As part of an ongoing series, 10 years of start-ups, *Mint* looks at what's worked, and what hasn't, across sectors.

Hits and misses in start-ups universe

10 YEARS OF START-UPS

Indian start-ups as a group have struggled to deliver returns to investors—public listings and big buyouts haven't materialized. It's too early to say for sure which bets have worked for venture capital firms. But after more than a decade of investments, some niches are clearly showing more promise than others. For instance, e-commerce (led by Flipkart) and digital payments (led by Paytm) look attractive on paper. In the next rung, software providers for businesses and hyperlocal start-ups are gradually proving to be attractive investments. *Mint* looks at various niches since 2007 that investors have favoured. In all, investors have poured more than $22 billion into these niches, according to data from start-up tracker Tracxn

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BLOOMBERG

What's worked

E-commerce

Funds raised by the sector: $11 billion

Valuations of top three start-ups: $14 billion

Top start-ups: Flipkart, Quikr, Shopclues

Failures: Top five most-funded start-ups to have shut down had raised $51.1 million in total. This figure, however, doesn't include the distress sales of companies such as Letsbuy and SherSingh.

No other sector in India's booming start-up ecosystem has captured the imagination of local and global investors the way e-commerce has. The sector alone has raised over $11 billion over the past decade—roughly 75% of the funds that have been raised by Indian start-ups during that period. Of the $11 billion, Flipkart Internet Pvt. Ltd has raised more than $4.5 billion. It is now India's most valuable Internet company at $11.6 billion. Despite the capital-intensive nature of the online retail business and the discount-driven business models of most Indian e-commerce start-ups, investors led by Tiger Global Management, Japan's SoftBank Group Corp. and Russia's DST Global have doubled down on what they believe is the world's last remaining major e-commerce market, with China now firmly in the grasp of Alibaba Group Holdings Ltd and Amazon.com Inc. being the undisputed leader in the US. In India, e-commerce is also a proxy for retail, where foreign investment is either not allowed at all, or highly regulated.
The future of Indian e-commerce start-ups will likely be defined by the outcome of the battle currently under way between Flipkart and Amazon.in, amid a broader slowdown in the Indian online retail market. Amazon.com Inc., the US-headquartered parent company, has so far committed $5 billion of investment to win the Indian market, while Flipkart recently raised $1.4 billion in fresh funds to take on Amazon. This battle will also settle the debate whether e-commerce is a winner-take-all market or a market that can sustain more than one large company. While this sector is the most valuable in India's start-up world, it may soon account for the biggest start-up failure—Snapdeal (Jasper Infotech Pvt. Ltd), which has raised nearly $2 billion, is likely to be sold to Flipkart for less than half that amount.

Digital payments

Funds raised by the sector: $3.1 billion (including debt)

Valuations: Paytm, the sector's bellwether, is now valued at $7 billion and is India's second-most valuable Internet company

Top start-ups: Paytm, MobiKwik

Failures: Of 282 start-ups in the digital payments ecosystem that have come up since 2007, about 20 have shut down

The rapid growth of digital payments is in stark contrast to the slow expansion of credit cards. Digital wallets became popular around 2010 primarily as instruments for recharging cellular phones and paying utility bills. Their adoption was swift. The increase in the number of online transactions helped (people worried about using credit cards online, but unwilling to take the cash-on-delivery route, used wallets). Last year, the Narendra Modi-government pulled old high-value notes (roughly 86% of currency by value) out of circulation, giving wallets a further boost. In the weeks

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following "demonetization", Paytm (One97 Communications Ltd) added at least five million users, while rival MobiKwik (One Mobikwik Systems Pvt. Ltd) saw a 40% jump in app downloads. Paytm, the sector's bellwether, has since grown to 210 million users. Not surprisingly, investors are pouring millions into the larger fintech space which includes wallets, and even payment gateways. The latter has seen major consolidation deals recently. Naspers-backed PayU India (PayU Payments Pvt. Ltd), which processes Rs40,000-crore worth of transactions annually, bought Citrus Payment Solutions Pvt. Ltd for $130 million; Itz Cash Card Ltd was acquired by US-based Ebix Inc. for $120 million; and old-guard CCAvenue (Avenues India Pvt. Ltd) was taken over by e-commerce firm Infibeam Incorporation Ltd. In April 2015, Snapdeal bought payments platform FreeCharge (Accelyst Solutions Pvt. Ltd) for more than $400 million.

