



Indian Start-up Funding Analysis

Report on funding in Indian
start-ups between 2015 & 2020

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About

This report is the part of “Indian Start-up Funding Analysis” project. The project aim is to analyze the funding in Indian startup ecosystem from years 2015 to 2020. The dataset for this project is courtesy of Kaggle community and the analysis is performed using Tableau software. The story (and visualizations) of this analysis can be viewed using following link:

<https://public.tableau.com/profile/keshav1920#!/vizhome/IndianStartupsFundingAnalysis/StartupAnalysis?publish=yes>

Problem statement

Are investors losing interest in Indian start-up ecosystem?

India has the 3rd largest startup ecosystem after USA & China and the fastest growing among all nations. It has always been among top choices of investors and is home to nearly 60 unicorn startups out of which 2/3rd are headquartered outside India. Beside these unicorns, there are thousands of other small startups which have attracted a lot of investment. But lately, India has seen a decline in total no. of investments. Although the total amount of investment has grown but the diversification of those investment has decreased. Are investors losing interest in Indian startups? Is there no scope left for growth in India? This report presents an analysis of Indian startup ecosystem with an aim to answer those questions.

Rise of fat Venture Capital

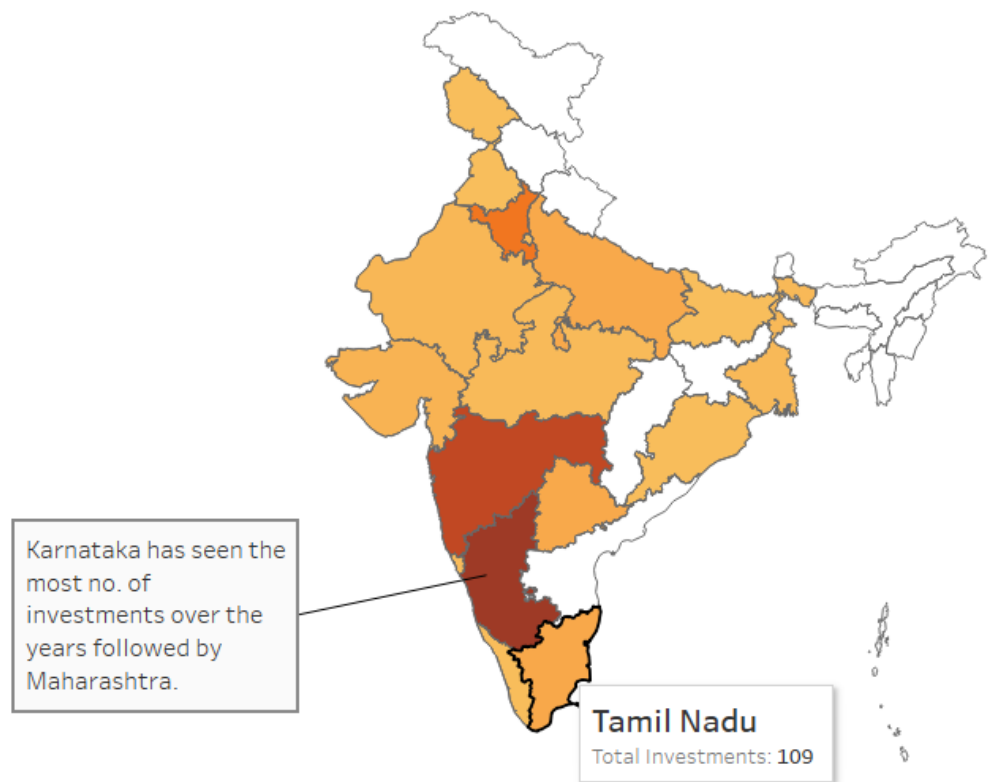
Earlier, starting up was difficult as it required a good product/service, a good business plan and lots of money. Every person entering the startup world was not sure whether s/he would succeed or not. But soon came the funding ecosystem which gave wings to startups and made them pop all over country. Starting with angel investments right upto venture fundings, the Indian startups have come a long way. Then came the fat VC investments with funding rounds as high as \$1 billion.



