

# Indus Valley Annual Report 2024

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## Welcome to the *Indus Valley Annual Report 2024*

India's vibrant startup ecosystem, concentrated in the eastern suburbs of Bangalore, the satellite cities of Gurgaon and Noida in the Delhi National Capital Region (NCR), the districts of Lower Parel & the Andheri East – Powai belt in Mumbai, the Southern suburbs of Chennai, and in the various scattered pockets across many other cities such as Pune, Hyderabad, Chandigarh etc., has lacked a singular name.

At Blume, we like to use **Indus Valley** as a catch all moniker for the Indian startup ecosystem. It is a twist on the typical Silicon Wadi / Glen / Fen naming convention, as well as a reference to the Indus Valley Civilisation, one of the vibrant centres of the ancient world, and the ancestral civilisation of the Indian people.

Unlike Silicon Valley which has a geographical connotation, the term Indus Valley has no such overtone. It is instead a reference to the entire Indian startup ecosystem, spread throughout the nation. It is also an attitude, a mindset, one of invention, and 'jugaad' and chutzpah.

The **Indus Valley Annual Report** published by Blume Ventures, celebrates the rise of Indus Valley, and its emergence as one of the centres of innovation and enterprise in the startup world. It gives us a chance to look back, and take stock of its evolution, and look ahead to what is coming. We welcome you to the third edition of the Indus Valley Annual Report! Our previous editions can be accessed here - [2023](#), [2022](#).

## How to read this report

This is not a data book. We didn't create it to serve as an exhaustive repository of data or reportage on India. Rather, it is more a narrative, and less a dataguide. Or even better, you should see it as a source of perspective on the Indian startup ecosystem. And as with all perspectives, a lot depends on the vantage point of the observer. As the leading seed fund in India, we do think we have a unique perspective and insight into the Indian startup ecosystem, or Indus Valley, as we term it. And with *The Indus Valley Report*, we hope to get you, dear reader, to view the Indian economy through our lens. Do tell us how you see it. Compliments, criticism, feedback all welcome at [sp@blume.vc](mailto:sp@blume.vc) / [anurag@blume.vc](mailto:anurag@blume.vc) / [ns@blume.vc](mailto:ns@blume.vc)

# Structure of *The Indus Valley Report 2024*

<b>India</b> understood through the numbers and narratives that define it, and shape it.	<p>Unpacking India's GDP, and introducing the twin pillars of <b>Investment: Gross Fixed Capital Formation (GFCF)</b> and <b>Consumption</b>.</p> <p><b>GFCF:</b> Why the private sector underinvests in GFCF and why the government picked up the slack. How the government finances its GFCF investments and how that has implications for India's bond market.</p> <p><b>Consumption:</b> Despite our low per capita income and underconsumption on several indicators, we have a largish rising ascendant affluent class we call India1. We elaborate the India 123 income pyramid and framework.</p> <p>India1's investments into the <b>Equity Market</b> (SIPs + direct) insulated the market from FII exits, but also made India an expensive market.</p> <p>A key theme of the past few years has been the boom in retail credit or specifically unsecured <b>Personal Loans</b>, as India's fintechs expand the credit market to bring in India2 and new to credit borrowers. This of course means poorer quality of loans and naturally, RBI is worried.</p> <p><b>India's most powerful export is people</b>, and the ideas that these people embody. Increasingly, India is expanding its soft power.</p> <p>A key achievement of the past 15 years has been the rise of Digital Public Infrastructure or modular protocols around identity, payments and data exchange. Governments and startups are leveraging this to drive productivity and growth. But <b>while the government giveth, it also taketh</b>.</p>
<b>Indus Valley</b> understood through trends and themes that explain it, and propel it forward.	<p>What happened in the venture market in 2023, especially in regards to <b>funding, and some macro trends</b>.</p> <p>What does the <b>booming IPO market</b>, and specifically the SMB IPO market foretell for Indus Valley startups?</p> <p>A deep dive into three sectors that have been in the news including - <b>digital native brands</b> with a brief foray into their enablers, specifically QCommerce. - <b>deeptech</b>, with a closer look at SpaceTech (including ISRO), and AI / local LLMs. - <b>fintech</b>, why everyone is a fintech today, and why the payment apps are getting into ecommerce.</p> <p><b>The Indus Valley playbook</b> compiles a few of the distinct approaches and tactics that Indian startups are using to drive growth.</p>

# **Section I: India**





Deedy



@debarghya\_das

"India's growth story is precarious: both the optimists and the pessimists are disappointed."

— an Indian venture capitalist who has been active for over 15 years

8:29 AM · Dec 17, 2023 · 95.5K Views

## Section I: India

# GDP

Understanding India's GDP

→ **Peer comparison**

How India stacks against others

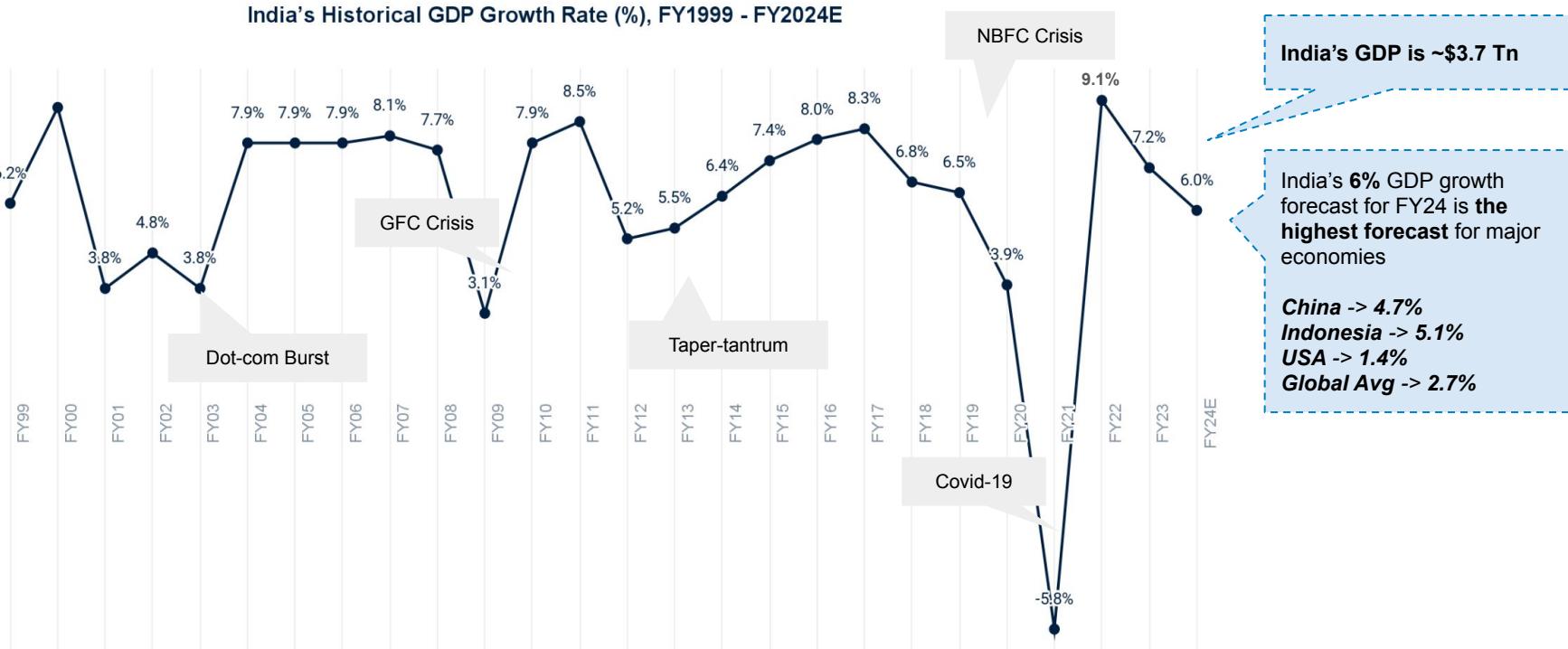
→ **Understanding GDP**

Two pillars of India's GDP -  
investment and consumption

Up next...

**Gross Fixed  
Capital Formation**

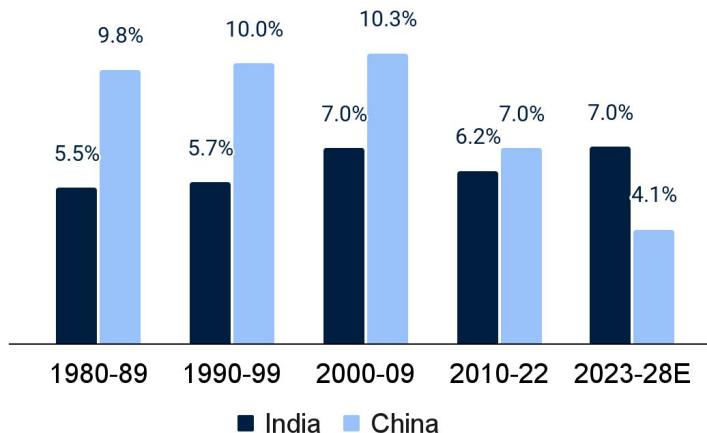
# India is a key driver of the globe's economic engine today



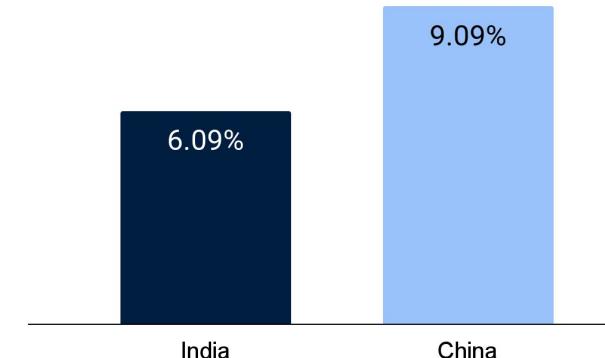
# Is 6% the new ‘Hindu Growth Rate’?

