STARTUP INC: READY TO REBOOT

2017 saw tough times for startups, separating the men from the boys and calling for nuanced strategy and a patient approach. **Supraja Srinivasan & J Vignesh** look ahead to see how 2018 will shape up

Job losses, shutdowns, distress acquisitions and more: 2017 has been witness to several downturns in India's entrepreneurial ecosystem which initiated separation of the wheat from the chaff, making the task of starting up a rather onerous one. And only those with the perseverance to see through the challenge till its very end are likely to last.

Take for instance the story of Dunzo, a hyperlocal concierge and delivery player that started in 2015, just when the funding climate cooled off. It was one of the few startups in its segment to survive and scale up to about 3,500 orders a day with just about $2 million in funding. However, when its founder Kabeer Biswas went out to raise capital in January, it was anything but easy.

The company wrote to multiple investors in India and across the world. But it was not easy. Venture capital investors based out of India had already lost a lot of capital, backing companies such as PepperTap and Opinio in the hyperlocal space, and while they were impressed by Dunzo's capital efficiency, the scars were still fresh. After over six months of the process, Dunzo had got a few acquisition offers, but it decided to reject them.

"When we said no to them we didn't have any other commitments for capital. We did not have a plan B... starting up is not an economic decision, you do it because a user experience should exist," said Biswas. But a few weeks later, an offer materialised from unexpected quarters. Google led a $12-million round in Dunzo, its first direct investment in an Indian startup.

Such stories of grit are emerging as the Indian startup ecosystem is completing the recovery from the excesses of 2014 and 2015, as they go back to the basics of building a business.

With investors and founders having equally matured over the past year, the bar for starting up and working in one has risen multifold.

STARTING UP IS NOT SEXY ANYMORE

"If I were to start up today, I will have to create a differentiator in my founding team itself, for it to become a successful business in the longer run. Hence, it is more difficult now for any entrepreneur to think of opportunities and ideas because the process has become more nuanced," said Aseem Khare, founder of services firm Taskbob which shut down in January this year.

That probably explains why Khare's current stint as the CEO of Adonis Electronics is not with a startup, but rather a company that he did not set up himself. Twice bitten, the financial risk of starting up in India's overcrowded ecosystem in the past few years has juiced out last of Khare's savings, a key factor to set up and run a business.

One can no longer start a business with a half-baked idea and loosely build it on the way, in the hope that investors will play ball. Core domain expertise, and not anyone with an IIT degree or consulting experience, cut teeth now to raise even early-stage funding rounds.

"Our first cheque size has now gone up to $5,00,000-$7,00,000 from $2,50,000 or $3,00,000 so obviously, we expect to see a more etched out product-market fit in the company when we invest," said Navin Honagudi, investment director at Kae Capital ruling out pre-revenue startups altogether.

Investors such as Honagudi are adopting the 'Cold to Monitor' strategy, where they shortlist potential deals, set a timeline of a few quarters for startups to perform, show results on monetisation and only then sign off the cheque.

This has led to entrepreneurs too, chasing metrics such as customers, clients, monetisation as against investors, a trend prevalent in 2016-17. But building a sustainable business where operational profitability rather than scale and market share have become key, is fraught with challenges.

The year has also seen several harsh realities as many were laid off between late 2016 and early 2017 as companies ran into trouble. While in companies such as Snapdeal, employees have seen their employee stock options (ESOPs) become close to worthless, others such as Flipkart and Paytm have seen handsome payouts. But these developments have certainly made potential employees more cautious about ESOPs.

"Nobody believes in equity (ESOPs) as a valuable form of pay any more. Getting good talent at realistic pay levels is almost impossible, especially when it comes to technology developers. Most of the good ones have moved back to the corporate world at equal pay if not pay cuts," said a former engineer at Snapdeal, currently trying to set up his SaaS-based logistics management startup. Laid off in February from Snapdeal, he is currently part of a four-member founding team, with three of them still juggling between their startup dream and a steady job in hand, because "starting up is not so sexy anymore".

Product-market fit and monetisation will dictate the direction of India's startup ecosystem

And numbers do speak for themselves. There was a 28.5% dip in the number of new technology startups launched in 2017 to 1,000 — the first such decrease in 5 years. 2016 saw at least 1,400 new technology startups set shop in India, according to a report by industry body Nasscom.

