Start-ups@10: A decade of disruption

Mint chronicles the rise of start-ups and looks at the entrepreneurs and investors who have driven the boom. The multi-part series will explore what's worked and what hasn't in the start-up world, and try to capture the disruption caused by them in different sectors and on everyday life and jobs

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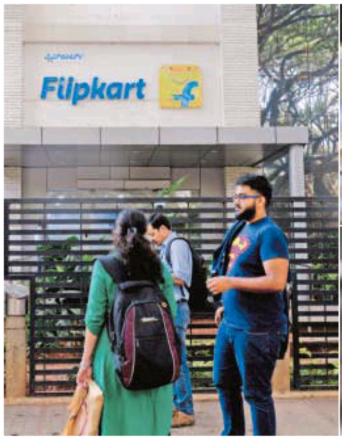
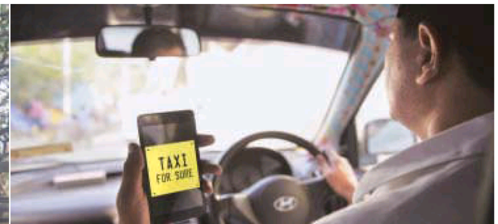
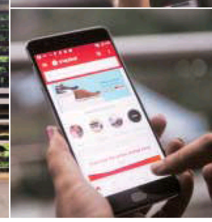
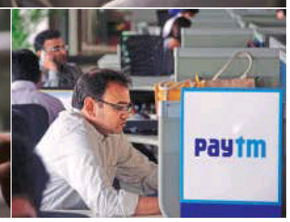
BENGALURU









As Internet start-ups enter their second decade, they have one message alike for demanding customers, disrupted traditional businesses and bewildered regulators: the fun has just begun.

It's a truism that most of us continually underestimate the impact of technology. For evidence, consider this. If anyone had told you in 2007 that within a decade, a start-up run by two geeks operating out of an apartment in Bengaluru will become India's second-largest retailer of consumer products; that a mobile recharge service will be seen as one of the biggest threats to banking giants such as State Bank of India and HDFC Bank Ltd; that you wouldn't need a television to watch TV shows—you'd have dismissed that person as a fool (not that anyone made such predictions!).

Yet, that's precisely what's happened. Start-ups such as Flipkart Ltd, Paytm (One97 Communications Ltd) and Ola (ANI Technologies Pvt. Ltd), as well as the giant American tech companies, Google Inc., Facebook Inc. and Amazon.com Inc., are transforming business and everyday life in India. And they are just getting started.

10 YEARS OF START-UPS

In this series, *Mint* chronicles the rise of start-ups and looks at the entrepreneurs and investors who have driven the start-up boom. The series will explore what's worked in the start-up world and what hasn't. We will also try to capture the disruption caused by start-ups in retail, finance, healthcare, education and other businesses; their impact on everyday life and jobs; and their place in the broader corporate world.

Until recently, the middle-class dream was defined by a stable and well-paying job, preferably at a multinational company. While that hasn't changed, the success of the likes of Flipkart and Paytm is slowly helping make entrepreneurship and start-up jobs acceptable, even desirable choices, for college graduates.

Regulators and lawmakers continue to lag behind in understanding the shape-shifting businesses and accompanying challenges of tech start-ups. In December 2014, when the Delhi government tried to ban Uber after one of its drivers raped a woman, the police didn't know the location of the company's office. India urgently needs laws on data privacy and better ones governing e-commerce, cab hailing and other Internet ventures. Antitrust regulation will become increasingly important as so-called network effects lead to monopolies and duopolies. The rise of new technologies such as artificial intelligence and blockchain will only make it tougher for regulators to keep up.

Since venture capital firms entered India in 2006, they have backed companies providing so-called value-added services on mobile phones, e-commerce start-ups, advertising tech companies and others. The current favourites seem to be software sellers and financial technology providers.

