

Why Flipkart's fund-raise is critical for Indian startups

Investors To Loosen Purse Strings Only After Successful Round

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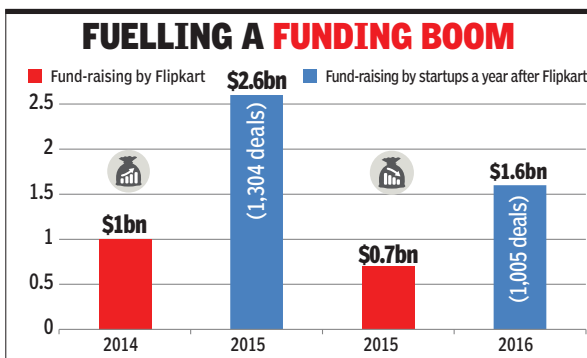
Mumbai: A young founder of a logistics startup met a bunch of investors over the past few months as he went out looking to raise funds. All he got as a response was this, "Let's wait for Flipkart to announce its funding round, post which we will look to deploy capital in India." Every fund manager, startup founder, or anyone who's a part of the entrepreneurial ecosystem in India has been hinging hopes on a successful financing round by the country's largest e-tailer, which has found it difficult to mop up new capital as it fights dogged competition from the e-commerce juggernaut Amazon.

The fate of many companies is intertwined with this much-awaited event as the Bengaluru-based company tries to win back heavyweight investors who've shied away from India of late. A lot of how this year will pan out is dependent on Flipkart's muscling in the cash, after a sobering 2016 when the fledgling startup economy's irrational exuberance was tamped down, say insiders. "Indian VCs say their limited partners, who invest in their funds, have asked them to be extremely conservative till there's something conclusive at the big e-commerce companies, more so at Flipkart," the founder cited earlier said, on the condition of anonymity.

While reports surfaced last year about Flipkart holding talks with Alibaba, Walmart, eBay and Microsoft, among others, the online retailer has yet to confirm any of these names officially. The company did not comment on its prospective financing round for this article.

E- Market Shares Grow Marginally

Flipkart's last fund-raise



Source: VCCEdge India Startup Funding

Flipkart will add 30% staff this year

Bengaluru: E-commerce major Flipkart says it will ramp up hiring this year, even as most other internet startups cut manpower costs amid a funding crunch. Flipkart, which claims it got on board 900-1,000 people last year, is looking at a 20-30% additional hiring in 2017, a senior executive of the company said. The company is primarily bulking up across three core areas of engineering, supply chain and new categories such as FMCG, groceries and furniture. "They are also picking up specific senior-level executives to push presence across these new categories and poaching from other companies," people privy to the development said. Flipkart's move comes at a time when the web retailer is in advanced talks with investors to raise fresh capital as it fights for the leadership position of the Indian e-commerce market. Last year in June, the e-tailer laid off about 700 people, attributing it to normal annual attrition. The company's headcount has been falling over the past year or so and is down to about 8,000. Although, the e-tailer hasn't confirmed these numbers.

was in July 2015, since then the e-commerce industry and the e-tailer's growth saturated, as detailed in an article in TOI last year. There's been some signs of a turnaround at the nine-year-old company recently adding to the buzz around its fund raise. Flipkart's market share has inched up slightly in the past six months from about 32% to 34%, including sales made by Myntra and Jabong, its fashion and lifestyle platforms, while Amazon's — on a standalone basis — has gone up to around 25% from 21% in the same period, according to industry sources. Flipkart, Myntra and Jabong are estimated to be clocking \$315 million of monthly gross sales against Amazon's \$220 mil-

lion, based on shipment numbers.

Flipkart's clawing back in the face of severe competition from Amazon has coincided with a management reshuffle, which saw Kalyan Krishnamurthy, an ex-Tiger Global MD, taking over the CEO ship.

2015 Funding Frenzy Led By Flipkart's \$1Bn Raise

It was in July 2014 when the Bengaluru-based online retailer, founded by Sachin and Binny Bansal (who are not related), amassed \$1 billion in a never-seen-before cash infusion in an Indian tech startup. The rub-off effect resulted in a windfall for young companies in 2015 as they collectively took home

\$2.6 billion of capital. But with Flipkart and other unicorns (privately held startups which boast a valuation of a billion dollars or more) not racking up huge sums last year, the funding saw a 40% slide, according to VCCEdge data.

"Overall, Flipkart raising more capital will signal to the market that there is a coalition coming together to stop Amazon from trying to win the market based on their financial prowess alone," says another founder who did not want to be named. "Since our ecosystem doesn't have local investors (our biggest conglomerates don't invest in Indian startups), founders have to look at international investors," he adds.

Sentiments Riding On Flipkart

It's also the Indian venture capital industry that's heavily dependent on the future of the online retailer as they await returns on their investments, which have been scant so far. "While fund-raising isn't a marker of long-term business success, a fund-raise by Flipkart — the flag-bearer of Indian e-commerce — will show that investors continue to believe in the strong underlying fundamentals of the company. Hopefully, this will put to rest speculation around the India venture opportunity and benefit the ecosystem as a whole," says Tarun Davda, MD at Matrix Partners, which has backed startups like Ola and Quikr.

The overarching message is there's way too much riding on the Flipkart bogey, financially for investors as well as sentimentally for Indian startups. With \$3.2 billion of investor money pumped in, it is unlikely Flipkart's future course won't affect the overall ecosystem.