Investors are also seeing a change in flavour of the new startups which are coming to the market. Creating solutions for small and medium businesses (SMBs) — be it financing or making software for them — has emerged as a new area. So has the number of enterprise software and financial technology companies, while pure-play consumer internet or ecommerce ventures have taken a backseat.

"The relative proportion of B2B (much beyond just SaaS platforms/products) may increase relative to B2C which overwhelmingly dominated India's startup ecosystem both in the number of startups and capital raises," said Sanjay Nath, managing partner at Blume Ventures.

With product-market fit and monetisation set to dictate the direction of India's startup ecosystem, startups are no longer working with revenue goals over a six-month or one-year time frame, but rather a 3-4 year period that reflects a sustainable and successful business model.

For that, passion of a founder ranks as high as experience, if not more. "Serial entrepreneurs may not necessarily have the same drive to scale their business a second or third time, as they did the first time," said Venky Natarajan, a partner at Lok Capital.

The fad of failed and repeat entrepreneurs has dimmed as the reason for a failed business especially in conducive market conditions has become crucial to making the difference between the one who will make the cut and the one to be discarded.

TECHNOLOGY MATTERS, AS DOES MONETISATION

To enable scale, founders are beginning to look very closely at technology — an aspect that was taken for granted to a large extent until last year as companies focused on scaling fast with investor money. With deep technology models such as artificial intelligence, blockchain and machine learning all set to gain ground in 2018, this could be the single most important differentiator between a potential market leader and a me-too.

"The new thesis of venture investment is not about who can grab the market. It is about who has an intellectual property or product which can be meaningful. This is an IP-led product thesis," said Manish Singhal, founding partner, pi Ventures.

But it isn't just investor interest that has become sharply focused. With so much at stake, entrepreneurs themselves are looking at the skill set an investor can bring to the table when it comes to scaling a business and making pitches accordingly.

"Some investors will bring capital, but some will bring their networks and connections. Everybody has a different interest in a startup," said Rohit Kumar Pandey, cofounder of AI-based healthcare firm SigTuple that has raised capital from a varied mix of investors such as IDG Ventures, Accel Partners, pi Ventures, Axilor Ventures and angels. "Other entrepreneurs are experiencing (this wave of thinking). They are accordingly talking to different kinds of investors in the market."

For consumer-facing transactional businesses, a successful 2018 will be determined by key metrics such as a steady balance between the repeat rate of customers, margins that a business can make and the cost of acquiring a customer. But along with a rationalisation of salaries to focus on sustainability, one must also learn to control the urge to over-hire and avoid the domino effect of layoffs that the ecosystem witnessed in early 2017.

"One must be more cautious with the team size which a company builds with respect to the topline it has. One shouldn't over-staff when revenues are yet to be made or assets such as customers haven't yet been built," said Khare.

Mature founders, cautious investors and qualitative competition would mean 2018 could be the year of nuanced and sustainable businesses being built across different markets in India. The definition of innovation and disruption in India's startup ecosystem may well see a significant shift as B2B models, businesses that focus on better monetisation in tier-II, tier-III markets and offline consumer models gain more traction on the customer front, while attracting significant investor dollars..