The evolution of investor preferences in the past decade has led to, and been changed by, the two or three cycles of boom and bust. The start-up funding mania of 2014 and 2015 that was based on the expectation that India's consumer market had endless potential was misguided. The market is much smaller than previously believed but it's big enough. Strategies need to be evolve beyond plying customers with discounts and ads; entrepreneurs have to find much smarter ways to tap the windfall-in-waiting from the hundreds of millions of Indian consumers in order to make profits. Investors in turn will need to be more daring, and provide encouragement and pushback to entrepreneurs when required.

While start-ups have been disrupting traditional businesses, doubts remain about their own health. Of the country's top 41 private consumer Internet companies, only one generated a profit in the fiscal year ended March 2016, a *Mint* analysis in February showed. In the past 18 months, companies have become more sensible and leaner. Investors have also prompted many to merge.

Still, most start-ups are struggling to find the right balance between cutting losses and expanding sales. It's not clear how and when the likes of Flipkart, Ola and Paytm will become profitable and deliver initial public offerings, particularly with Amazon, Uber and others threatening to overtake them.

The entrepreneurs who led the start-up boom over the past decade have changed, but the investors who backed them have largely kept their positions. The Bansals of Flipkart, the country's entrepreneurial icons, no longer run their company but Lee Fixel, the New York-based fund manager who backed Flipkart and tens of other start-ups, still remains the single most influential man in the start-up world. Hundreds of start-ups have shut shop in the past decade, but the churn among venture capital firms has been limited. Most venture capitalists (VCs) have failed to deliver satisfactory returns so far but their fund sizes and fees have only become bigger.

The truth about tech investing in India is that start-ups here won't deliver returns on the scale of the US and China. It will take much longer for start-ups to make money and for VCs to become insanely rich.

But the advance of technology is unquestionable. You will always have some app for buying phones and clothes, booking a cab, paying your bills, ordering food and messaging your friends. The ephemeral nature of the Internet business dictates that those who deliver these things will keep changing.

10 start-ups that lost out

BY SAYAN CHAKRABORTY & YUVRAJ MALIK

BENGALURU/NEW DELHI

SNAPDEAL* (2010)

Founders: **Kunal Bahl** and Rohit Bansal

Investors: SoftBank Group, Nexus Venture Partners, Kalaari Capital, Alibaba Group, Foxconn and others

Funds raised: **$2 billion**

Sale price: Potential sale to Flipkart seen at **$1 billion**

Launched as a deals discovery platform, Snapdeal shifted to an online marketplace in 2011. Year after year, it kept surprising the market by raising bigger rounds of capital and keeping pace with market leader Flipkart. In August 2015, Snapdeal CEO Kunal Bahl even predicted that the company will overtake Flipkart by the end of that fiscal year. A few months later, it was forced to cut spending to survive as funds dried up and it lost out to Flipkart and Amazon India. As the downward spiral continued, the company had to cut thousands of jobs, shut businesses and further reduce spending. It is now on the verge of being sold to Flipkart at a fire-sale price.

FASHIONARA (2012)

Founders: **Arun Sirdeshmukh** and Darpan Munjal

Investors: Lightspeed Venture Partners and Helion Venture Partners

Funds raised: **$15 million** across seed and Series A; undisclosed Series B

Sale price: Shut in May 2016

One of the many start-ups selling fashion, Fashionara tried to grow its business on aesthetics and superior customer service rather than discounts. Not enough shoppers were interested. In 2015, Fashionara pivoted to a flash-sales model to survive. Soon after, the firm wound up.

HOUSING.COM (2012)

Founders: **Rahul Yadav**, Ravish Naresh, Sanat Ghosh, Advitya Sharma and Abhishek Anand

Investors: SoftBank Group Corp., Helion Venture Partners and Qualcomm Ventures

Funds raised: **$160 million**

Sale price: Merged with PropTiger at a valuation of $70-75 million in January 2017

Started by Indian Institute of Technology Bombay graduates, Housing.com wanted to be the one-stop shop for property deals and discovery for potential buyers in India and abroad. Its CEO Rahul Yadav and the company ended up representing everything that was wrong with the start-up culture of 2014-15. In 2015, Yadav was fired for his "objectionable behaviour" towards SoftBank and other investors. SoftBank hired an outside CEO to get the company in shape for a sale. In January, another real estate site PropTiger bought Housing.