Cab hailing

Funds raised by the sector: $2.21 billion

Valuations: Ola is valued at $3.5 billion

Failures: Of the 192 companies founded since 2007, 76 have shut shop

The domestic ride-hailing segment has been reduced to a duel between the world's most valuable start-up, Uber Technologies Inc., and home-grown unicorn Ola (ANI Technologies Pvt. Ltd). A host of legacy businesses such as Meru Cabs (Meru Cab Co. Pvt. Ltd and V-link Automotive Services Pvt. Ltd) and Mega Cabs Pvt. Ltd have fallen by the wayside, failing to match the spending prowess of Ola and Uber that have splurged on incentivizing drivers and customers alike. In March 2015, Ola bought smaller rival TaxiForSure for $200 million. The game of one-upmanship between Ola and Uber is very similar to the rivalry between Amazon and Flipkart, with Amazon going all out to win India, having lost out to Alibaba in China. Uber, similarly, is leaving no stone unturned to race past Ola, having sold its China business to local incumbent Didi Chuxing, which, incidentally, is an investor in Ola. Uber's pace of progress—the company is almost neck and neck with Ola in terms of number of rides—has certainly taken a toll on the home-grown rival, as SoftBank-backed Ola had to settle for a down round during its latest fundraising, which valued the company at about $3.5 billion, as against a peak valuation of $5 billion in September 2015.

What's sort of worked

Healthcare

Funds raised by the sector: $1.1 billion

Valuations of top three start-ups: $900 million - $1 billion

Top start-ups: Practo, 1MG, Portea

Failures: Nearly 310 start-ups, of 2,678 founded since 2007, have shut shop

It has been a mixed bag for healthcare start-ups, with a handful making it big and many more wilting. In the current scenario, Practo (owned by Practo Technologies Pvt. Ltd), a doctor discovery platform that has branched out to everything from online consultation to medicine delivery, has the bragging rights of an overarching big brother. The company started out as a provider of practice management software to doctors, before launching consumer-facing operations in 2013. Till date, Practo has raised about $180 million, and was last valued at about $650 million. Each of the verticals Practo dwells in, however, has incumbents, be it Lybrate Inc. in doctor discovery and telemedicine or Netmeds Marketplace Ltd in the online pharmacy space. While most of these companies claim huge consumer traction, numbers speak otherwise. Practo, the most valuable home-grown healthcare start-up, for instance, clocked about Rs23 crore in operating revenues in fiscal year 2016, making some analysts question the viability of such businesses. A number of start-ups such as Portea Medical (Health Vista India Pvt. Ltd) and Medwell Ventures Pvt. Ltd have emerged in the home healthcare segment, an uncharted territory for Practo, raising upwards of $20 million each, but the jury is out on how successful they will become in the long run.

Software as a service (SAAS)

Funds raised by the sector: $1.75 billion

Valuations of top three start-ups: $1.5 billion (approx)

Top start-ups: Freshdesk, Capillary Technologies, Druva

Failures: Top five start-ups to have shut down had raised nearly $10 million

While the consumer Internet business has attracted billions of dollars of investments that have resulted in frothy valuations at India's leading unicorn start-ups, the software-as-a-service (SaaS) business in India represents the other extreme. Over the past five years, the sector has seen steady, if not rapid, growth and has witnessed the rise of ventures that could very well turn out to be valued at billion dollar-plus valuations, if they continue on their current path. Leading the way are ventures such as Freshdesk Inc., which over the past three-four years has caught the eye of almost every leading venture investor in the country, including Accel Partners, Sequoia Capital and Google Capital. And unlike online retail, investors are likely to receive additional bang for every buck invested in SaaS ventures, as enterprise software businesses typically operate with more sound "unit economics". Over the past decade, the sector has raised only a tenth of the overall funding raised by online retail ventures in India. On the flip side, investors typically have to wait much longer to witness a jump in the valuations of SaaS-based start-ups, given the typical slow burn with growth compared to consumer Internet ventures—take for example, ventures such as Capillary Technologies Pvt. Ltd and Druva Inc., which have been around nearly a decade.