Supraja.Srinivasan@timesgroup.com

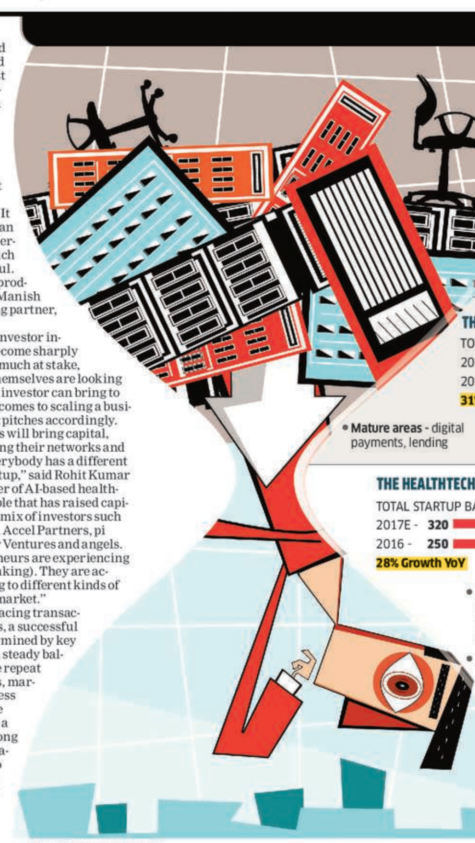


ILLUSTRATION: ANIRBAN BORA

THE DOWNTURN YEAR THAT WAS...

- No. of startups launched in 2017: 1,000
- No. of startups launched in 2016: 1,400

DIP: 28.5%

*SOURCE: NASSCOM DATA AS OF NOVEMBER, 2017

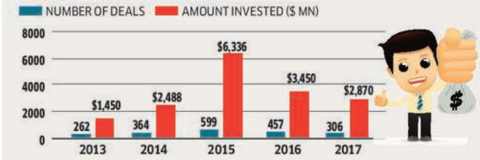
DEAD AND DUSTED

Top Deadpooled companies in 2017

- Stayzilla
- Taskbob
- Yumist
- Finomena
- RoomsTonite
- Zafraa
- Niche AI
- Oglas
- Kaaryah
- Cefy
- Eatonomist

Total funding in top 12 deadpooled companies: $46.5 million

THE JOURNEY THROUGH THE YEARS



THIS YEAR'S BIG DRAWS

Top Sectors based on Funding in India

Sector	# of Funding Rounds*	Total Amount Invested ($M)*
Online Retail	44	3,203.6
Transport Tech	19	1,931.1
Mobile Payments	10	1,497.5
Online Travel	27	418.9
Logistics Tech	31	399.7

SNAPSHOTS

- 5000 – 5200 TOTAL START-UP BASE (2017) **7% GROWTH YOY**

*GROWTH YOY IN OVERALL NUMBER

28% Health-tech | 31% Fintech | 13% eCommerce/ Aggregators

47% share in new startups incorporated

B2B emerging as a strong segment

Share of B2B in the overall startup base	
2017	**40%**
2016	**37%**

Share of B2B in new startups incorporated	
2017	**47%**
2016	**34%**

Share of B2B in overall funding	
H1 2017	**31%**
H1 2016	**27%**

Share of B2B in M&A	
H1 2017	**36%**
H1 2016	**10%**

THE RISE OF FINTECH STARTUPS

TOTAL STARTUP BASE	
2017E	**360**
2016	**275**

31% Growth YoY

TOTAL FUNDING (IN USD MN)	
H1 2017	**200**
H1 2016	**85**

135% Growth YoY

- **Mature areas** - digital payments, lending
- **Emerging areas** - wealth management, insurtech
- **33% fin-tech** funding towards advanced technologies such as AI and advanced analytics

THE HEALTHTECH STARTUPS STORY

TOTAL STARTUP BASE	
2017E	**320**
2016	**250**

28% Growth YoY

TOTAL FUNDING (IN USD MN)	
H1 2017	**160**
H1 2016	**70**

129% GROWTH YOY

- MATURE AREAS Health information management, aggregator/eCommerce
- EMERGING AREAS anomaly detection, disease monitoring, tele-health/ tele-medicine
- 31% HEALTH tech funding towards advanced technologies such as AI, IoT and advanced analytics
- Average funding for B2B startups in 2017 saw an increase of 5%, while B2C average funding saw a decline of 10%

*SOURCE: TRACXN, NEWS CORP VCCEDGE AND INDIAN START-UP ECOSYSTEM – TRAVERSING THE MATURITY CYCLE EDITION 2017 BY NASSCOM

GRAPHIC: YOGEESH

ROLLER COASTER 2017

It has been a tumultuous year for the Indian startup ecosystem. From major management shakeups at some of the country's top startups, to a buyout that was set to happen, until it didn't. 2017, which also saw the return of SoftBank to the country's shores, has been a game changer in many ways, and ET takes a look at the main events which shaped the last 12 months