FREECHARGE* (2010)

Founders: **Kunal Shah** and Sandeep Tandon

Investors: Sequoia Capital, Sofina, ru-Net, Valiant Capital Partners and Tybourne Capital. Bought by Snapdeal in 2015.

Funds raised: **$120 million**.

Sale price: **$400 million**, sold to Snapdeal in April 2015

Digital payments platform Freecharge is the only start-up in this list that appears on both the success and failure lists. Launched as a mobile recharge service, the company became popular with customers because of its sleek product. It hit a high in early 2015 when it was bought by Snapdeal in the largest consumer Internet deal so far. Snapdeal snapped the start-ups for an estimated $400 million (and has infused roughly $65 million since). Freecharge was to fight Paytm, while parent Snapdeal had locked horns with Flipkart. Paytm simply outspent Freecharge, venturing into everything from utility bill payments and retail to movie, bus and air ticket sales, and now a payments bank. The company was starved of cash partly because of a boardroom battle at its parent Snapdeal. Freecharge is now in talks to sell at a price of just $45-70 million, a fraction of the $400 million paid by Snapdeal just two years ago.

ROCKET INTERNET (2011)

Founders: **Oliver Samwer**, Alexander Samwer and Marc Samwer

Investors: Early investors included Holtzbrinck Ventures, Tengelmann Ventures, Texas Atlantic Capital and Philippines Long Distance Telephone Co. (now PLDT) went public in October 2014.

Funds raised: Rocket Internet has ploughed at least **$300-400 million** into India, in the likes of Jabong, Foodpanda, FabFurnish, Asasa and Printvenue.

Sale price: Rocket sold Jabong to Flipkart for about **$70 million** and FabFurnish to Future Group for about **$10 million**.

Rocket Internet's first venture in India, online fashion store Asasa, folded up even before launch. This was in 2011. Since then, the company launched fashion e-commerce portal Jabong, furniture e-tailer FabFurnish, customized printing solutions provider Printvenue and food delivery platform Foodpanda. While Jabong and Foodpanda tasted reasonable success early on—Jabong running head-to-head with Myntra and Foodpanda leading the food delivery pack—its investments in India succumbed to competition and eventually bombed, burning a big hole in Rocket's pocket. Jabong, for instance, could be sold to Amazon for $700 million in 2015, but Rocket wanted more. It was eventually bought by Flipkart for a meagre $70 million. FabFurnish was sold to Future Group for a paltry $10 million after it lost out to rivals Urban Ladder and Pepperfry. Foodpanda lost its pole position to new entrants such as Zomato and Swiggy, and Printvenue is barely heard of. Industry observers blame Rocket's approach—copy (proven business models in the US and China), adapt, hire (founders), overtake, sell—for the fate of its India portfolio. Besides, Rocket lost much sheen to the funding boom in 2014 and 2015, when a number of competitors to Rocket's portfolio firms got heavily funded and outspent the company's India bets, eventually driving them out of business.

ASKME GROUP (2010)

Founder: Sanjiv Gupta

Investors: Astro Entertainment Networks Ltd

Funds raised: **$300 million**

Sale price: Shut in August 2016

AskMe Group, owned by GetIt Infoservices Pvt. Ltd, is mired in legal tangles and mudslinging between the promoters and investor Astro Entertainment Pvt. Ltd. The company that operated a host of properties such as an online search platform AskMe.com, e-commerce marketplace AskMeBazaar.com, grocery website AskMeGrocery.com and furniture e-tailer Mebelkart shut shop unceremoniously in August 2016 after laying off as many as 4,000 people. The AskMe management, led by former managing director and chief executive Sanjiv Gupta, has accused Astro of deserting the venture and non-payment. Astro's rebuttal stated that AskMe failed to turn profitable even after absorbing $300 million.