India has done well to break out of the old Hindu Growth Rate<sup>1</sup> of 4% and grow consistently at ~6% the last four decades. That said, India is still far away from the ~9% that China averaged in the equivalent period.

Historical GDP growth rates: India vs China



Average GDP growth: India vs China, 1980-2022

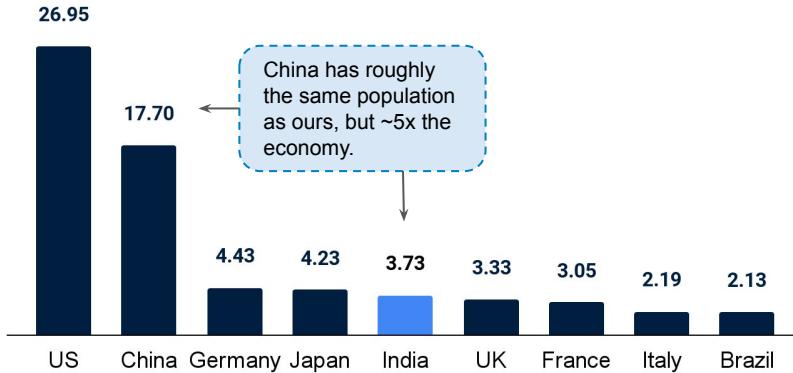


<sup>1</sup>“Hindu rate of growth” was a phrase coined by the Indian economist Raj Krishna. It refers to the annual growth rate of India’s economy before the economic reforms of 1991, which averaged 4% from the 1950s to the 1980s.” (via Wikipedia)

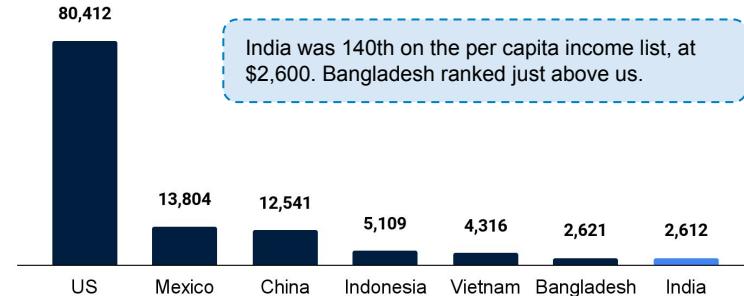
# Seeing it in perspective

For all of the chatter about India's growth rates and its entry into the World's top 5 economies, it is useful to contrast the GDP and GDP per capita figures. India's low per capita GDP shows us that we still have a long way to go.

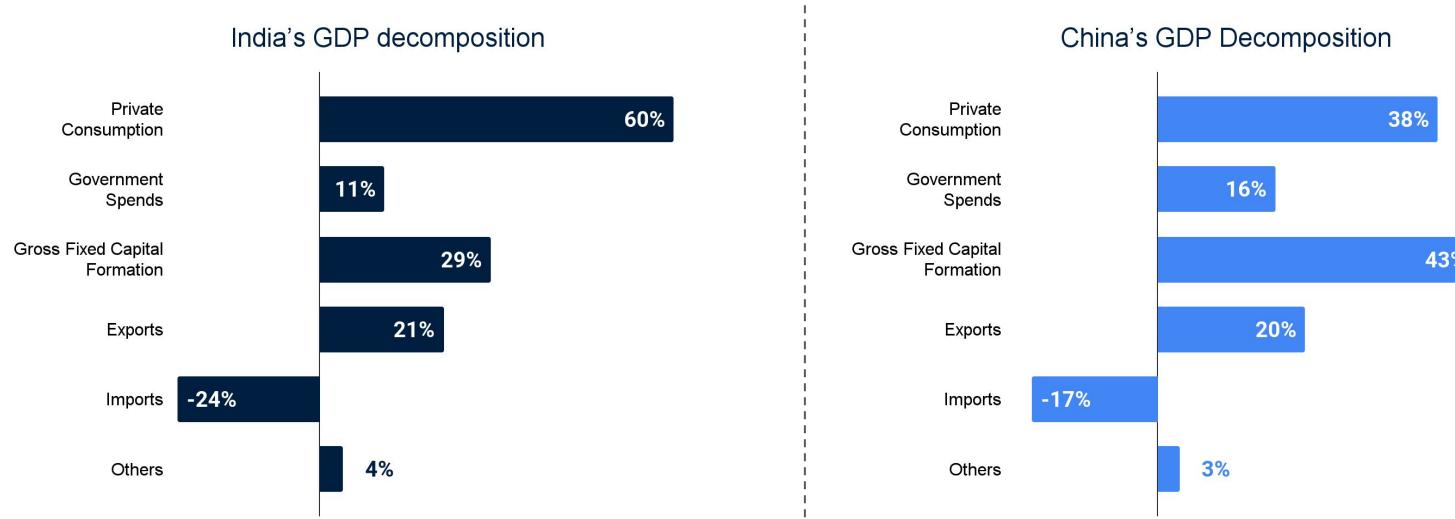
Largest economies by GDP (\$tn)



India vs others on per capita GDP (\$)



# India's GDP is led by consumption spends, unlike China's



India's economy has long been characterized by high Private Consumption, i.e., spends by households, private sector and government, as a high share of the GDP. The key reason for this is Gross Fixed Capital Formation (GFCF, essentially creation of productive assets such as machinery, infrastructure) has a far lower share than it should; primarily because of underinvestment. Let us unpack why India underinvests in GFCF.

## Section I: India

# GFCF

Understanding India's Gross Fixed Capital Formation (**GFCF**)

→ **Why corporate India underinvests**

Corporate deleveraging, and the presence of surplus capacity led to corporates underinvesting

→ **Why government over invests**

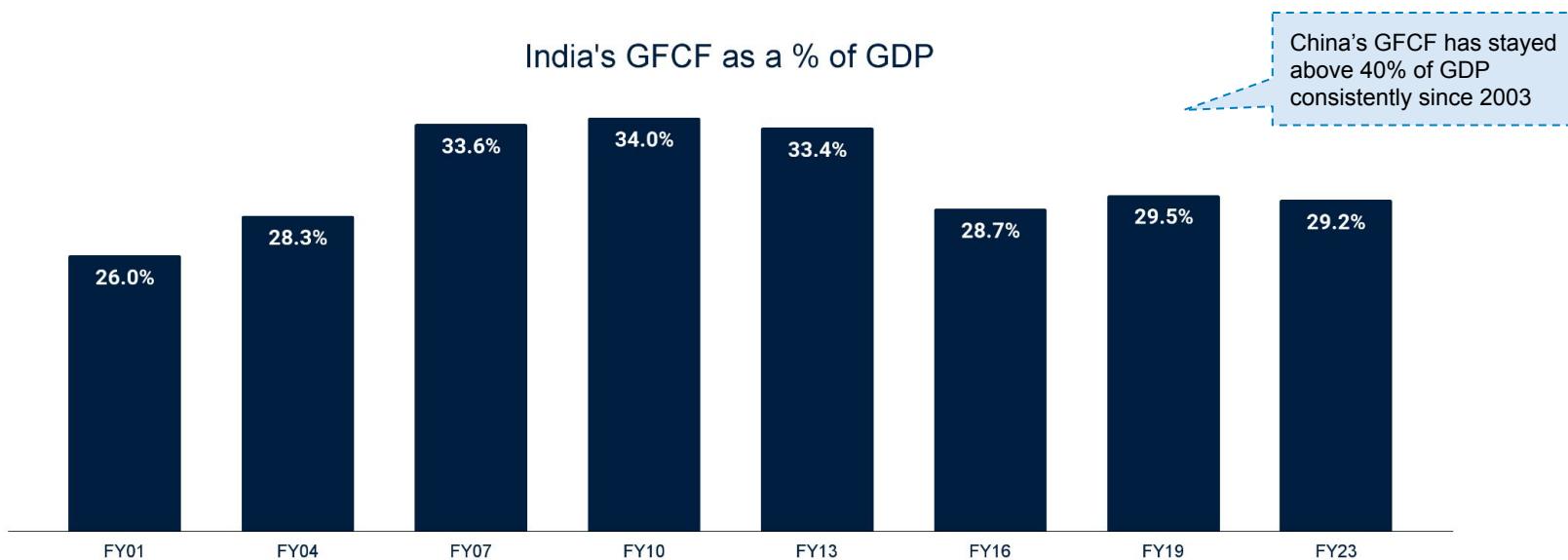
What that implies for India's bond market

