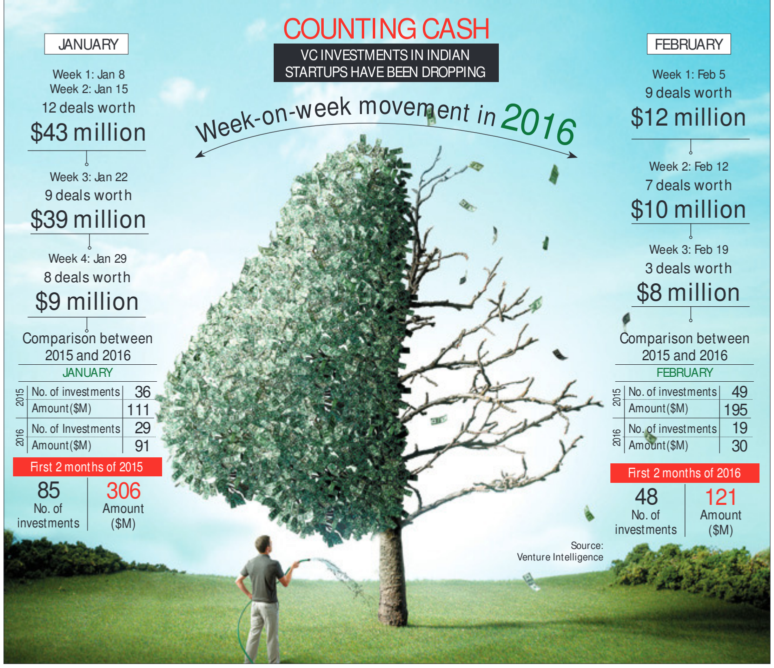
STARTUPS BRACE FOR DRY SEASON

Early-stage startups are continuing to garner funds, despite venture capitalists treading with caution, but growth-stage players are finding it difficult to get the kind of valuations they want. Morgan Stanley's move to cut the value of its Flipkart holding by over a quarter is a sign of things to come

Ranjani.Ayyar@timesgroup.com

© Corbis



Across the country, warnings are being sounded about the coming summer likely to be the hottest one yet. But the ones already feeling the heat are entrepreneurs looking to raise millions of dollars to fund their big ideas.

If 2015 was a record year for startups receiving funding, early signs in 2016 point towards a parched year ahead. In the first two months of 2015, 85 deals worth $306 million were closed; the same period in 2016 has witnessed only 48 deals at $121 million. While some analysts describe it as a correction following a spell of wild investing, others say it's time to brace for the drought.

Going by the data, early-stage startups are continuing to garner funds, but those that have already raised significant funds are finding it difficult to raise more at higher valuations. "Early-stage startups with niche models will continue to hold investors' interest. Besides, the funding requirements at that stage are lower as the concept is not proven," says Sanjeev Krishan, a partner at PricewaterhouseCoopers (PwC).

At the other end are large players, particularly in e-commerce, who are well funded, and where the story is different. A mutual fund managed by Morgan Stanley has just cut the value of its Flipkart holding by over a quarter — suggesting that, as far as Morgan Stanley is concerned, Flipkart is now valued at about $11 billion, down from $15.2 billion in its last round.

"After multiple rounds of funding and a lot of 'promise investing', investors are looking for actual performance," says Krishan. He points out that in many cases, the same investor or investor groups have put money into multiple platforms in the same segment, and they see benefits in consolidating rather than burning cash.

PERFORMANCE COUNTS

"Many companies were funded purely with an intention of using capital as a weapon to destroy competition. They will die or find it difficult to raise capital unless they are ready for a massive down round," says Mohan Kumar, executive director, Norwest Venture Partners.

Domestic and international factors have played a role in the squeeze in private equity and venture capital funding in India. The wobbling Chinese economy has cast a cloud over global markets. In the US, tech stocks have taken a beating and investors, such as Bill Gurley of VC firm Benchmark, which invested in Uber and DropBox, have told unicorns to be prepared for leaner times. Back home, volatility in the stock markets and a line of startup failures have added to the gloom. Many food-tech and hyper-local firms that took off with much fanfare and A-list backers are struggling to raise funding past the Series A round.