Ad-tech

Funds raised by the sector: $734 million

Valuations: $800 million-$1 billion (InMobi)

Failures: Top three start-ups that shut down had raised nearly $700,000 in total

This is another sector on which the jury is out. InMobi Technologies Pvt. Ltd accounts for the lion's share of the total funds raised by domestic ad-tech start-ups. Like SaaS, this is a so-called global business. But unlike SaaS, ad tech suffers from a perception that the two behemoths, Facebook and Google, will eat up a majority of digital ad revenues, leaving little for the rest. The fortunes of InMobi, which recently turned in a profit, will go a long way to define the future of this sector. Other notable start-ups include PubMatic Inc., Vizury Interactive Solutions Pvt. Ltd and Vserv Digital Services Pvt. Ltd

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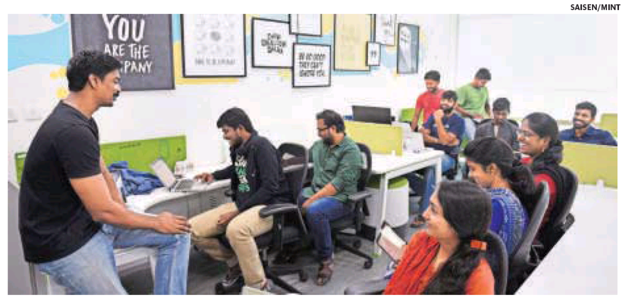

Gaming

Funds raised by the sector: $123.4 million

Valuations: No ready valuations are available, but some of the companies are mid-sized in terms of revenue. Nazara Technologies, a leading games publisher in India, clocked Rs220 crore in revenues in fiscal year 2016

Failures: About 262 companies were incorporated since 2007, of which 76 have shut down

Gaming studios and publishers have existed for decades, but the activity in the space has picked up only recently. Since 2015, about 11 start-ups have raised $100 million, according to Tracxn. This includes a mammoth $73.7 million round in online rummy portal ace2three.com (Head InfoTech India Pvt. Ltd) by Canada-based Clairvest Group, and Sequoia and Tiger Global's $15 million investment in Moonfrog Labs Pvt. Ltd.Buoyed by the rise in smartphones and sliding data rates, developers have turned to create games for Indian masses.Chhota Bheem, Virat Cricket Challenge and Indian Rummy are all popular, but the pressure is on the monetization front. According to Nazara Technologies Pvt. Ltd chief executive Manish Agarwal, the share of mobile games advertising in the total ad pie is only 1-2%. (GroupM estimated 2017 ad spending at Rs61,204 crore, bit.ly/2rZK9YI). This may ease as publishers try native advertising, in-app payments for rewards and subscription models to a growing mobile gamer base. A recent study by KPMG and Google estimated 310 million online gamers (estimated 120 million now) and a market size of $1 billion (from $290 million currently) by 2021.

Education

Funds raised by the sector: $509.33 million

Valuations: Byju's is valued at over $600 million

Failures: As many as 2,460 ventures in the edu-tech space incorporated since 2007; about 224 have shut down

The bust of EduComp Solutions Ltd, India's first true edu-tech start-up that went public in 2006, did enough to dampen the sentiment. Despite having signed up 6,550 schools (by 2011) for its solution, EduComp failed due to an asset-heavy model and schools' reluctance to pay for content. Post 2011, however, the sector rose from its own ashes. Start-ups like Byju's (Think & Learn Pvt Ltd), language learning portal CultureAlley (Intap Labs Pvt. Ltd) and Simplilearn Solutions Pvt. Ltd came up with emphasis on proprietary content as the key differentiator—and multiple revenue sources—which earned them loyal customers. For instance, since its launch in 2011, Byju's has grown to 400,000 paying users. Alternatively, online test preparation is another sector where start-ups are capturing early users. On the whole, bets by marquee investors Tiger Global Management, Sequoia Capital, Helion Venture Partners and Kalaari Capital (based also on robust growth projection of internet users), suggests a replenished appetite for the sector.

Travel

Funds raised by the sector: $1 billion

Valuations of top three start-ups: $2.42 billion

Top start-ups: MakeMyTrip, Oyo, Treebo

Failures: Of the 764 companies founded since 2007, about 207 have shut shop. One recent failure was Stayzilla that suspended operations after raising $34 million.