GDP

Consumption

# India has consistently underinvested in capital formation

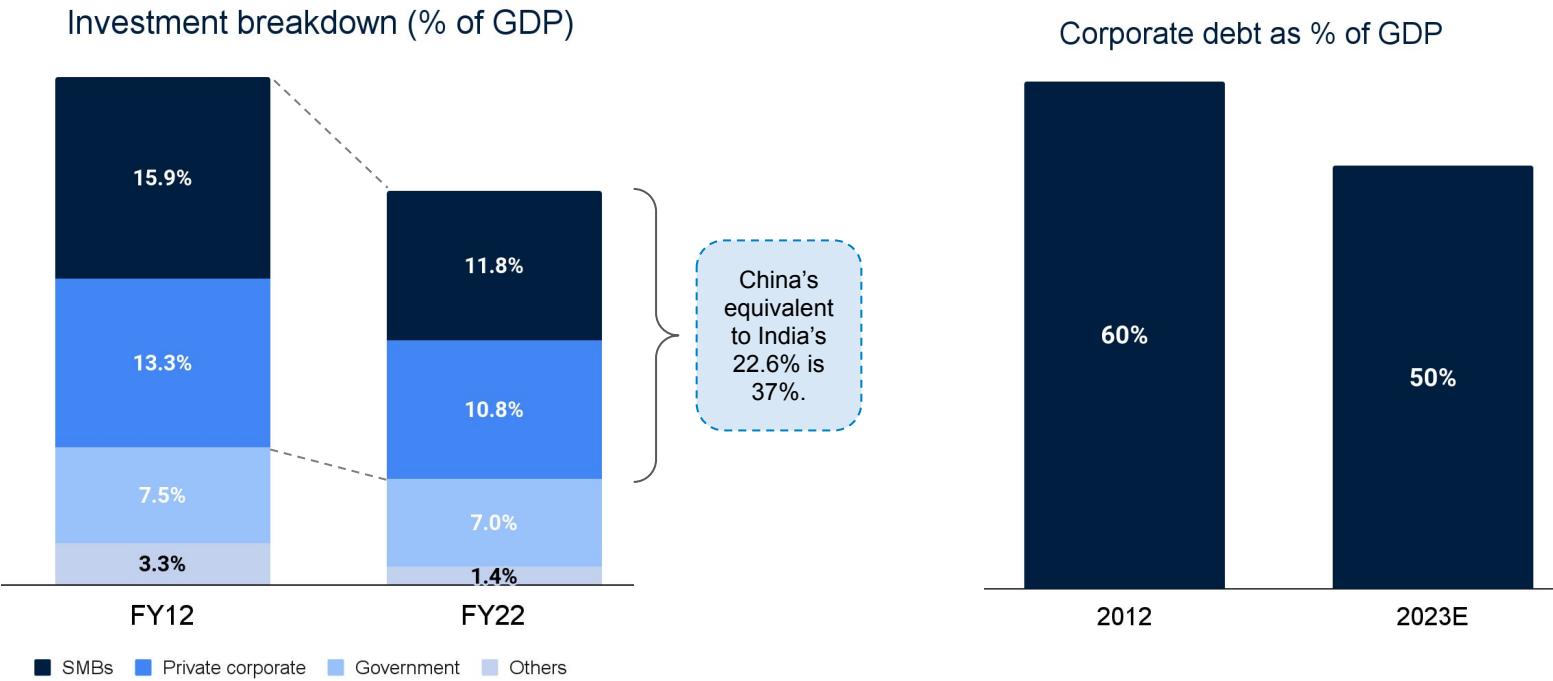
Barring 2007-13, we have seen Gross Fixed Capital Formation (GFCF) languish in late 20s (%)



Gross Fixed Capital Formation is the creation of productive assets such as infrastructure (roads, bridges etc.) or manufacturing facilities. It is a long-term investment, and it can be undertaken by the government (state and central), but also by private sector.

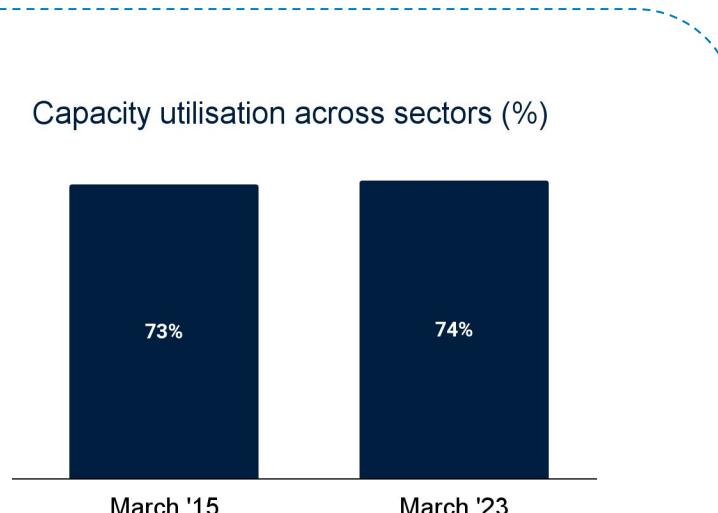
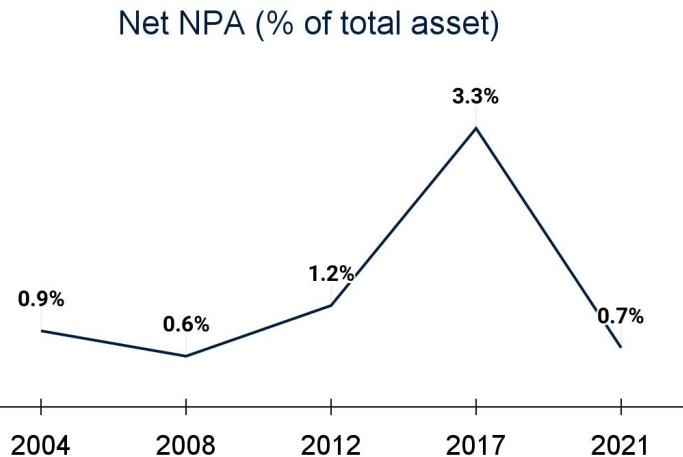
# Why India underinvests in capital formation

A key reason is that private corporates punch well below their weight in India. Their shares are reducing, and one factor seems to be that they are borrowing less, unlike before. This means they can't invest as much into GFCF.



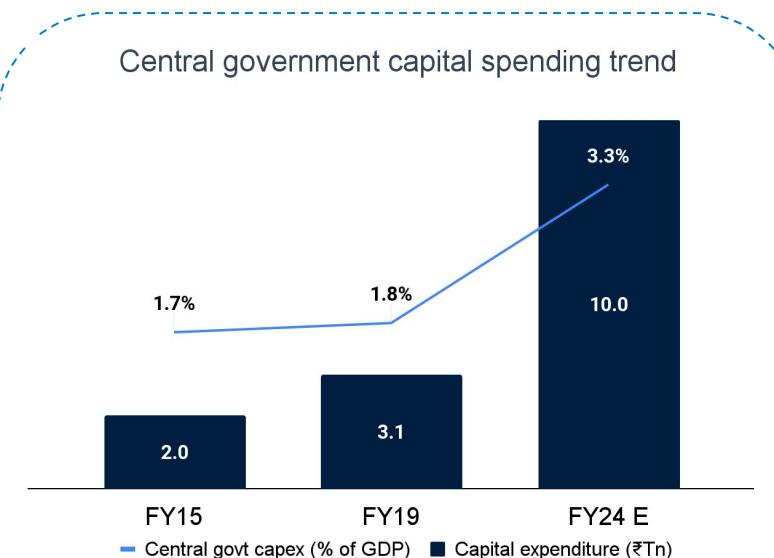
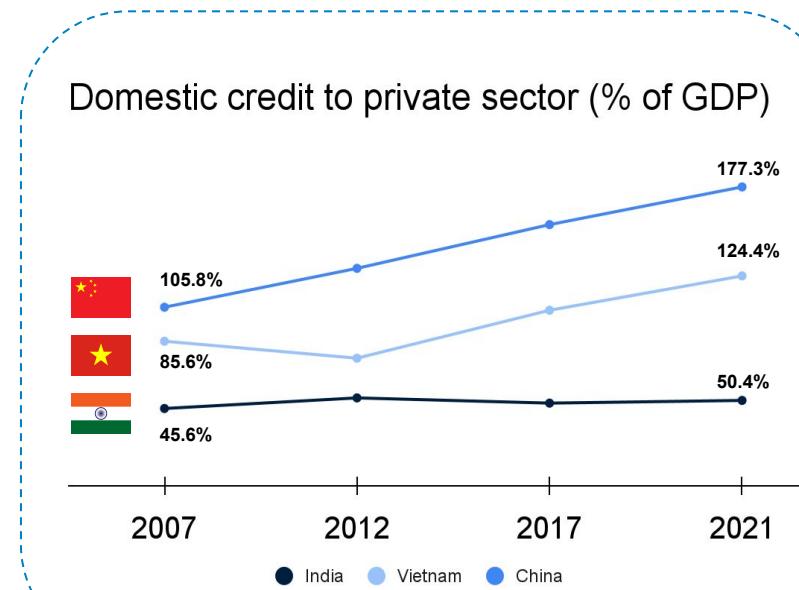
# Why does the private sector not borrow enough?

