VENTURE CAPITAL IN START-UPS

VC investments fell 60% in 2016 to $2.76 billion (till December 5), down from $6.91 billion in 2015

Month	Number of deals 2015	Number of deals 2016	Amount invested ($ mn) 2015	Amount invested ($ mn) 2016
January	99	118	473.05	275.88
February	94	116	385.81	199.41
March	127	109	967.36	295.34
April	99	90	385.96	139.68
May	126	83	465.29	134.38
June	111	85	335.94	305.38
July	134	86	589.12	265.74
August	140	85	1114.68	340.90
September	129	65	314.23	310.12
October	115	78	934.13	216.01
November	142	72	486.23	255.02
December	137	12	468.08	24.27

Source: News Corp VCCedge

Start-up funding eases, but crunch is not over

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New Delhi, 7 December

Winter is here but the freeze in funding could be easing for start-ups. “Deal activity has picked up in the past few months. We are seeing consolidation in many sectors. The crunch has eased a bit,” says Anand Lunia, founding partner at venture capital firm India Quotient.

In the past few months, Sequoia Capital India has invested in several start-ups: Vymo ($5 million), Niki.ai (undisclosed), GoZefo ($6 million), FreshDesk ($55 million, with others), KredX ($6 million), Amogha Polymers ($3 million) and Druva ($51 million, with others).

Sequoia is not alone. Lightspeed Venture Capital invested $10 million in Udaan, a business-to-business (B2B) commerce portal, in one the large early-stage funding rounds this year. Car rental start-up Revv raised $9 million in equity and debt from Edelweiss and two lenders.

Investors had turned cautious in 2016, after the euphoria in 2015, when they raced to invest in Indian start-ups, which drove valuations. Start-up funding fell 60 per cent in 2016 to $2.76 billion (till December 5), down from $6.91 billion in 2015, according to data from VCCEdge, data platform of News Corp VC Circle. Deal volumes fell 31 per cent in 2016.

“VCs used 2016 to manage costs, set priorities and valuations. It was important for investors to pause, focus on the basics, which sent a message to the founders that raising money is not going to be easy. They need to manage the burn, drift and cut losses,” says Rahul Khanna, managing partner at Trifecta Capital.

Although investors such as Sequoia seem more active than earlier (it made 18 deals in the second half of 2016 versus 11 in the first half) the crunch is very much there. Deal value fell to $255 million in November 2016 from $486 million in November 2015. “You may see the odd deals, but the crunch is not over. It will take a while to ease,” says Sasha Mirchandani, founder and managing director at early-stage VC firm Kae Capital.

“It is hard to say if the crunch has eased. Rounds are smaller and taking longer to close. The new normal is a single-digit pre-money valuation against double-digit valuations earlier. So, they are raising $3 million to $5 million in Series-A versus $6-7 million earlier,” says Khanna.

Bigger investors such as SoftBank, Tiger Global and DST Global, which led the euphoria in 2015, have not resumed investing, except follow-on deals.

“The metrics have changed. Investors are looking for past performance, scalability and entry barriers: intellectual property and unit economics,” says Abhishek Agarwal, co-founder and Chief Executive Officer, Credit Vidya.

“If you don’t have your unit economics in place, you can’t raise money any more. You won’t have one more Housing.com,” adds Agarwal. Investors say they are looking for unit economics like profitability per transaction or profitability per customer and start-ups have to show that customers can be profitable over time. “You can’t keep losing money,” says a VC.