Starting with a few investments, the VC portfolio began to grow fast giving birth to multiple unicorns and a few decacorns too. The fast growth of early startups attracted a lot of investments from all around the world and made them pour to create nearly 60 unicorn startups from India. Flipkart, Paytm, Ola and OYO were among the top in the list and are still more valuable from majority of other startups. But are those investments worthy? Does the investors got their expected return? The answer to these questions can not be classified as a simple Yes or No. While many believe that the investments are the part of the plan and soon the profits will start coming, few other believe that a bubble is blowing in the Indian startup ecosystem. A bubble similar to the dot-com bubble of late 90s, which will burst soon with a lot of negative impact on the ecosystem. Although this rise in investments from year 2010 had paved a path to future startups, the fact that majority of startups, despite being heavily funded, could not survive in the current Covid-19 pandemic cannot be denied.

Investment density in Indian states

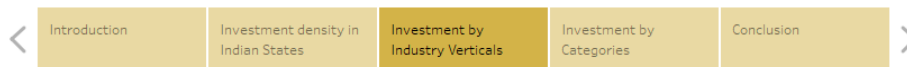
The rise of VC investments took Indian startups to a whole new level. With Bengaluru being the hottest city for startups and investments, Indian startup ecosystem has seen an upsurge in FDI. Apart from Bengaluru, few other cities like Mumbai, Delhi and Gurugram have also shown a large amount of investments. The below mentioned visualization shows the density of investments made in various Indian states from year 2015 to 2020 (darker the color, more are the investments).



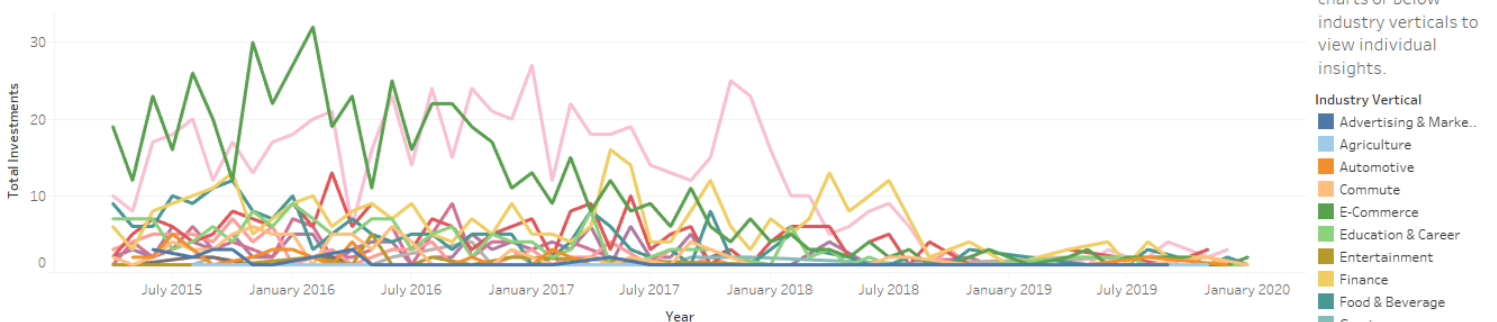
Investment by industry vertical

E-Commerce was the first industry vertical which boosted the startup ecosystem. With the rise of Flipkart, India's startups got the much-awaited limelight. From being the poster boy of Indian startup ecosystem to flushing billion dollars through *Flipkart Mafia* (like *PayPal Mafia*), Flipkart ecosystem gave a boost to Indian startups. Below mentioned visualization pictures the trends in various industry verticals with E-Commerce and Software & Technology being the highest among all.