For one, spurred by the NPA crisis of 2015-18, as well as the uncertainties around COVID, the private sector has been cautious to borrow and has been deleveraging by retiring debt. Secondly, a relatively low capacity utilisation of assets implies they haven't felt the need to ramp up investments in fixed assets.



# The government treads where the private sector doesn't

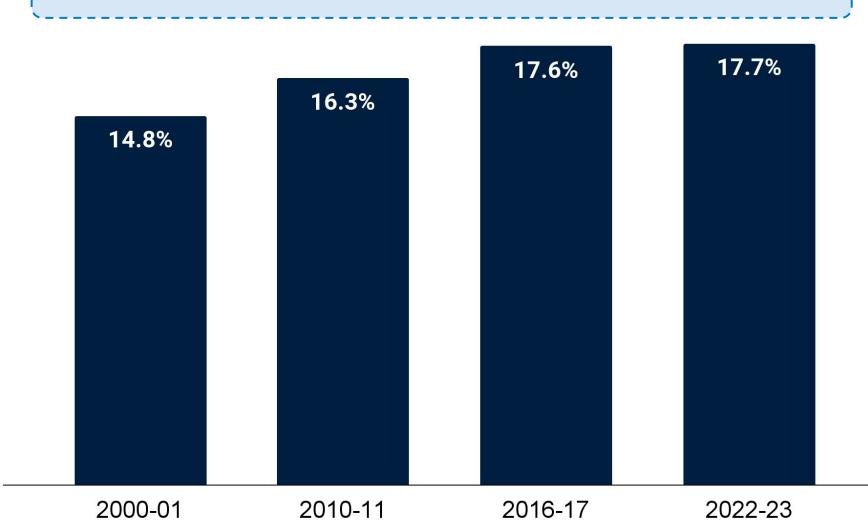
The private sector's underinvestment in GFCF and its low leverage is not a recent trend, though it has accentuated of late. In recent times, the Central Government has stepped in to drive investments in capital formation.



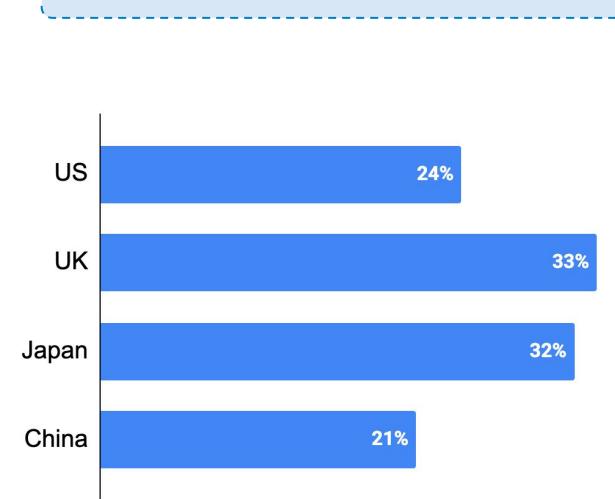
# However, India's tax collection growth has not been buoyant enough to support its ambitious capex investments

India's tax to GDP ratio hasn't moved in the past 7 years; it collects far less tax than its peers

India's tax to GDP ratio (%)



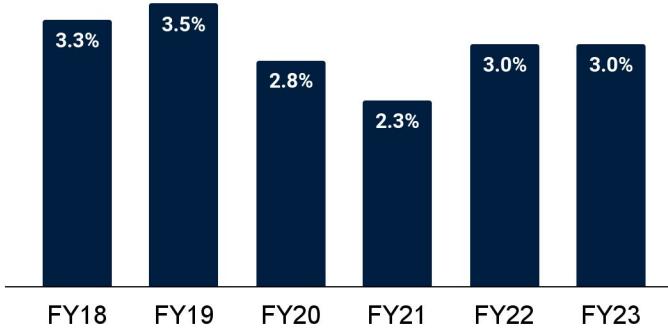
India vs Peer Economies, tax to GDP ratio (%)



# It is illuminating to look at India's direct tax efforts

Corporate tax's share of GDP hasn't moved much

Corporate tax as % of GDP



Drop spurred by tax cuts announced in 2019 and 2020

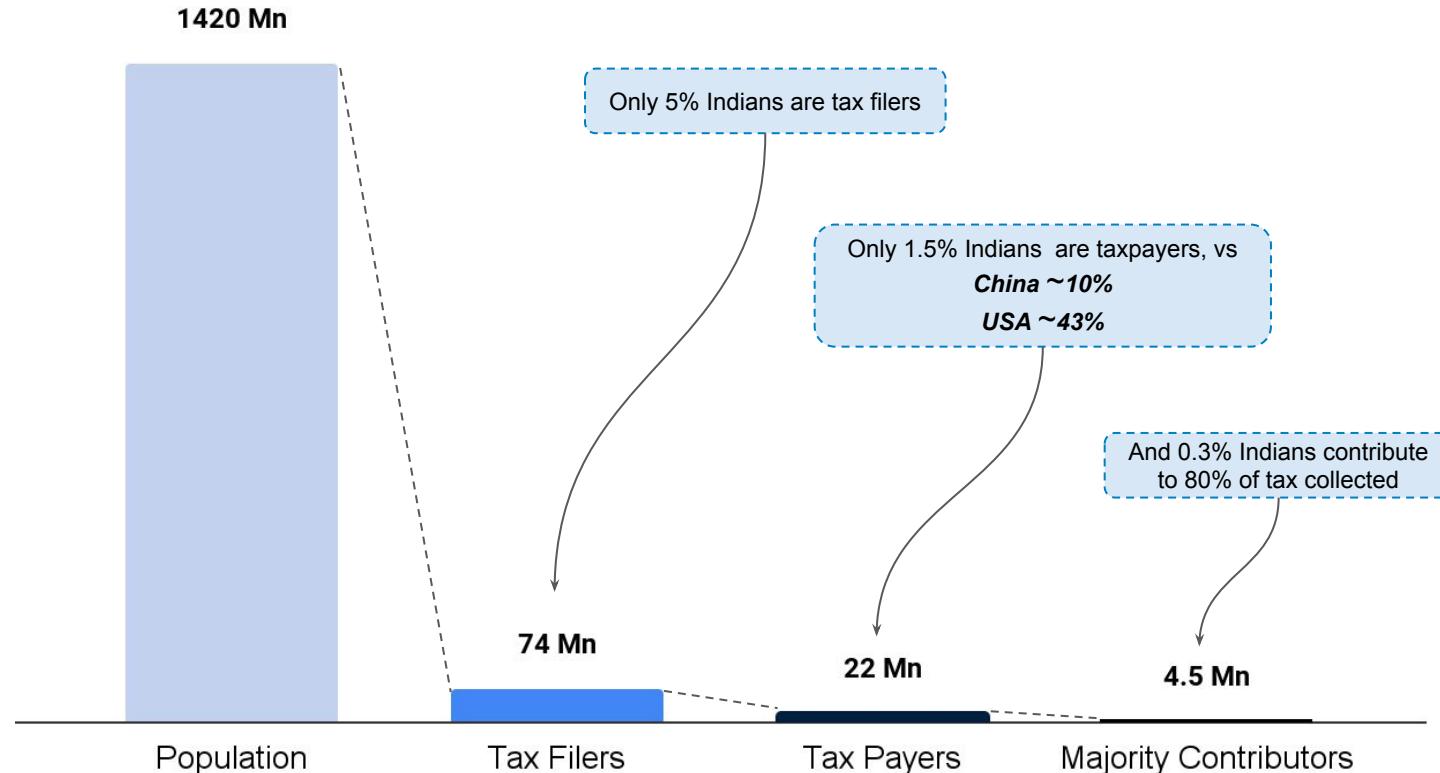
Income tax as a % of GDP



From corporates, the share of burden has moved to individuals, and as you can see in the next slide, a tiny number of individuals

# 1.5% of Indians (22m) pay India's income tax in entirety

And a fifth of those taxpayers pay four-fifths of income tax



# Due to low tax collections, the government relies on borrowings

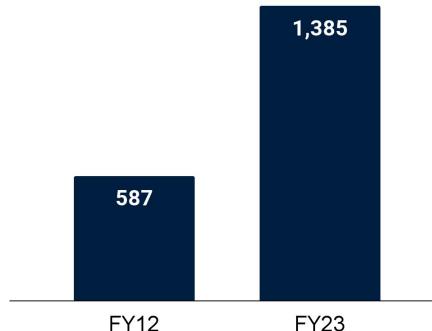
Over the last decade, government debt has grown ~3x (4x in ₹ terms); we are now well above our peers

Public debt is on the rise

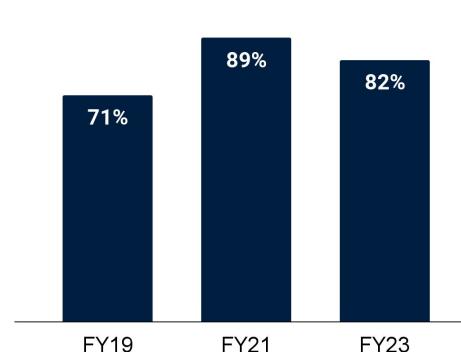


This is reflected by a higher ratio of government debt to GDP

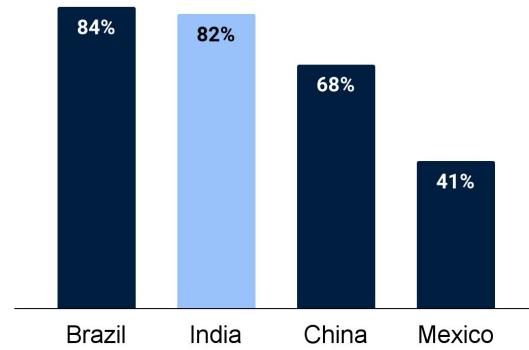
Government public debt (\$B)