The investment in the online travel segment at $1 billion pales when compared with e-commerce ($9.4 billion) and ride hailing ($3.5 billion), but the segment boasts a rare public listing (MakeMytrip Ltd) by an Indian start-up and two of the biggest acquisitions among Indian start-ups (Ibibo Group acquiring RedBus (Pilani Soft Labs Pvt. Ltd) for $100 million in 2013 and MakeMyTrip acquiring Ibibo Group's India business for $720 million in October 2016). In fact, the segment has come a long way from air, train and bus ticket bookings to encompass hotels, tours and packages. In fact, with the ticketing business stagnating gradually, incumbents such as MakeMyTrip and GoIbibo, which continues to operate as a separate entity, are planning to plough in substantial capital to grow the hotels business. This is not an easy task, given that accommodation start-ups such as Oyo (Oravel Stays Pvt. Ltd) and Treebo (Ruptub Solutions Pvt. Ltd) among others are putting up a brave fight. Oyo in particular, backed by SoftBank, has already raised $125 million and is on course to raising $250 million more, strengthening its war chest to fight MakeMyTrip and Ibibo. Yatra Online Inc. and Cleartrip Pvt. Ltd are some of the incumbents that compete with MakeMyTrip and GoIbibo in ticketing and hotels.

Speciality fashion

Funds raised by the sector: $1.13 billion

Valuations of top three start-ups: $500-550 million

Top start-ups: Lenskart, Zivame, Limeroad

Failures: Of the 1,415 start-ups that have been founded since 2007, 280 have shut shop

At one point, fashion was hailed as the next big growth driver for e-commerce companies, after electronics. Needless to say, there was a deluge of start-ups founded and funded in this segment, but none has been able to match Flipkart-owned Myntra (Myntra Designs Pvt. Ltd). In fact, fashion e-tail has

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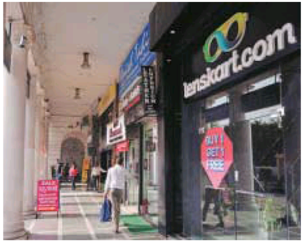

seen one of the most successful exits—Myntra—and one of the worst failures, Jabong (Xerion Retail Pvt. Ltd). Currently, Flipkart and its subsidiaries Myntra and Jabong together account for more than 70% of the online fashion sales, while Amazon.in is striving to expand its market share in the segment. While a whole lot of speciality fashion e-tailers have emerged in the past few years—some such as the Sequoia Capital-backed Voonik Technologies Pvt. Ltd and Tiger Global Management-backed Limeroad (AM Marketplaces Pvt. Ltd) have scaled up significantly—the jury is still out on whether these start-ups will succeed in weaning customers from Flipkart and its subsidiaries. Interestingly, a number of start-ups have emerged in the fashion resale and rental segments as well; some such as Klozee (Humble Egg Technologies Pvt. Ltd) have shut shop and a few such as Flyrobe (Omapal Technologies Pvt. Ltd) have raised funds. Flyrobe, for instance, has raised money from Sequoia Capital and was listed by market researcher Quid among the world's 50 most promising start-ups one had never heard of.

Hyperlocal (home services+food tech+delivery)

Funds raised by the sector: $1.4 billion

Valuations of top three start-ups: $1.7 billion

Top start-ups: Zomato, Swiggy, Grofers

Failures: Of the 2,420 start-ups founded since 2007, 780 have shut shop

In 2014, hyperlocal start-ups were the new kids on the block riding the funding wave—474 start-ups in the space were founded in 2014 and 1,143 the year after. But they soon slipped into oblivion. The start-ups promised to deliver anything from grocery to food by deploying a large army of motorcycle riders, preferably under an hour. But the single-digit commissions were certainly not enough to cover the cost of delivery, leave alone create a path to profitability. As the big bucks from the likes of Sequoia Capital and SoftBank stopped flowing in, a number of incumbents in the food and grocery delivery segments started falling by the wayside. Grocery delivery start-ups such as PepperTap (Nuvo Logistics Pvt. Ltd) and Localbanya (Links Retail India Pvt. Ltd) closed down, as did food delivery start-ups such as Spoonjoy (Emvito Technologies Pvt. Ltd), TinyOwl Technology Pvt. Ltd, Dazo (TapCibo Online Solutions Pvt. Ltd) and Eatlo Tech Solutions Pvt. Ltd. There are a few exceptions such as Grofers India Pvt. Ltd in grocery delivery and Swiggy (Bundl Technologies Pvt. Ltd) in food delivery that have weathered the storm. While Swiggy raised $80 million from Naspers in a new funding round, Grofers has moved away from the hyperlocal model, moving to an inventory-led one. Another group of hyperlocal start-ups set out to capture home services, sending home personnel to handle anything from air conditioner repairs to pest control. The segment has seen early consolidation, with UrbanClap Technologies Pvt. Ltd and Housejoy (Sarvaloka Services On Call Pvt. Ltd)competing for market share. The business-to-business delivery start-ups that essentially provided last-mile logistics services to small merchants or restaurants among others, have also perished. While Opinio (Moonshots Internet Pvt. Ltd) shut shop, rival Runnr (Carthero Technologies Pvt. Ltd) may be acquired by Zomato Media Pvt. Ltd (bit.ly/2pAQVn9).