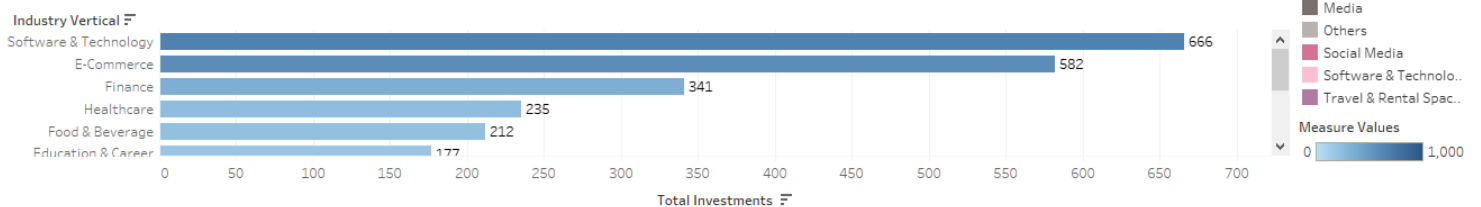
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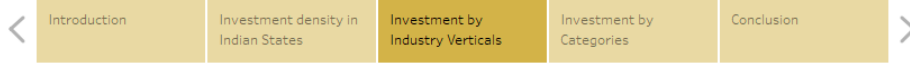
Investment over years by Industry



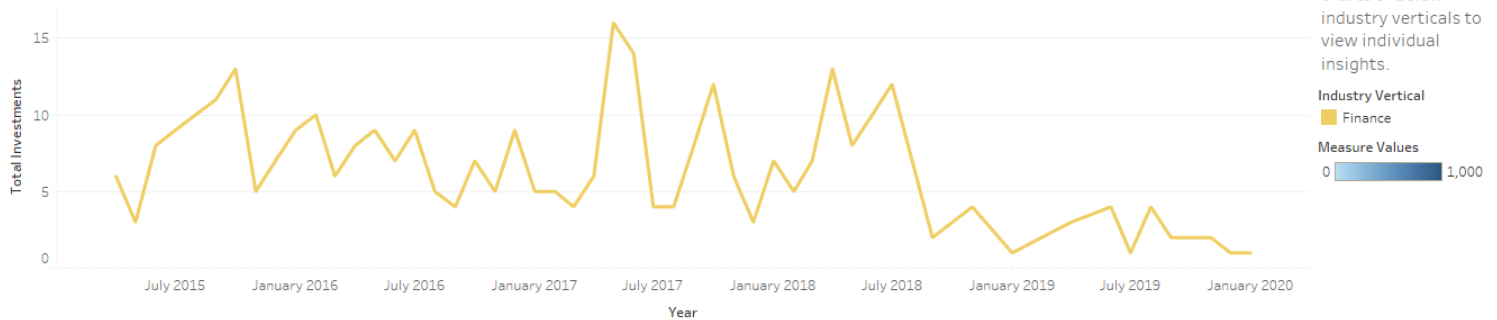
Investment by Industry



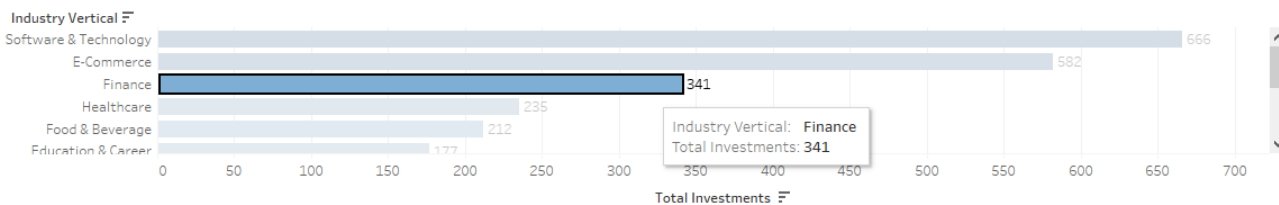
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Investment over years by Industry



Investment by Industry



Apart from Flipkart, few other factors have also played a major role in the growth of startups. The launch of 4G services in India and increase in use of technology in businesses gave rise to SaaS based B2B startups from Software & Technology vertical. Similarly, demonetization and introduction of GST became a boon for Financial sector whose growth can be seen in the year 2017 from above visualization. A similar growth is being seen in the year 2020 in Education & Career vertical due to Covid-19 pandemic. The lockdown has given boost to education vertical along with the technology vertical.