Food delivery startups, which are capital intensive, have been the worst hit. In October 2015, Bengaluru-based meal delivery startup Dazo — backed by Google India chief Rajan Anandan, Amazon's country manager Amit Agarwal, and others — shut down within a year of its launch after it ran short of capital.

Rocket Internet-backed Foodpanda had raised over $300 million since its launch in March 2012, but by 2015, it was beleaguered with reports of fraud. After a churn in the senior management, 300 people were fired. Its competitors Zomato and TinyOwl together fired more than 500 people in 2015 and have been scaling down. Online restaurant SpoonJoy, which was backed by Flipkart's Sachin Bansal and got $1 million from SAIF Partners, could not sustain operations and was eventually acquired by Grofers.

Startups in the e-commerce space have also found it difficult to hold their ground. Valyoo Tech, which operated a suite of premium e-commerce sites — Bagskart, Jewelkart, Watchkart and Lenskart — decided to focus on its best performing asset, Lenskart, and shutter the rest.

Prof Thillai Rajan, department of management studies, IIT Madras, believes e-commerce companies that got sky-high valuations in the second or third round of funding and could not deliver are in trouble. "For such startups, the economies of scale are not working out," Rajan says.

PICKY INVESTORS?

As more people choose the entrepreneurial path and reach out for funds, are investors becoming picky? Not really, says Sanjay Swamy, managing partner, Prime Venture Partners, which invests in very early and early-stage startups. "We look for great entrepreneurs working on huge problems. To that end, nothing has changed for us — the quality of entrepreneurs and opportunities continue to be on the rise," he says.

Karthik Reddy, managing partner of Blume Ventures, adds that the fundamentals of team, market opportunities and innovation are always the same.

Some investors feel, if it comes, the chill will be welcome as it will separate the men from the boys and help the right ideas shine through. Norwest's Kumar says: "Capital as a barrier is giving way to companies that have good execution, great product and path to profitability. Such companies will get funded and need not worry. This trend is actually very good for entrepreneurs."

Rajan believes very early and early-stage startups need not worry. "The angel network which was absent four to five years ago is strengthening now. Several new investment avenues and platforms are opening up for entrepreneurs who need help converting their ideas into businesses," he says.

Industry veterans like Nandan Nilekani, N R Narayana Murthy, Ratan Tata and T V Mohandas Pai are putting money into the startup ecosystem. Murthy's Catamaran Ventures has backed several startups, including online insurance platform Coverfox and payment solutions startup Innoviti. His fellow Infosys founders Kris Gopalakrishnan and S D Shibulal have set up an incubator, Axilor Ventures, in Bengaluru.

GAME GOES LOCAL

Tata and Pai have been on an investment spree. In two years, Tata has invested in 24 startups, while Pai has pumped money into 34 startups. Reddy of Blume Ventures believes this is a trend to cheer. "Domestic home-grown capital sources are a sign of a long-term sustainable healthy ecosystem that can build exit outcomes of all sizes, not just limit all chases to unicorn hunting," he says.

PwC's Krishan, on the contrary, notes that HNI investments are quite small in value, and would not have a significant impact on the startup funding ecosystem. But Prime Venture's Swamy says the real value from such leaders is less the money itself and more their time, mentoring and guidance.

Despite treading with care, venture capitalists do have their eye on certain sectors. For Northwest Venture Partners, early-stage software, consumer, financial services/fintech and healthcare companies will be areas to watch. Prime Venture is bullish on financial services, healthcare, education, consumer/mobile Internet and internet-of-things (IoT). Blume will focus on consumer businesses, followed by deep technology, enterprise software and data analytics.

Krishan notes that the large amounts of funding that have gone into e-commerce, education tech and food tech have changed the way people shop, study and eat. "That buying itself is unlikely to slow, unless there is a general slowdown in the economy," says Krishan.

After a frenetic period of backing ideas and enthusiasm, VC investment might become subdued. But money will still be available for good teams and good ideas.