STAYZILLA (2006)

Founders: **Yogendra Vasupal**, Rupal Yogendra and Sanchit Singhi

Investors: Matrix Partners, Nexus Venture Partners and Sequoia Capital

Funds raised: **$34 million**

Sale price: Shut in February 2017

Stayzilla is a classic case of competition outspending a business, leading to eventual death. The company could not match the spending prowess of SoftBank-backed Oyo and MakeMyTrip Ltd, the latter being one of the few publicly traded home-grown consumer Internet start-ups. Stayzilla started in 2006 as an aggregator of budget hotels. With competition intensifying—deep-pocketed rivals such as MakeMyTrip and Ibibo identified budget hotels as the next growth driver after their ticketing business slowed. As SoftBank pumped money into Oyo, Stayzilla changed track to aggregate homestays. But the larger rivals had their eyes on homestays as well, gradually outspending Stayzilla, which could barely match their marketing spending and discounts. The company, with vendors contesting non-payment of dues, eventually shut shop in February 2017.

TINYOWL (2014)

Founder: Harshvardhan Mandad

Investors: Sequoia Capital, Nexus Venture Partners and Matrix Partners India

Funds raised: Nearly **$30 million**

Sale: Merged with Roadrunnr in May 2016

TinyOwl is one of the tens of food ordering start-ups that cropped up in 2014, based on a similar model previously seen in the US and China. Most of the Indian food delivery start-ups failed, but TinyOwl's was the most high-profile meltdown. Unlike the breakout food start-up Swiggy, which had its own delivery fleet, TinyOwl relied on restaurants and others to deliver orders. Its customer service was inferior and it eventually failed to raise fresh funds, prompting investors to merge it with Roadrunnr, with which it shared common backers. The combined entity Runnr is also cash-starved and is said to be in discussions for a potential takeover by Zomato, Mint reported on 15 May.

PEPPERTAP (2014)

Founders: Navneet Singh and Milind Sharma

Investors: Sequoia Capital, SAIF Partners, Snapdeal, ru-Net, JAFCO and Beenext

Funds raised: **$51 million**

Sale price: Shut in April 2016

PepperTap was one of the many hyperlocal grocery delivery start-ups that rode the funding bubble of 2014 and 2015. The company started out by taking orders from consumers through an app, collecting the orders from neighbourhood grocery stores and delivering them to consumers free of cost. The company earned a single-digit commission from the grocery stores that was far lower than the cost of delivery. The start-up thus lost money on every order. Rival Grofers then snagged SoftBank as an investor. That, and the lack of a business model and a slowdown in funding spelt the end for PepperTap.

IPROF (2012)

Founder: **Sanjay Purohit**

Investors: IDG Ventures, Norwest Venture Partners, Daily Mail Group and Kaplan Ventures

Funds raised: **$15 million**

Sale price: Shut in January 2017

One of the early education technology start-ups, iProf offered coaching and study material for competitive exams both through online and offline (files in pen drive, secure digital cards and tablets) mediums. iProf was hit by free resource material available over the Internet, schools' reluctance to try out its material, and, later on, the growing popularity of rival Byju's. The start-up eventually wound up in January.

*Sale still hasn't been completed

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10 start-ups that struck it rich

BY YUVRAJ MALIK & SAYAN CHAKRABORTY
NEW DELHI/BENGALURU

FLIPKART (2007)

Founders: **Sachin Bansal** and Binny Bansal

Investors: Tiger Global Management, Accel Partners, Naspers, DST Global, Microsoft, Tencent and eBay among others

Funds raised: More than **$4.5 billion**

Sale price: Partial exits to Accel Partners, Helion Venture Partners, IDG Ventures, founders and tens of employees

Flipkart, the coutry's most storied consumer Internet firm, today commands a valuation of $11.6 billion. In July 2015, when its valuation had peaked at $15 billion, a few investors sold some of their shares to other investors at handsome profits. Flipkart is preparing the ground for a partial exit to its biggest investor Tiger Global Management, which is likely to sell a part of its holding to Japanese investor SoftBank. Over the years, founders Sachin Bansal and Binny Bansal along with early employees have also sold some of their shares. The real challenge for Flipkart will be to deliver exits to all of its investors by going public at some point.

