

## Starting troubles

Falling investment in early stages of start-ups is a worry

Overall fund-raising by start-ups in India has registered a quantum jump. According to the latest report by information technology industry body Nasscom, the total start-up ecosystem funding rose 167 per cent to touch \$6.4 billion in the first half of 2017 against \$2.4 billion in the same period last year. In any case, a start-up universe of more than 5,000 companies is no mean achievement. Fin-tech and health-tech start-ups have shown healthy growth at 31 per cent and 28 per cent, respectively, this year. E-commerce firms and aggregators – where India shines in terms of the number of unicorns, typically technology start-ups valued at over \$1 billion – have also grown at 13 per cent. The Nasscom report pegs the number of unicorns in India at 10, against 11 in the UK and 3 in Israel. In terms of average valuation of unicorns, India outshines the other two important start-up bases. In India, the average valuation per unicorn is \$3.2 billion, against \$1.6 billion in the UK and \$1.2 billion in Israel.

These are encouraging figures, but the overall numbers tell only half the story. It is a sign of worry that early-stage investment in start-ups is on a decline. For example, funding for start-ups incepted in the last five years is down 14 per cent to \$1.8 billion from \$2.1 billion in the corresponding period last year. The Nasscom report shows unicorns continued to garner big money from global funds in order to face the competition head-on. The data suggest that investors are increasingly losing appetite for risk and are not willing to put money in ventures that have started out recently.

Yet entrepreneurs' risk-taking ability depends heavily on the seed money or early-stage investment that has been flowing freely over the last decade, making India among the world's top start-up destinations. Since starting a business still involves wading through a tangle of red tape – notwithstanding India improving its ranking in ease of doing business by 30 places in the latest World Bank report – a dip in early-stage funding could mean a setback for a promising industry. The decline of seed capital or angel funding for start-ups should lead to some pointed questions. For instance, is there a dearth of ideas in among start-ups? How big is innovation in the start-ups' scheme of things? Are investors not taking any chances at all till a start-up clicks in the market? Perhaps, a combination of all three factors is making it a tough beginning for start-ups.

What does not help matters is the lack of garage stories, unlike in Silicon Valley where Apple, Google, Amazon and Disney all started in garages. This government has been upbeat about the start-up sector, with Prime Minister Narendra Modi addressing global leaders in this space at big-ticket events. The National Democratic Alliance government had set up a Start-up India fund to help fledgling companies as well; the idea was to promote and support start-ups in the country through a fund of funds. But the government has been able to disburse only a minuscule fraction of its ₹10,000-crore kitty. Clearly, more needs to be done to shore up early stage investment in start-ups.