Government Debt (% of GDP)



India's government debt as a % of GDP is at the higher end of its peers



# Do rising government borrowings risk crowding out private borrowers?

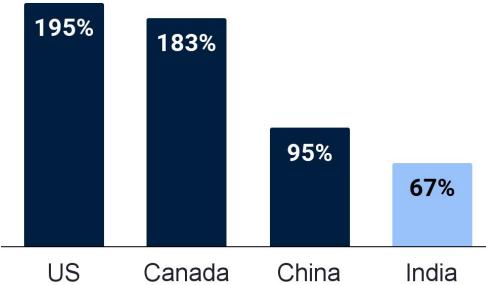
India's (relatively) undersized bond market is dominated by government borrowings

India has an undersized bond market

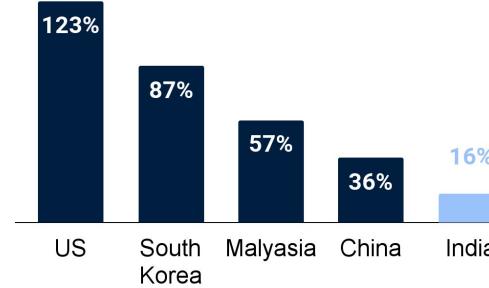
Corporate bond market is even smaller

Government borrowings dominate bond markets

Overall bond market to GDP (%)



Corporate bond market to GDP (%)



With government borrowings dominating the bond market, we run the risk of the private sector crowded-out gently from the credit market, further reinforcing their low share of borrowings. That said, studies haven't demonstrated 'crowding out' conclusively. In fact the opposite argument, of 'crowding in' has been made too.



Shamika Ravi  
@ShamikaRavi

Some opposition leaders are decrying #Budget2023 saying that govt CapEx will "crowd-out" private investments. This is not a rule in economics. In fact, there's good empirical evidence showing the opposite for India - rising public investments have "crowded-in" Pvt investments.

2:50 PM · Feb 1, 2023 · 55.5K Views

## Section I: India

# Consumption

Despite our low per capita income and underconsumption, we have a largish rising ascendant affluent class

- **The India123 Framework**  
India underconsumes on several categories, thanks to a smaller than presumed spending class. Blume calls this class India1.

- **Premiumisation**  
India1 is small by Indian standards, but still large enough to power the Indian economy, and is driving premiumisation of the economy.

GFCF

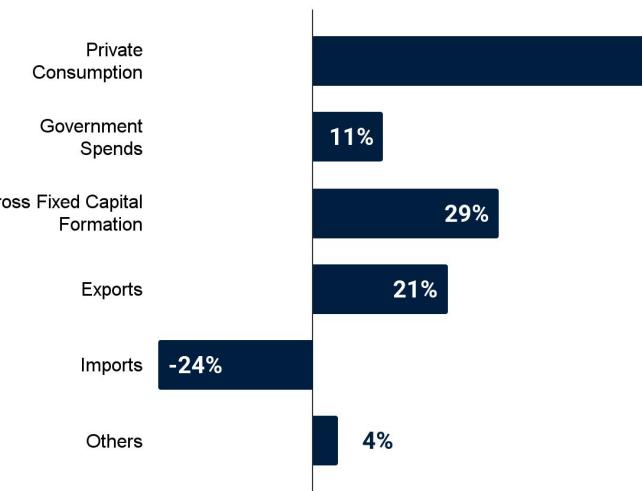
Equity Market

# From GFCF, now to consumption, which dominates India's GDP

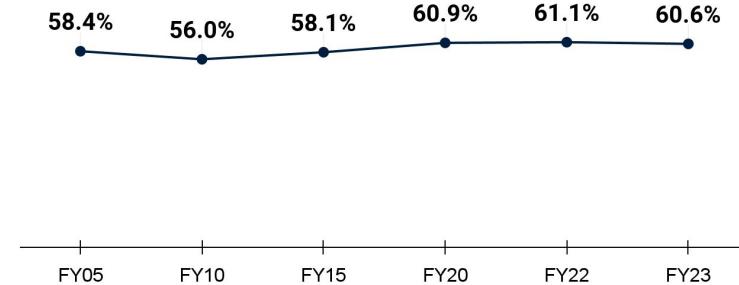
Revisiting this chart, we know that consumption has a high share of India's GDP.

Additionally, consumption's high share of GDP has a long history of persistence. A key reason is the low investment into GFCF bringing down its share.

India's GDP decomposition



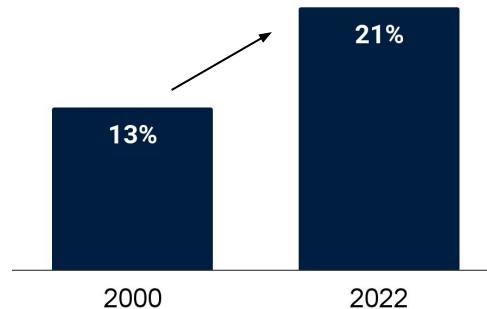
Private Final Consumption Expenditure as a % of GDP



# Necessities, including food, dominate India's consumption spends

The share of Discretionaries in Consumption has grown, although slowly.

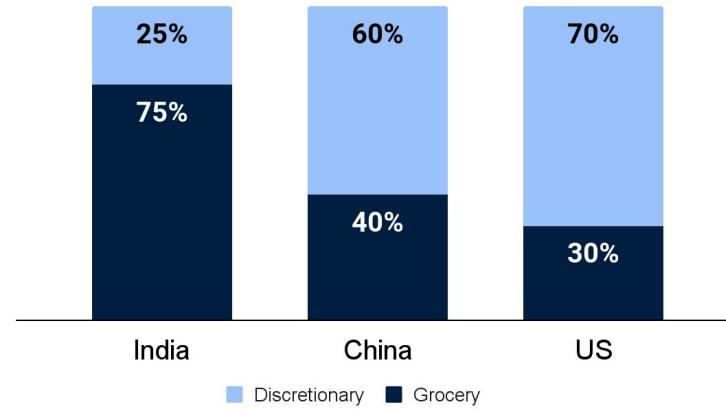
## India's Discretionaries spend as a % of Consumption



Above via Macquarie. Per recent MPCE 2022-23 data released by Government, Blume estimates discretionary spend was 21% of consumption in 1999-00, and 29% in 2022-23.

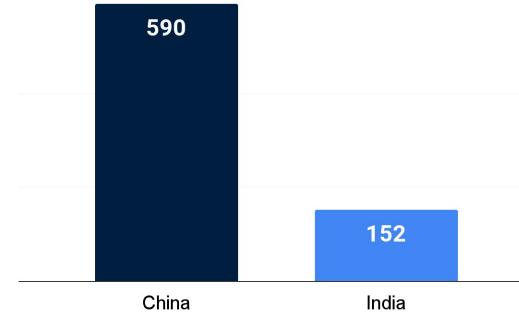
## India's retail spends are tilted in favour of groceries

Retail market splits by category, 2022

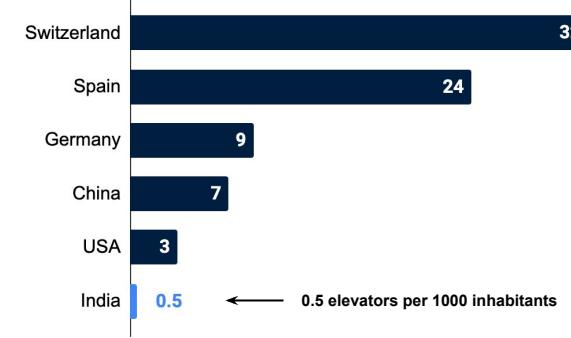


# With such a high spend on Necessities, India underconsumes on several categories

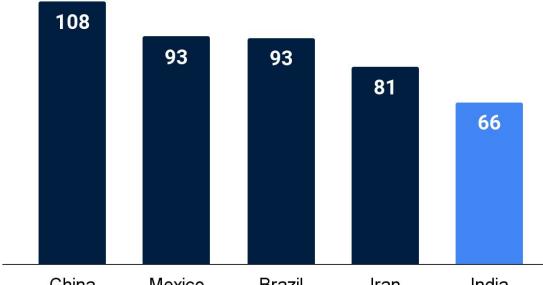
Domestic air passenger traffic (mn)



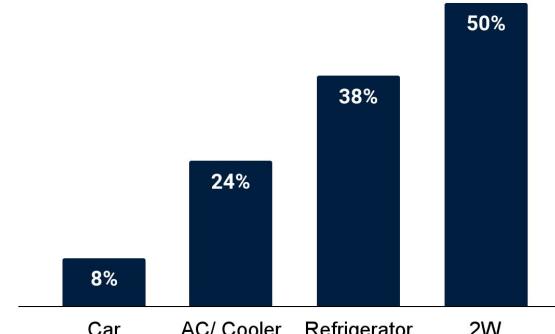
Elevator density (per 1,000 people)



India's per capita protein consumption per day (grams)



Household goods ownership penetration



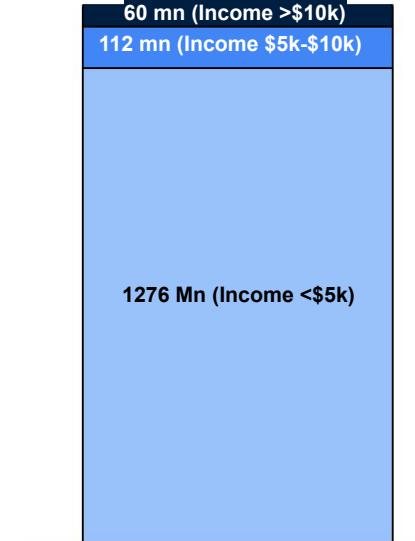
# A key reason for that is a tiny consuming class

There are several estimates (here are 3) of India's consuming class, but all point to a small set of spenders.