PAYTM (2010)

Founder: **Vijay Shekhar Sharma**

Investors: SoftBank, SAIF Partners, Alibaba, Ant Financial Services and MediaTek among others

Funds raised: About **$2.5 billion**

Sale price: Exits to Reliance Capital, SAIF Partners, SAP Ventures, Saama Capital

India's second most-valuable start-up at $7 billion, Paytm has worked wonders for early backers Reliance Capital, SAP Ventures, Saama Capital, SAIF Partners, and scores of employees. In March, the three sold their combined stake of about 4.3% to Alibaba Group Holdings Ltd and its arm Ant Financial, which valued Paytm at $5.7-5.9 billion. Reliance Capital took home about $41 million for its investment of about $2 million in 2010, while SAP Ventures and Saama recorded 50x returns. The company's latest funding, a $1.4 billion round from SoftBank, includes a $400 million partial exit for SAIF Partners, which first backed Paytm in 2008. A steady surge in valuation helped employees and founder Vijay Shekhar Sharma make fortunes to the tune of at least Rs600 crore.

MYNTRA (2007)

Founders: Mukesh Bansal, **Ashutosh Lawania**, Vineet Saxena and Raveen Sastry

Investors: IDG Ventures, Kalaari Capital, Accel Partners, Premji Invest and Tiger Global Management

Funds raised: About **$130 million**

Sale price: **$330 million**, sold to Flipkart in May 2014

Until Snapdeal bought FreeCharge a year later, Myntra's sale to Flipkart for $330 million was the largest acquisition in the domestic consumer Internet landscape. It is believed to have been orchestrated by common investors Accel Partners and Tiger Global Management, and paved the way for several investors such as Kalaari Capital and IDG Ventures to enter Flipkart. Needless to say, Myntra's founders including Mukesh Bansal and Ashutosh Lawania made windfall gains through the sale. Interestingly, unlike a few big consumer Internet mergers and acquisitions that did not augur well for the acquired companies—cases in point being TaxiForSure and Freecharge—Myntra has emerged as a key growth driver for Flipkart and is now the largest online fashion store in the country.

REDBUS (2006)

Founders: **Phanindra Sama**, Charan Padmaraju and Sudhakar Pasupunuri

Investors: Helion Venture Partners, Inventus Capital Partners and SeedFund

Funds raised: **$10 million**

Sale price: **$135 million**, sold to Ibibo Group in June 2013

redBus.in caught the eye of Chinese Internet leader Tencent and South Africa's media firm Naspers when its revolutionary online bus ticketing platform had gained a monopolistic position, selling about a million tickets a month. The company had cracked bus bookings, the dominant travel category in India—a country with the maximum percentage of feature phones. The bet was a no-brainer for Tencent and Naspers, which were looking to strengthen their local travel business Ibibo. In early 2013, Ibibo Group made the offer to buy the entire company, at a time when redBus was in the market looking to raise Series D funds. The founders grabbed the deal. While the terms of the takeover ramian undisclosed, founders Phanindra Sama and Charan Padmaraju (who held about 20% in redBus) and backers Helion, Inventus and SeedFund are believed to have reaped handsome returns.

