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Page No.4

Year of consolidation for start-ups

In 2017, start-ups focused on profitable growth & building moats that gave them competitive advantage

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If 2016 was a wake-up call for start-ups when fundings dried up and investors turned wary, 2017 proved to be a return to the basics. The consolidation that began last year, gathered steam, leading to better market structures, lower competition, and stronger survivors.

"All verticals will have two players or at best three," says Suchi Mukherjee, founder & CEO, LimeRoad. The online fashion space had several players but many have shut down (ABOF) or have shrunk their business (Voonik). It was a similar script in food delivery, on-demand services or horizontal e-commerce—down to three from five players.

On-demand home services like calling a plumber or beauty services had several players like Housejoy, Urban Clap, Task Bobb, Zimber, Stayglad, Doormint, Good Service. Barring the first two, others have shut down or have been acqui-hired. In online real estate, PropTiger merged with Housing while Quikr bought HDFC Red and HDFC Realty.

"The big change is it is happening faster as the market is not deep enough. Only 50-100 million buying online and this is not a market of a billion. Eventually, they will buy, but not yet," says Mukherjee. "If you are a No.1/ No.2 player, this is the best time to be in business as the worst is behind us; they will find ways to open up the market." This year has been all about a return to basics for start-ups, a trend that started last year. It's no longer about raising large amounts of capital and burning money to buy growth. In 2017, start-ups focused on profitable growth and building moats, says Abhiraj Bahl, co-founder, UrbanClap. "Cash burn in companies has reduced. While profitability might still be a couple of years away, clear line of sight to profitability has emerged in many companies," Dhruv Agarwala, CEO, PropTiger.

In terms of fund-raising, it was not a bad year. Start-ups raised $3.15 billion in 2017 in venture capital from 336 deals, a notch lower than $3.44 billion raised in 2016 from 452 deals, as per an early estimate by VCCEdge, the data arm of VCCircle.com. This include large fund-raise by three start-ups Flipkart, Ola, and PayTm but doesn't include angel and seed stage deals, which infused another $251 million from 450 deals.

With payment, logistics, cheaper data in place, the next wave of investing will be for Bharat, say investors

Consolidation also drove M&As, when many acquired companies of scale to quickly access markets (EBIX acquiring Itzcash or AXIS Bank buying Freecharge) or reduce competitive pressure. The acquisition of Jabong by Flipkart/Myntra was seen complimentary and helped it cater to various segments of the market. "Myntra is seen as premium, while Jabong was more mass market and young. Myntra has performed well and emerged as a strong leader in apparel space," says the managing partner with a leading VC firm.

2017 saw a return to technology-based investing, which is likely to accelerate in 2018. 2017 saw an increased focus on core technologies like IOT, AI and enterprise software, which had fallen out of favour in 2014 and 2015 when the attention shifted to consumer internet.

"There was a question mark on how big a business you can build in enterprise software but firms like FreshDesk has been an inspiration for others," says Rahul Khanna, managing partner, Trifecta Capital. Start-ups in enterprise software are trying to be globally competitive by targeting markets in South-east Asia, West Asia or North America.

In fintech, Indian start-ups have a good chance of building cutting-edge solutions which are globally competitive, especially those in the interface of fintech and AI. That's because India did not have much of legacy infrastructure. "While lending is a large opportunity, there are many firms doing great work in compliance, operational efficiency or underwriting. Some of these firms are under the cover," says Khanna.

2017 was also an year when start-ups had to cope with economic slowdown, GST and the effects of demonetisation end-2016. Investors say agri-related businesses will see more action in future as companies like to oraganise the supply chain. "The payment, logistics, computing and connectivity (cheap data) is mostly in place. The next wave of investing will be for Bharat," says Khanna.

MOST ACTIVE VC FIRMS

By number of deals

	# of Deals	Invested ($ mn)
Sequoia Capital India Advisors	27	84.34
Accel India Management Co	23	30.86
IDG Ventures India Management Co	16	6.27
Kalaari Capital Advisors	13	8.19
Bessemer Venture Partners LP	11	14.32
Eight Roads Ventures	11	30

By amount invested ($ mn)

	Invested ($ mn)	# of Deals
Warburg Pincus LLC	100.62	1
Sequoia Capital India Advisors	84.34	27
Carlyle Investment Management LLC	80.7	1
Falcon Edge Capital LP	61.37	2
RNT Capital Advisers LLP	40.91	3

Source: VCC Edge

THE $100-MILLION CLUB

Company	DBA	Valuation ($ mn)
Flipkart	Flipkart	975,474
One 97 Communications	Paytm	479,452
Jasper Infotech	Snapdeal.com, Shopo.in	314,228
ANI Technologies	Olacabs	305,350
Hike	Hike	93,333
Just Dial	Justdial.com	81,776
Zomato Media	Zomato.com	63,372
Quikr India	Quikr.com, Quikrhomes.com	59,620
MakeMyTrip	Makemytrip.com	48,437
Vini Cosmetics	Fogg, 18+ Deodorants, Glam Up and White Tone Talc	45,197
Delhivery	Delhivery	37,827
Big Tree Entertainment	Bookmyshow.com	34,502
Think and Learn	Byju's	33,557