NEWSMAKER OF THE WEEK

MANOJ GUPTA: THE CRAFT OF SUCCESS

Earlier this week, Craftsvilla, a Mumbai-based online marketplace for ethnic products, acquired food etailer PlacesofOrigin in an all equity deal. This was Craftsvilla's second acquisition in a month, after it bought out virtual logistics startup Sendd. The idea behind these acquisitions is to build Craftsvilla into a one-stop destination for all things ethnic, says its founder Manoj Gupta. Bengaluru-based PlacesofOrigin which retails sweets, savouries and other local specialities from across the country fits into Craftsvilla's vision of building the foods category into a huge one for the company, as it plans to go public in the next two years. Gupta, an IIT Bombay and IIM Ahmedabad alumnus, says there's going to be three to four more such acquisitions to bulk up Craftsvilla this year. "We are looking at strategic acquisitions in the ethnic space to ensure we realize our vision sooner. Sendd's acquisition helps us reach smaller towns and villages, which is the ethnic heartland of India. Ethnic foods is a $10 billion category for us. PlacesofOrigin has cracked issues related to ethnic foods supply chain, which is a major challenge in this space. We are excited about ethnic services and Ayurveda as our next frontier category," he explains. An ex-VC with Nexus Venture Partners, Gupta started Craftsvilla in 2011 along with his wife Monica as a platform to sell products across categories, including clothing, handicrafts, jewellery and art. Having raised $1.5 million in initial capital from Nexus and Lightspeed Venture Partners, Craftsvilla went through tough times as the business did not grow as expected for the next few years. After four years, the etailer racked up fresh funds last year from Sequoia Capital and Global Founders Capital, among others, across two new financing rounds totaling $54 million.

EUREKA MOMENTS

HE'S GOT THE DRIVE TO PUT PEOPLE ON THE ROAD

At his first job at Voyages India in 2010, Anshuman Mihir was given the task of arranging 250 taxis for 500 guests arriving at a conference in Hyderabad. It was the biggest challenge he had faced, Mihir says. "Booking flights and hotels was easy. The tough part was booking taxis. You couldn't predict the quality and we had to contact a lot of operators. There was a need to streamline the whole process," he says. And he did just that when he started My Taxi India, an inter-city taxi booking platform, with his friends Mohit Rajpal and Satyakam Rahul in 2013. With a fleet of 7,000 cars, My Taxi India sees 5,000 transactions a month. It has raised $600,000 in funding from Japanese taxi service Nihon Kotsu. Be it Hyderabad or Delhi, Mihir says My Taxi India allows users to book 20 cars at a go.

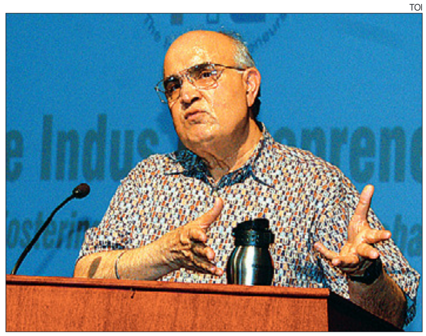
FINDING A RIDE: ANSHUMAN MIHIR

SHE HELPS KIDS FIND THEIR PASSION AND A CAREER

Shabnam Aggarwal was born and brought up in Silicon Valley, US, so it's not a surprise that she became an entrepreneur. But her place of origin wasn't the inspiration. Like any other Carnegie Mellon University graduate, she started working on Wall Street but says she hated the work. "I really lost my soul," she says. After quitting in 2008, she stumbled upon her true interest, education, while working with survivors of genocide in Cambodia. She collaborated with an NGO to teach disadvantaged kids. Her last stint was at Pearson in New Delhi, which opened her eyes to the problems in schools. "I talked to parents who wanted to help children find their passion." She launched Kleverkid, a marketplace for after-school activities, in 2013. Backed by Aarin Capital, Aggarwal has been in India for seven years and says, "Children in India need to feel entitled and I want to help with that."

Those on the lookout for capital should keep hustling

TOI



FOR SOUND BUSINESS: Veteran investor Kanwal Rekhi says growth-stage valuations have got out of hand and it's time the funding market corrected itself

San Francisco-based Indian-American entrepreneur Kanwal Rekhi is a veteran investor and has been putting money into startups for the last 30 years. The co-founder of The Indus Entrepreneurs, and managing partner at Inventus Capital Partners, tells Ranjani Ayyar that sanity is finally returning to the late-stage funding market.