What bombed

Dating apps

Failures: About eight matchmaking apps have shut from among 23 ventures that have been set up since 2007

India's dating app market didn't pick up with the rise in smartphone users. Since apps can be downloaded cross-border, popular dating platforms such as Tinder(Tinder Inc.), OkCupid (Humor Rainbow Inc.) and Badoo (Badoo Trading Ltd), with their superior algorithms and interface, were early to capture users in India. Tinder also opened a Delhi office last year. Local companies have tried to fight back but with little success. February data from KalaGato Pte, a market intelligence firm, showed that Tinder was installed by 49% of the total smartphone population, as against 3% that use TrulyMadly (TrulyMadly MatchMakers Pvt. Ltd) and 4% that use Woo (DoubleYou Technologies Pvt. Ltd). Low penetration, naturally, has made companies look elsewhere. Woo acquired US-based DUS (Dus Inc.), an app focused towards south Asian diaspora, while Frivil (Thrill Pvt. Ltd), started in 2015, was sold to Shaadi.com (People Interactive India Pvt Ltd). Venture capital firms too have stayed at the bay: from 189 Indian dating apps that exist, only 11 have raised $19 million till date, according to Tracxn.

Specialty electronics retail

Funds raised by the sector: $38.6 million

Valuations of top two start-ups: $125 million

Failures: Of the 147 start-ups founded since 2007, 34 have shut shop

It is being argued that electronics e-tailers perished at the hands of marketplaces such as Flipkart and Snapdeal. To be sure, Flipkart started as an online seller of books while Snapdeal was a deals site, before pivoting to e-commerce. Both chose electronics as their primary growth driver. Armed with a lot of capital to spend on customer acquisition through discounts and offers, the online marketplaces gradually gobbled up the target audience for speciality electronics e-tailers.

Social networking

Funds raised by the sector: $168 million

Failures: Frankly, Chance and KaraokeGarage

To say that India-based social networking platforms haven't really taken off would be an understatement—such has been the plight of social networking ventures that the space hasn't witnessed any meaningful funding from any investor of note in the past couple of years. Social media start-ups such as Frankly (run by Pochi Media Pvt. Ltd), Chance Inc. and KaraokeGarage (run by Rhythm Labs Pvt. Ltd) have largely ended up as roadkill, after failing to generate any sort of meaningful traction from urban consumers. The future of this sector does not look very bright in a country where nearly a billion people are still largely active on platforms such as Facebook, Twitter and Instagram (owned by Facebook), and are unlikely to migrate anywhere else in the near future, according to experts tracking the space.

Value-added services (VAS)

Funds raised by the sector: $129 million

Failures: MXL Telecom is the only start-up in the space that shut down

Like social networking platforms, the telecom value-added services (VAS) sector has bombed spectacularly—not a single start-up of note has emerged in this sector. In a country that witnessed an extraordinary telecom boom during the 2000s with the rise of companies such as Bharti Airtel Ltd, the plight of VAS-based ventures comes as a big surprise. The reason why VAS hasn't really taken off is simple—unlike other countries such as the US where there are equitable revenue-sharing agreements with VAS-content providers, in India, the balance of power well and truly rests with the large telecom operators. VAS revenues in India are skewed heavily towards leading telecom firms, leaving most ventures in the VAS space with no option but to look at international markets.

Group buying sites

Failures: As many as 514 ventures tried group buying model one way or the other, but at least 221 shut shop

Group buying sites offer deals and discounts from third-party merchants and earn commissions when users make a purchase using their discount coupons. Over two-dozen sites, with names that have "coupon" or "deal", have tried this model with little success. Snapdeal launched as a deals platform in 2010—along with MyDala (Kinobeo Software Pvt. Ltd), Deals and You (Wannamo Marketing Pvt. Ltd), Koovs (Marble E-Retail Pvt. Ltd) and Grabbon (Landmark IT Solutions Pvt. Ltd)—to serve as an extension to the online commerce business. In a few years, participants realized the market hadn't warmed up like anticipated because of a combination of factors: overselling by the sites, lack of personalization of the offers, and a general lack of distrust in digital payments at the time. By 2013-14, many had pivoted their business models (Snapdeal, Mydala, Koovs), while some others shut shop Dealsmagic, MasthiDeals.com and Taggle.

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