BIG M&As AMONG START-UPs

Date	Target company	Buyer	Total deal value ($ mn)	Stake (%)
Jul-17	Accelyst Solutions	Jasper Infotech	59.73	100
Apr-17	City Synapse Information	Gana Yantrika Enterprises	58	100
Nov-17	Capricoast Home Solutions	Accel India IV LP, Accel India Management Co., NuVentures, RB Investments Pte	13.86	100
Nov-17	Edvista Educational Services	Jupiter Capital	10	100

A SNAPSHOT OF PE ACTIVITY & DEALS

The year so far...

Month-wise PE activity

Sector-wise allocations

The software & services attracted the most investments, accounting for 22% of the total investments in terms of value with an aggregate of $5491.76 mn. Retailing was the second, attracting $4349.99 mn across 74 deals

Sectors	Percentage (%)
Software & services	22.00
Retailing	17.43
Real estate	12.75
Banks	11.77
Diversified financials	6.77
Telecom services	4.32
Utilities	4.19
Health care equipment	3.66
Capital goods	3.22
Others	14.09

Others include transportation, insurance, media, consumer services, energy, household & personal products, pharmaceuticals, biotechnology & life sciences, food, beverage & tobacco, commercial & professional services, consumer durables & apparel automobiles & components, etc

Key deals last week

There were 11 deals worth $20.98 mn and 2 private exits worth $60.60 mn in the past seven days ended December 27, 2017

Investor & target	Stake (%)	Value ($ mn)
Eight Roads Ventures, Atma Ram Family Office Specsmakers Opticians	NA	10.00
Omidyar Network India Advisors[1] Oslabs Technology India	NA	4.00
JLL India Real Estate Technology Ventures JBR Interio Technologies	NA	3.80
Wipro Ventures ImanisData Inc.	NA	2.05
Ratan Naval Tata, Rajan Jei Anandan Bombay Hemp Company	NA	0.98

[1] Includes JSW Venture Fund, Ventureast Proactive Fund II

Top five PE deals this year

The top five deals accounted for 36.69% of the total investments in terms of value. In the largest deal of this year, Tencent Holdings, eBay Inc., Microsoft Corporation, SoftBank Vision Fund LP, MIH Holdings investing $3.98 billion in Flipkart. This was followed by $1.73-billion investment of LIC, Bain Capital LLC, The Capital Group Companies Inc., American Funds Distributors, Inc. in Axis Bank

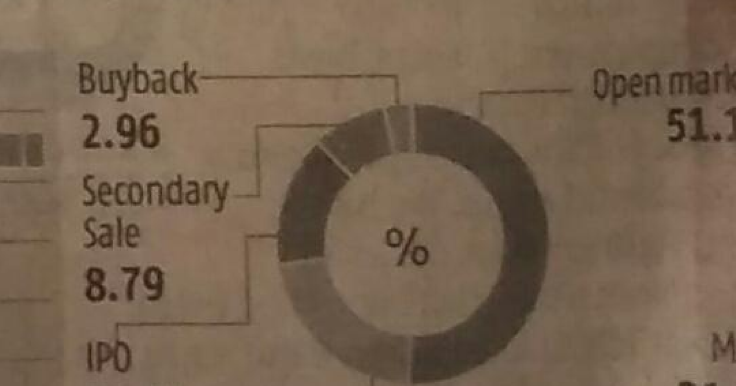
Investor	Investee	Stake (%)	Deal value ($mn)
Tencent Holdings, eBay[1]	Flipkart	NA	3,985
LIC of India, Bain Capital LLC[2]	Axis Bank	8.22	1,725.23
Softbank Group	One 97 Communications	20	1,400
Tencent Holdings, Softbank Group	ANI Technologies	NA	1,100
KKR India Advisors, CPP Investment Board	Bharti Infratel	10.3	946.4

[1] Microsoft Corporation, SoftBank Vision Fund LP, MIH Holdings [2] The Capital Group Companies, American Funds Distributors

Liquidity events/exits this year

The year has seen 257 exits. There were 111 open market exits worth $5.90 billion. KKR India Advisors, Sequoia Capital and The Family Shari sold their entire stake in Aricent for $2 billion, Qatar Foundation Endowment sold its 5% stake in Bharti Airtel for $1.49 billion

Exit type	Deal volume	Deal value ($mn)
Open market	111	5,899.00
M&A	82	2,477.12
Initial public offering	19	1,802.12
Secondary sale	32	1,013.97
Buyback	13	341.96



Date till December 27, 2017; Snapshot of PE activity & deal usually appears on the first Thursday of every month

Source: VCCEdge