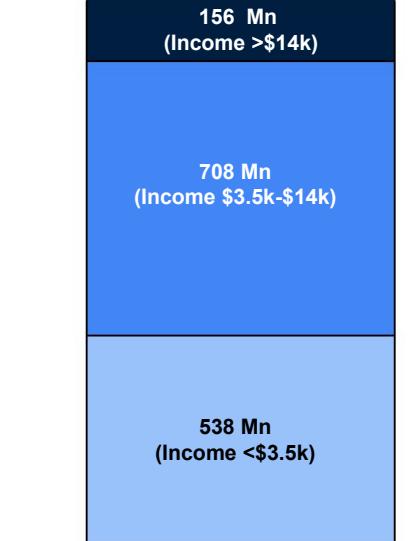
**PRICE ICE360 (2020-21)**  
definition of India's  
Consumption Class



**Goldman Sachs (2022)**  
definition of India's  
Consumption Class



**Redseer (2021)**  
definition of India's  
Consumption Class



# How Blume looks at the Indian consumer stack

<b>India 1 'Mexico'</b>	<b>The Consuming Class</b>	~30m households ~120m people ~\$15K per person	<p>India1 is the consuming class, and effectively constitutes the market for most startups. Also most startups start here and then expand to India2.</p>
<b>India 2 'Indonesia'*</b>	<b>The Aspirant Class</b>	~70m households ~300m people ~\$3k per person	<p>India2 is the emerging aspirant class. They are heavy consumers and reluctant payers. OTT / media, gaming, edtech and lending are relevant markets for them. UPI and AutoPay has unlocked small ticket spends and transactions from this group.</p>
<b>India 3 'Sub-Saharan Africa'</b>	<b>Unmonetisable Users (&amp; Non-Users)</b>	~205Mn households ~1Bn people ~\$1k per person	<p>India3 doesn't have the kind of incomes to be able to spend anything on discretionary goods. They are beyond the pale, as of now, for startups.</p>

\* Indonesia's per capita income is \$5k; strictly this is not the right country analogy for India2, but we couldn't get a country that has a population of ~300m with a per capita income of \$3k. So please bear with us for this.



Some apps straddle different Indias e.g., Whatsapp, Youtube, Flipkart etc. A good way to understand the above is that all apps in India3 can be used by India2 and India1. Similarly India2 apps can be used by India1. The reverse isn't true. India1 apps are not used by India2 or India3.

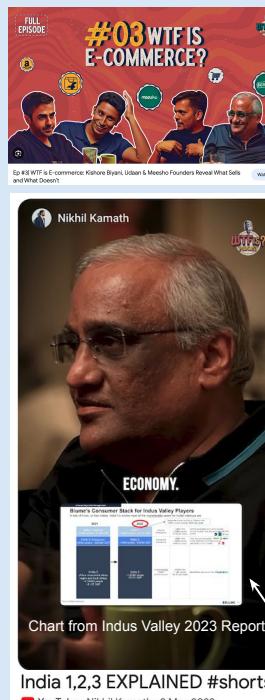
# India123 is a powerful organising framework to understand India

Kishore Biyani pioneered the concept of India1,2,3 in his book ‘It Happened in India’ (2007). Sajith Pai elaborated on the concept and sized the segments in a 2018 essay. Recently, this has been further popularised by Biyani via his appearance on the WTF podcast.

## Kishore Biyani on ‘WTF is eCommerce?’

“My theory is that India is divided into three parts, according to levels of consumption – India1, India2 and India3. India1 is the consuming class, anybody who has domestic help is for me the consuming class. By consumption, I mean not simple consumption but some value-added consumption. India2 is the serving class that makes our lives better, for example, the helpers, the peons, the watchmen. And for every one India1 there is 3-3.5 India2. And unfortunately India1 does not give enough money to India2 to help them consume discretionary products. Then there is India3 that includes farm labourers, on government aid.”

Per Biyani, India1 is 30m households (100-120m people), \$800b consumption (60% of total), growing slowly in numbers but incomes growing at 10%+. He further divides India1 into Singapore (6m people), Poland (25-30m people) and Mexico (70-80m people), and describes how they dominate much of discretionary consumption.



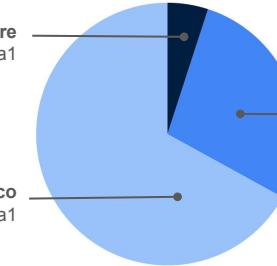
## Kishore Biyani's further segmentation of India1

Division of India1 into similar-sized economies

India 1A = Singapore  
5% of India1

India 1B = Poland  
28% of India1

India 1C = Mexico  
67% of India1



### Annual household earnings of India1 divisions (₹mn)

India 1A / Singapore	6
India 1B / Poland	2
India 1C / Mexico	1.2

### India1 consumption share across categories



# We can also think of India2 as two distinct groups

Mithun Madhusudhan, who writes extensively on monetisation models for Bharat / India2, dissected India2 into India2.1 and India2.2

## A new visualisation of the Indian consumer



- English first
- Have definitely (re) watched Friends
- Similar to the West
- High income

Target market for anything that has worked in the West

- Young (18-35) Aspirational behaviour
  - Regional language first
  - Middle income
- Older
  - Middle income
  - Slow to adopt digital

Target market for new models of e-commerce (unbranded electronics, apparel), micro payments based services, anything that has worked in mass market China

Target market for ?

## The next big set of opportunities lie in India 2.1



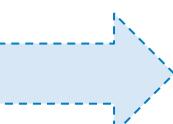
Fintech - Mutual Funds and Insurance Penetration

E-Commerce - New Go To Markets

Edtech - Micro payment based models

Rural India has a crucial role to play as 65% of the population resides in rural areas based on 2021 data from the Economic Survey dated January 2023. About 45% of India's GDP comes from rural areas; however, their share is abysmally low at just 11% of total banking deposits and 9% of total credit as of December 2022

**Back to Consumption**



# The outer limit of the consuming class seems to be ~30m households

Across several premium consumption categories, we see a range of 25-40m unique users or 20-30m households



**Only 1% of India (13m) traveled abroad for tourism in '22**



**30mn wired broadband homes\***



**Less than 30mn demat accounts with holdings > ₹10k, out of 60mn unique demat users overall**



**25-30mn car-owning households**



**~40m unique credit card users  
~33m (likely) households using credit cards**



**~22mn taxpayers  
~70mn total tax filers**



**~40mn mutual fund investors**



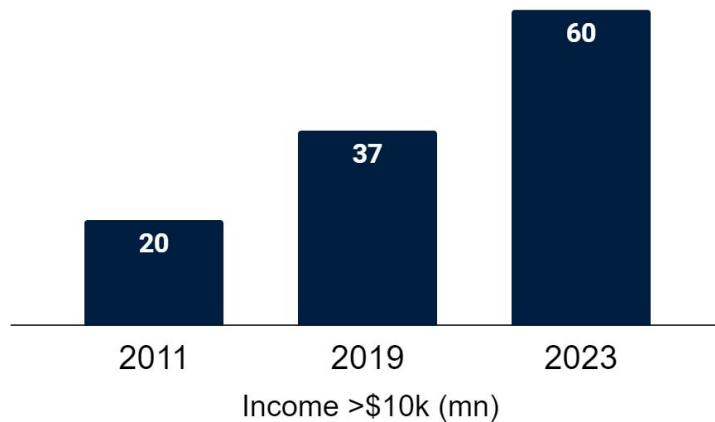
**35-40mn mature internet users  
25-30mn households**

\* relevant because these are homes that have regular electricity and more than 1 user accessing internet regularly

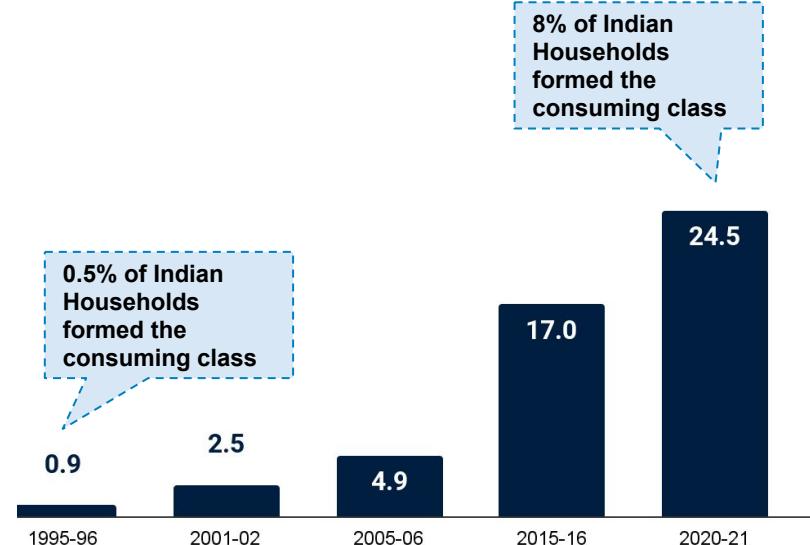
# That said, the Indian consumption class is growing steadily...