Talk is that early-stage startups are managing to garner funds while the growth-stage players are finding it difficult to get valuations that suit entrepreneurs as well as venture capitalists. What is your view on this?

Early-stage venture capital is being provided by a motley bunch of about dozen or so funds that are doing their usual thing. Growth-stage company valuations have gotten out of hand. Companies were growing topline without any regards to the economics of the business, not a very sustainable model. Startups have to focus on becoming self-sustaining at some stage. Sooner the better! Capital ebbs and flows and cash-burning companies sometimes get caught in those ebb tides. In my view, sanity seems to be returning to the late-stage funding market.

Are PE/VC funds becoming picky about who they invest in? At the same time, family funds and high net-worth individuals seem to be on an investment spree. Is this a trend to cheer about?

The venture capital (VC) business is all about being choosy. Private equity (PE) funds are ill-suited to do VC investments. Some of the investments made in the past did not seem to make any sense to me. While flow of money from foreign funds seems to have slowed down, it is great to see the local high net-worth individuals stepping up. But, by and large, it is still dominated by the foreign funds.

While a temporary squeeze on funds is manageable, do you see this becoming a prolonged downturn? Will we see a shake-up in the ecosystem soon with only a handful startups coming through?

It is not likely to be prolonged squeeze. What we saw was an unsustainable and unnatural bulge! The ecosystem is maturing fast. I don't expect any shake-up. Startup activity will steadily build up, given the government's focus on it.

What is your outlook for the coming months for startups, both early stage and growth stage? Any advice for startups that are looking at 2016 as the year to raise big money?

Acche dins (good days) are coming. The golden age of entrepreneurship in India is ahead of us. For startups on the lookout for capital, keep hustling. Money is available for good teams and good ideas.

In the US, eviction is the next big biz idea

© Corbis

OUT OF HOME: Startups in the US handle all aspects of evictions

In November, Bay Management Group tried to evict Dinickyo Brown over $336 in unpaid rent. Brown, who pays $650 a month for a two-bedroom apartment in Baltimore, US, fought back, arguing the charges arose after she complained of mould. The landlord dropped the case, only to file a fresh eviction action — this time for $290.

The story, as Brown tells it, may become the new normal. In Baltimore, landlords initiated 150,000 eviction proceedings last year, according to one estimate. In 2014, landlords in the US started 3.4 million evictions. That kind of volume has created a fertile market for companies that offer to assist with such cases. Click Notices, a startup, is one of them, and it's the one that filed both actions against Brown.

Click Notices was founded in 2010 by Toyin Bello, a former software executive who became frustrated with collecting past-due rent on his investment properties. The company integrates its product with property management software that lets landlords set rules for when to begin evictions.

Last month, Click Notices closed a Series A round, led by Sopris Capital, to fuel a nationwide expansion. Chief executive officer Eric Sigler declined to say how much money the company raised or how much revenue it earns, though he did volunteer that "it's pretty easy to think that this can be a billion-dollar market." Click Notices says it plans to expand its operations from eight states into a national business by the end of next year.

Procedures (and costs) vary from place to place. Nationwide Eviction, which competes with Click Notices, charges $131 per eviction in Virginia, but as much as $825 in New York City. The average eviction, including court costs, maintenance fees, and lost rent, can cost landlords as much as $1,700.

David Merrill, director of business development at Nationwide Eviction, says his company helps landlords file "tens of thousands" of evictions a month. "We're not out to do more and more evictions," he says. Instead, he says, his company helps limit evictions by giving landlords data they can use to make leasing decisions.

Sigler contends that Click Notices helps renters by making the market more efficient. Renters that get a few months behind tend to stop paying rent entirely, he says. Click Notices encourages its clients to start eviction proceedings as early as possible because removing problem tenants opens up apartments for people who need affordable housing and are willing to pay on time. "How do you build more affordable housing? You could start by making the sector more efficient," says Sigler. BLOOMBERG