New opportunities

The 2020 lockdown has not only boosted the education sector but also opened doors to new verticals like Gaming.

Gaming in India was always seen as hobby rather than full-time career. But with the penetration of high-speed internet and rise of automation in jobs is making people shift towards creative careers, something which machines can not take-over now. One such vertical is Online Gaming. Due to young audience, online gaming in India has gained a strong foothold and is being predicted as the next wheel of growth. From previously being limited to only desktops, online gaming has now become compatible with mobile phones too. And the free time in lockdown has given wings to the amount of time Indians spend playing games.

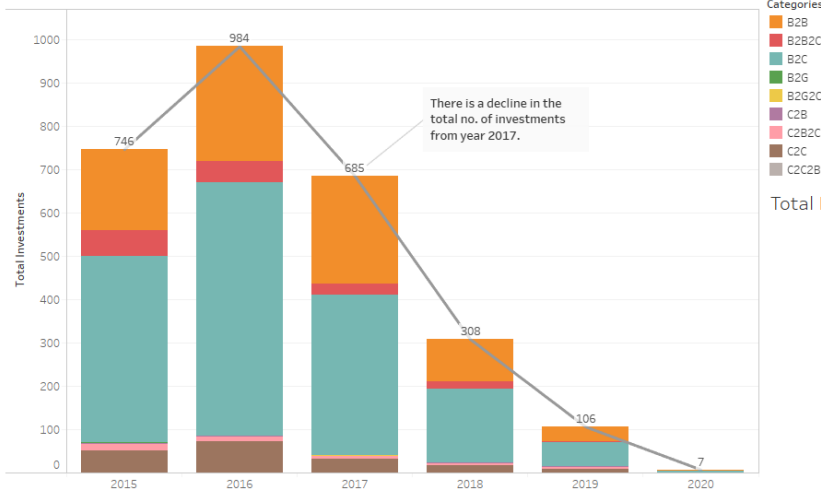
Also, with the improvement in immersive technology, online gaming is slowly becoming the new normal. With the launch of 5G services which has negligible latency, the road to online gaming sector is bright.

Investment by category

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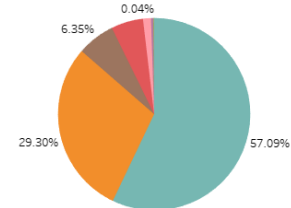


Investment over years by Category



Select through below categories to view individual insights.

Total Investment by Category

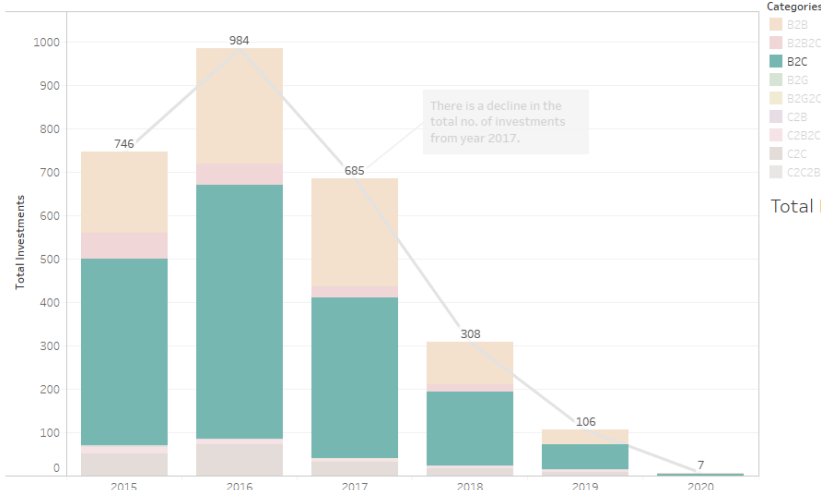


The above visualization shows the no. of investments by category. With B2C segment startups covering the major portion (57.09%, as shown in the visualization below), B2B segment is the next wheel of growth. Although there is a good space for growth, the no. of investments has been decreasing from the year 2017.