A look at different estimates of the growth of the consuming class

Goldman Sachs 'Affluent India' estimate



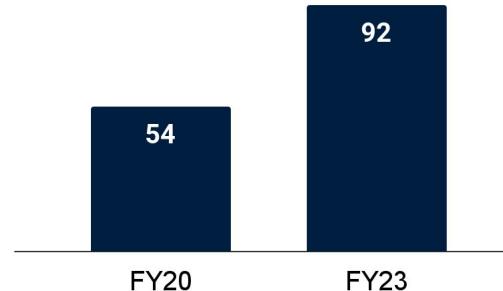
ICE360 chronicles the growth of the 'Consuming Class' in India



# ...ramping up consumption...

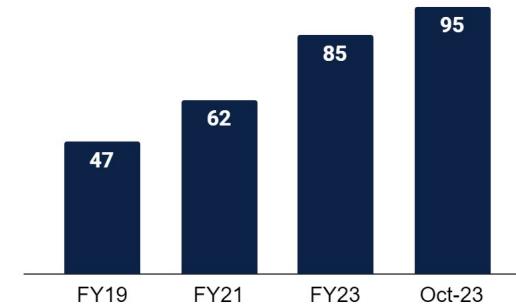
Over the last 4-5 years there has been a doubling or so of consumption units across different segments.

Rise in postpaid mobile connections (mn)



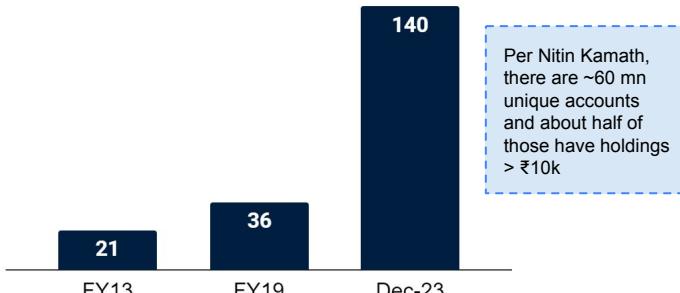
Source: Goldman Sachs

Growing credit cards (mn, non-unique holders)



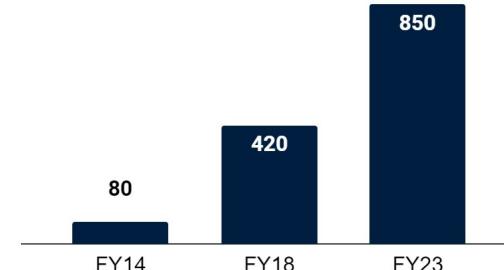
Source: Goldman Sachs

Demat accounts on the rise (mn, non-unique accounts)



Source: ICICI Securities

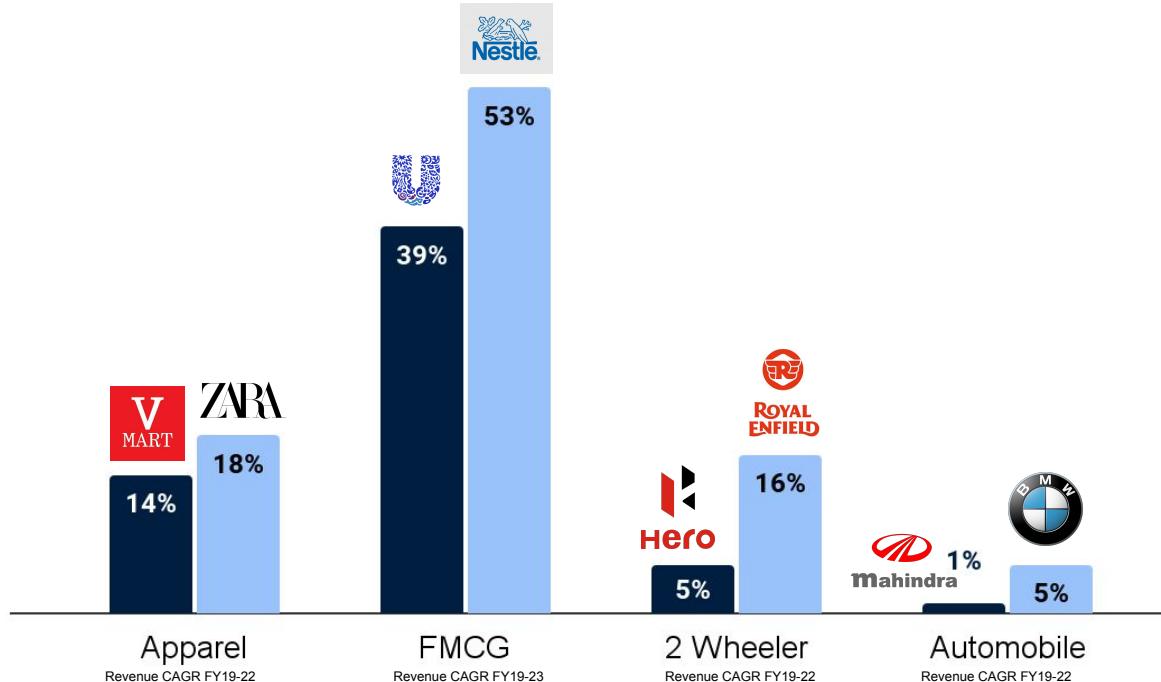
Broadband access has widened sharply (mn)



Source: Phillip Capital

# ... and this growing consuming class has an appetite for premium products

Sales growth of premium brands have been outperforming mass brands across categories



# ...and this is leading to a K-Shaped recovery

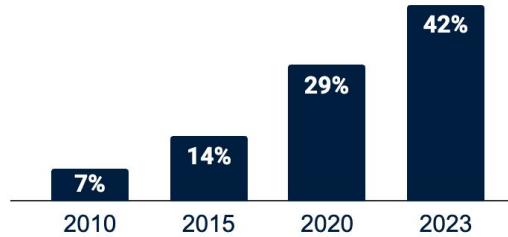
Sale of Entry Level Vehicles Declining (mn)...



Source: ET

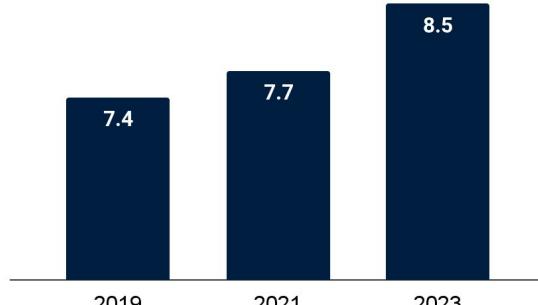
...while SUV sales are on the rise

SUV market share (%)



Source: ET

Avg selling price of property is rising (₹ mn)



Source: Proequity, Jefferies

Apple India sales set to overtake HUL sales (₹ bn)



Source: Jefferies

# Public market investors are waking up to rise of this trend, and the power of India1 in driving consumption and growth!

From 'Octopus Class' to 'Affluent India' to 'Urban Wealthy', a host of monikers emerge to describe this class.



Salil Desai On The Octopus Ascends: The ...



An 'octopus class' of nearly 10 lakh people drives consumption in India

Saurabh Mukherjea, along with his colleague Nandita Rajhansa, has coined the term "octopus class" to analyse the rise of this affluent class...

5 Oct 2023

Printed from  
**THE TIMES OF INDIA**

## 'Affluent India': The emergence of a wealthier consumer base

TIMESOFINDIA.COM | Jan 13, 2024, 09:45 PM IST



An equity research report by Goldman Sachs has shed light on the rapidly expanding segment of affluent consumers in India, projecting significant market implications and investment opportunities.

India1 has had a secondary impact on the stock market too. Their rising savings directed towards the stock market via SIPs helped stabilize the stock market when FIIs were selling. Let us understand this and other narratives underpinning the Indian growth story, in the next section.