SVG MEDIA (2006)

Founders: **Manish Vij** and Harish Bahl

Investors: Xplorer Capital

Funds raised: **$3.5 million**

Sale price: **$110 million**, sold to Dentsu Aegis Network in April 2017

Manish Vij, before SVG Media, had already successfully sold two start-ups: Quasar Media to WPP Digital in 2007 and electronics e-tailer Letsbuy to Flipkart in 2012. Vij, along with Harish Bahl, then went on build a media and marketing group. Between 2010 and 2015, SVG acquired majority stakes in Komli, DGM and SeventyNine, giving it a presence across online, video and affiliate marketing. In April, the founders sold the bundle to global marketing leader Dentsu Aegis for an estimated $110 million. Vij and Bahl, which owned 50-60% in the group, reaped hansome retuns.

CITRUS PAY (2011)

Founders: **Amrish Rau**, Jitendra Gupta and Satyen V. Kothari

Investors: Sequoia Capital, Ascent Capital, Beenos Asia and E-context Asia

Funds raised: **$32.5 million**

Sale price: **$130 million**, sold to PayU Global in all-cash deal in September 2016

Payments gateway and wallets firm Citrus Pay grew fast and grew well. In about two years, it had 100 employees processing four million transactions every month. At the same time, Naspers-backed PayU Payments Pvt. Ltd (launched in the same year as Citrus) was strengthening its hold. Naspers saw Citrus, with its 30 million customer-base, as a good opportunity for inorganic expansion Early investors Ascent Capital, Beenos and Sequoia are said to have received attractive exits, while co-founder Amrish Rau was made the CEO of the merged unit.

TAXIFORSURE (2011)

Founders: Aprameya Radhakrishna and Raghunandan G.

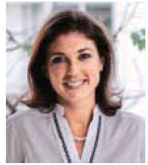
Investors: Accel Partners, Bessemer Venture Partners, Blume Ventures and Helion Venture Partners

Funds raised: **$26 million**

Sale price: **$200 million**, sold to Ola in March 2015

TaxiForSure is one of those start-ups which found itself mauled by deep-pocketed rivals, got starved of cash and sold itself to larger rival. The company, which raised a mere $26 million to fight off SoftBank-backed Ola and Uber, the world's most valuable start-up, was sold to Ola for $200 million, with founders Aprameya Rashakrishna and Raghunandan G. making about Rs120 crore each, according to media reports. TaxiForSure investors Accel Partners, Bessemer, Blume and Helion got shares in Ola. Ola, however, shut TaxiForSure in August last year.

ZIPDIAL (2010)



Founders: **Valerie Wagoner**, Amiya Pathak and Sanjay Swamy

Investors: Times Internet, Mumbai Angels, Jungle Ventures and 500 Startups

Funds raised: **Rs3.5 crore** in seed round; undisclosed Series A and B

Sale price: Sold to Twitter Inc. for **$35 million** in January 2015

The San Francisco, US-based social media giant was looking to start operations out of India and found this unique start-up offering "missed-call" marketing to brands and businesses. Indians have, traditionally, been miserly spenders when it comes to telecom services, and ZipDial's service—which allowed firms to reach out to potential customers who gave a missed call—was an instant success. In 2014, Twitter offered ZipDial the deal that would see co-founders Valerie Wagoner and Amiya Pathak join Twitter.

ITZCASH (2006)

Founders: Naveen Surya and Ashok Kumar Goyal

Investors: Matrix Partners, Intel Capital and Lightspeed Venture Partners

Funds raised: **$35.3 million**

Sale price: Ebix Inc. bought 80% in ItzCash for Rs800 crore (**$124 million**) in May 2017

ItzCash started with prepaid payment cards in 2006 and later diversified into a host of payment services such as cash management and payments gateway. When digital transactions surged towards the end of 2016 following demonitization, India's fintech sector attracted interest from a number of global investrors. Ebix, a software firm with presence in 40 nations, was also scouting for bets in local payments space. In 2017, it acquired 80% in ItzCash, which was processing Rs14,000 crore worth of transactions annually, in a deal that gave investors Matrix, Intel Capital and Lightspeed a complete exit.

FreeCharge* (2010)

*Sale still hasn't been completed

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