Indian Startup Funding Analysis

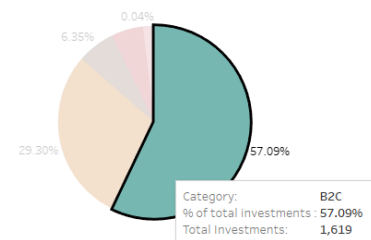


Investment over years by Category



Select through below categories to view individual insights.

Total Investment by Category



Angel Tax

Despite of growth possibility in the startup ecosystem, the no. of investments went down from year 2017. One of the major reason for this was “Angel Tax”.

*The **Angel Tax** is a term used to refer to the income tax payable on capital raised by unlisted companies via issues of shares where the share price is seen in excess of the fair market value of the shares sold. The excess realisation is treated as income and taxed accordingly.*

Angel Tax became a major concern for startups since it permitted the tax authorities to judge the “Fair Market Value” of a startup and tax all investment at a valuation above this FMV as income. This rule was only applicable to angel investors from India while the VC firms were exempted from the tax. This caused a sharp decline in the angel funds raised by early stage startups. The startups were also forced to spend more time in dealing with the tax system rather than focusing on their problem statement. Although VC firms were exempted from the tax, they preferred to invest only in already funded startups with a possibility of more growth.

In year 2019, the government exempted startups from this tax as part of a raft of measures to boost overall economic growth from a five-year low. The angel tax then became inapplicable to the startups registered with the Department for Promotion of Industry and Internal Trade (DPIIT).

The failed IPOs and road to profitability

Another major reason for the decline of investments were the failed IPOs of some giant startups like Uber and WeWork. For years, Uber was an investor darling. As a privately held company, it gorged on capital from many VC firms and shot the valuation upto \$76 billion. Soon, it was preparing for an IPO with an aim of \$120 billion valuation. But the bubble got burst when the stock prices did not trade as planned. The reason was non-profitability. The company had grown its valuation from private investments without any signs of profitability. Some experts believed that Uber will never be profitable.

A similar market sentiment was seen during WeWork IPO. The co-working space giant's IPO also got failed due to same reason, non-profitability. It was a wakeup call for VCs to understand that tech startups could no longer take inflated valuation road.



How does it affected Indian startup ecosystem? Because a similar road was being paved in India. Most of the Indian startup giants were working in a similar fashion: capture the market share first and then think about profitability. Although the Indian startups were flushing money to get big valuations, only a handful of them were on the way to profitability. The failed IPOs of Uber and WeWork got VCs back to their original motives: profits. The startups in India did not had any plans for profit at the time, including the giants. Instead, the focus was only on growth. But soon the scenario changed, and everyone was evaluating how will they get profitable. This also resulted in further investments in the top startups to help them get profitable which in-turn increased the amount of investments but decreased its diversification in other startups. Unfortunately, majority of startups are still not profitable.

Conclusion

India has always been a hot place for investments. With a record no. of FDI in past few years, Indian startup ecosystem has seen a huge growth. But there is a decline in the total no. of investments from year 2017. The top reasons behind the decline are Angel Tax & non-profitability of startups. Although the startups are now exempted from the Angel Tax, non-profitability is still an issue. This can be seen in the current Covid-19 pandemic situation where majority of startups are struggling hard to survive. Also, already funded industry verticals like E-Commerce are reaching to a saturation point with a growth scope in other verticals like Gaming and Future Technology. But the new growth is only sustainable if the startups founders and investors plan the profits well before and not just playing the valuation game.

Acknowledgement

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