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Start-up launches slump to just 800 so far this year

The number of new start-ups has now dropped steeply for two years in a row

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The number of new internet and technology start-ups launched in the first nine months of this year has slumped to 800 from more than 6,000 in all of last year, as start-up closures, the struggles of large internet companies such as Snapdeal and a slowdown in the growth of the e-commerce market took their toll on entrepreneurial activity.

According to data from Tracxn, a start-up tracker, the number of new start-ups has now dropped steeply for two years in a row. *Mint* reported on 22 September that while some investors are again interested in backing new consumer internet start-ups, there is an acute shortage of such companies.

The slump in new start-up formation is a worrying trend for the nascent Indian start-up ecosystem. It is a legacy of the go-go years of 2014 and 2015, when investors rushed to fund internet start-ups in the belief that the Indian internet market would turn out to be a gold mine in a very short period of time.

But as early as 2016, the expansion of the e-commerce market nearly halted. Since then most e-commerce companies, which had relied on deep discounts and extensive advertising for growth, have been struggling to find the right business models for a market that hasn't lived up to their expectations.

Last year, the e-commerce market grew by less than 15% to $14-15 billion, according to RedSeer Management Consulting.

The fall in new start-ups is partly cyclical. Budding entrepreneurs who had flocked to start consumer internet companies in 2014 and 2015 have shifted to areas such as software as a service (SaaS), business-to-business e-commerce and financial technology over the past 18 months.

If the e-commerce and the consumer internet market pick up in a big way, entrepreneurs will again shift their efforts.

"The new promising spaces like SaaS and fin-tech in start-ups have higher filters for user adoption, revenue generation and funding compared to hyperlocal and delivery start-ups (that were in vogue in 2014 and 2015)," said Karthik Reddy, co-founder and managing partner, Blume Ventures, an early-stage investor. "That being said, because the filters are higher, you're also seeing a better quality of entrepreneurs and ideas in these spaces. We continue to see a very strong flow of pitches every week from entrepreneurs."

Apart from the slump in new start-up formation, start-up investments have been low for the second year running. While the amount of start-up funding so far this year has already exceeded last year's levels, the volume of deals is lower, according to data from Tracxn. Start-ups have raised roughly $8 billion in the first nine months of the year, compared with $4.6 billion in all of 2016, Tracxn data shows. The volume of deals, however, has dropped to 700 compared with more than 1,000 in 2016, according to Tracxn. What skews the deal data are two mega funding rounds: a $3 billion equity infusion into Flipkart Ltd by SoftBank Group Corp., Tencent Holdings Ltd and others, and the $1.4 billion raised by Paytm (One97 Communications Ltd) from SoftBank.

To be sure, the improvement in macro factors related to the internet may spur another wave of new consumer internet start-ups and investments within the next two or three years. Mobile internet penetration and speeds are increasing, more people are switching to digital payments and comfort and trust levels with the internet among Indians are rising exponentially.

But some investors said the worst is still not over for consumer internet and e-commerce companies.

"The investment outlook overall this year is probably even more muted than last year," said Pankaj Makkar, managing director, Bertelsmann India Investments, a firm that invests both in start-ups and venture capital firms.

"In e-commerce and consumer internet in general, companies will have to innovate and find new business models; otherwise many of them won't be able to find fresh capital. My view is that there will more shutdowns and consolidation over the next year."

Starting trouble

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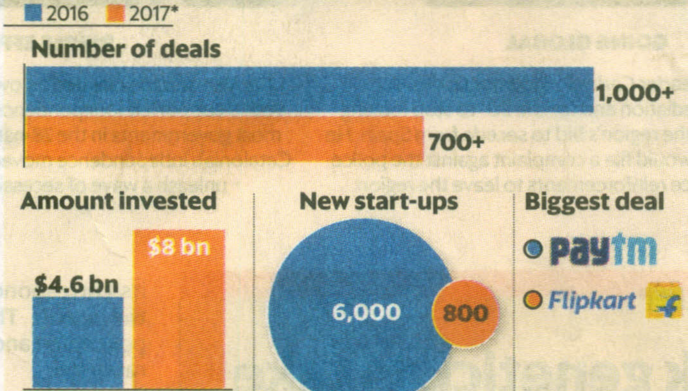

*First nine months of 2017

Source: Tracxn
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