JANUARY

SoftBank to invest in India through its mega, technology-focused $100 billion Vision Fund

Kalyan Krishnamurthy named as new CEO of Flipkart; Cofounder Binny Bansal named as Group CEO

FEBRUARY

Snapdeal begins laying off 30% of its workforce

SORRY WE'RE CLOSED

Stayzilla, which had raised about $34 million across four rounds of funding, and counted Matrix Partners India and Nexus Ventures Partners among its list of investors, halts operations

The central government announces a slew of initiatives for the country's startup ecosystem, including, extension of income tax holiday, automation in the approval of FDI, emphasis on skill training and extension of Minimum Alternate Tax (MAT)

MARCH

Stayzilla founder and CEO, Yogendra Vasupal, arrested by Chennai Police, on complaint filed by vendor accusing the former of fraud

Former Infosys CEO and Aadhaar architect Nandan Nilekani launches new venture capital firm

Around 50 employees of Paytm sold shares worth about Rs 100 crore to both internal and external buyers.

APRIL

Flipkart raises $1.4 billion in funding from Tencent, Ebay and Microsoft

SoftBank moots sale of Snapdeal to Flipkart; Asks for Board backing

MAY

MakeMyTrip announces $330 million funding from Naspers and China's Ctrip

Paytm raises $1.4 billion from SoftBank; Sees valuation jump to $8 billion

US-based Ebix acquires 80% stake in Mumbai-based fintech firm ItzCash for Rs 800 crore

Food delivery platform Swiggy raises $80 million in its Series E funding round led by Naspers along with participation from existing investors Accel India, SAIF Partners, Bessemer Venture Partners, Harmony Partners and Norwest Partners

JUNE

Sequoia Capital tops up its fourth fund with an additional $125 million

Ola raises $50 million from New York-based hedge fund Tekne Capital Management

Tejas Network launched its IPO to raise about Rs 770 crore; The issue was subscribed 1.9 times at close

JULY

The Goods and Services Tax, the largest indirect tax reform undertaken by the government, was launched and sent the business world into a streamline mode.

Snapdeal sells its digital payments platform to Axis Bank, the country's third-largest private sector lender, for Rs 390 crore.

Byju's acquires TutorVista and Edurite from UK-based Pearson

Byju's raises an undisclosed round of funding from Tencent Holdings Limited. The funding was pegged at around $40 million, according to sources.

AUGUST

Jasper Infotech terminates negotiations for the proposed sale of its online marketplace Snapdeal to Flipkart.

SoftBank pumps $2.5 billion into Flipkart, making it the biggest private investment in the country's consumer technology sector. The round gave a partial exit to New York based hedge fund Tiger Global.

NITI Aayog holds the 'Champions of Change' initiative. Reaches out to entrepreneurs to come up with innovative ideas across various sectors

SEPTEMBER

Zomato acquires hyperlocal logistics startup Runnr in an all-stock deal. This acquisition was a drive to strengthen its delivery service.

Oyo raises $250 million in a funding round led by SoftBank Vision Fund

Matrimony.com takes the IPO plunge

India's Internet companies get together to launch an industry body Indiatech.org, to represent the interests of local ventures.

OCTOBER

Ola raises $1.1 billion in funding from Tencent Holdings Limited and existing investor SoftBank

The RBI releases fresh guidelines on the operations for mobile wallets, bringing in tougher regulatory norms

The RBI identifies peer to peer lending startups under a separate category of non banking finance companies and frames rules of operation. Also opens window for applications under NBFC-P2P category

NOVEMBER

Amazon makes its single biggest infusion in its Indian marketplace arm yet, pumping in ₹2900 crore into Amazon Seller Services

The Global Entrepreneurship Summit (GES) is held in Hyderabad

Directorate General of Civil Aviation comes out with a draft drone policy

DECEMBER

Flipkart completes its ESOP repurchase programme engaging over 3000 current and former employees of Flipkart, Myntra, Jabong and PhonePe that led to a disbursement of over $100 million USD, which the company claims as the largest ESOP buyback by an unlisted private company so far.

Ola acquires Foodpanda India from its German parent Delivery Hero group in a stock deal. Ola plans to invest $200 million into Foodpanda India.