Early-stage start-ups will look to raise up to $800 mn in 2017: report

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Early-stage start-ups will seek to raise at least $800 million in 2017 as they stop blindly chasing growth and start looking for profitability, a report by venture debt firm InnoVen Capital said.

Venture capital funding in Indian start-ups last year plummeted by almost one-third from the heydays of 2015 and 2014, when venture capital firms queued up to invest at high valuations. According to a separate report by KPMG and CB Insights, a start-up intelligence firm, Indian start-ups raised $3.3 billion in 2016 across 859 deals, as against $8.2 billion across 890 deals in the previous year.

According to the survey by InnoVen Capital, the slowdown in funding was palpable with about 63% of the 175 respondents—founders of bootstrapped, angel-funded or series A and B start-ups—described the fund-raising experience last year as "unfavourable". About 7% of the start-ups raised a bridge round, 9% ended up raising a sub-optimal round from new investors while 15% of the start-ups failed to raise any money.

"The environment is clearly pointing out that investors are becoming cautious about where to invest. This year won't be too much different. Investors will invest in companies which have a path towards profitability or at least understand how to move towards profitability. Money is there and will continue to be there for companies which have scaled," said Ajay Hattangdi, group chief operating officer and chief executive officer (India) of InnoVen.

About 94% of the respondents said they will try to raise money in 2017.

"There is also money available for great ideas. Where there will be relatively less money is companies which have missed milestones or me-too models which will have difficulty to differentiate," he added.

Apart from demanding that start-ups slow expansion, slash costs and cut discounts, many venture capital firms are setting performance milestones; some investors are only releasing funds in instalments, *Mint* reported in January last year.

The slowdown in funding has also prompted many start-ups to shut shop or sell out to larger rivals. According to Tracxn, as many as 212 start-ups closed down in 2016, including grocery delivery start-up Peppertap and food delivery start-up Tinyowl, against 140 the previous year.