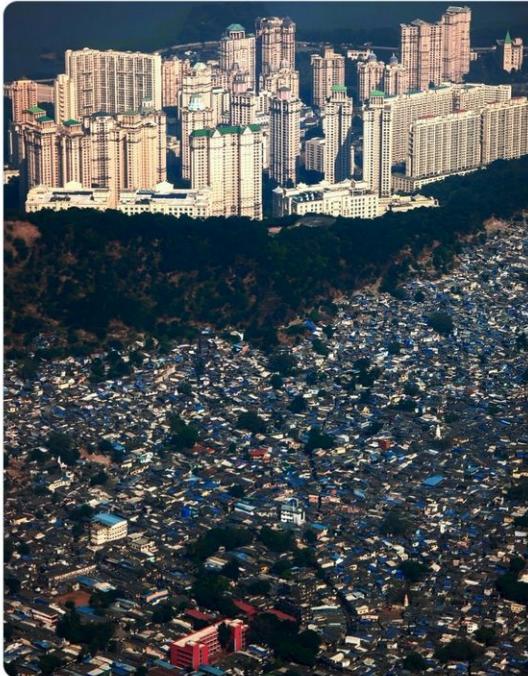


Joe  
@josephradhik

...

One city, two lives.  
Mumbai.

Shot on phone.



>Last edited 12:48 PM · Aug 12, 2023 · 634.8K Views

175

1.2K

11K

348



## Section I: India

# Equity Market

How Indian markets remain resilient despite turbulence in FII flows

- **Mutual funds hold up the India market**

All of those SIPs add up

Consumption

- **Indian markets are becoming expensive**

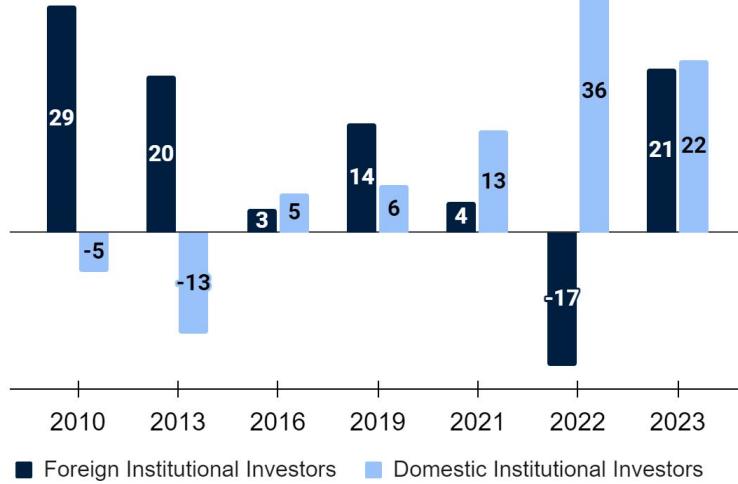
Markets have now entered nosebleed territory

Personal  
Loans

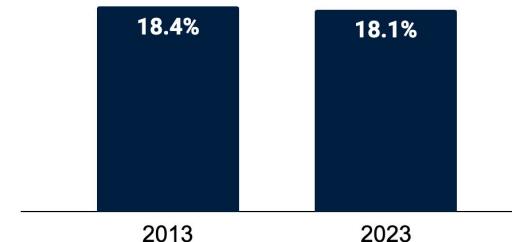
# Indian markets remain resilient despite turbulence in FII flows

FII (Foreign Institutional Investors) are not the dominant actors in the Indian stock market, presently. Domestic monies via Domestic Institutional Investors (DIIs) now match, and even surpass FII flows in recent years.

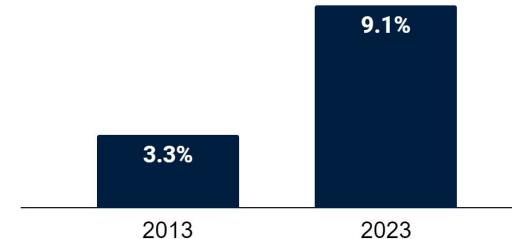
Domestic stock market investors step up (\$bn)



FII ownership of BSE500 stocks at a decadal low (%)



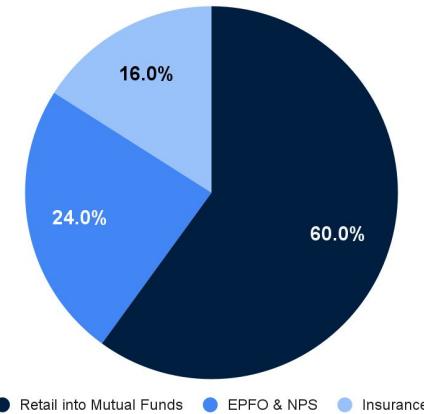
Domestic investor ownership of BSE500 at record highs (%)



# Mutual Funds account for majority of DII flow, thanks to SIPs

The SIP has become a stable source of domestic capital flowing into the Indian equity markets

Breaking down Domestic Inflows (%)

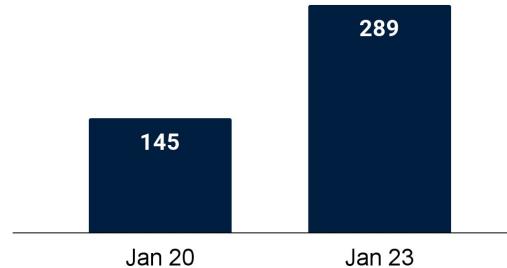


Broadly there is \$35-40b of domestic flows into the Indian stock markets. Typically just under 1% of the market cap value flows into the stock market.

SIP inflows on the rise (\$bn)



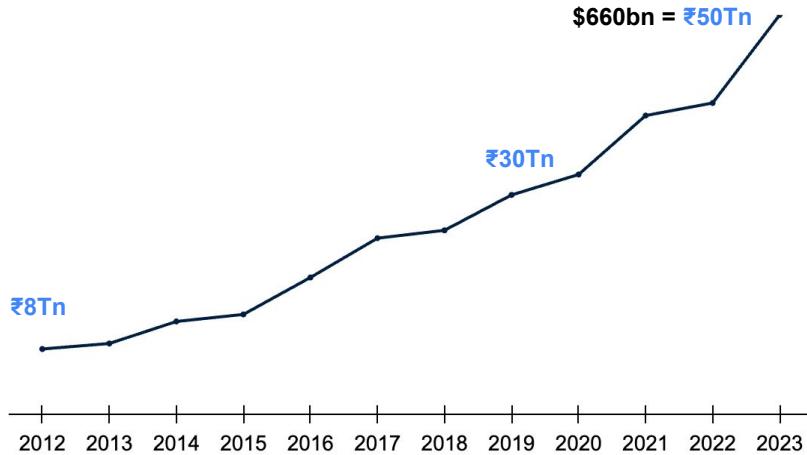
Household value of mutual fund assets (\$bn)



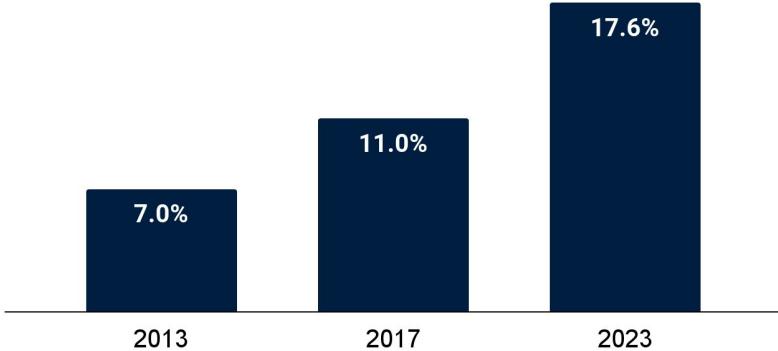
# Mutual Funds (MFs) are hitting record highs

Thanks to steady SIP flows, MFs are hitting record AUMs (asset under management) and % ownership of the market

Mutual Fund assets under management (₹Tn)

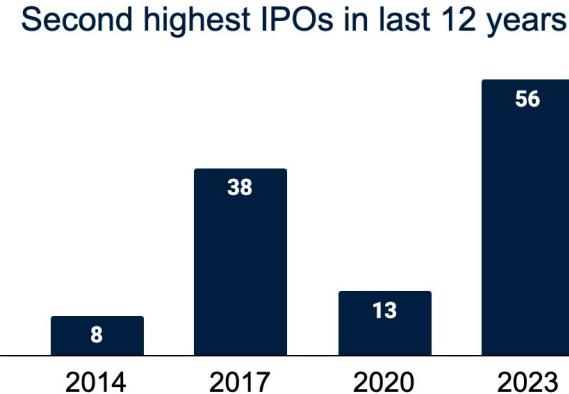
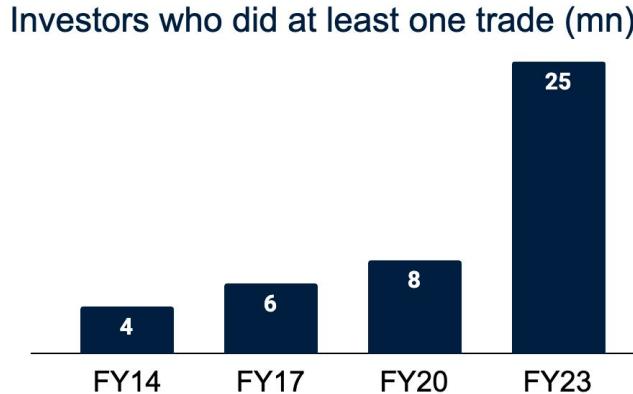


Domestic MF ownership as % of NSE's free floating marketcap



# In parallel to MF and SIP growth, there is rising retail investor activity in the stock exchanges too

India's rising disposable incomes need to go somewhere and the stock market is a favourite parking spot!



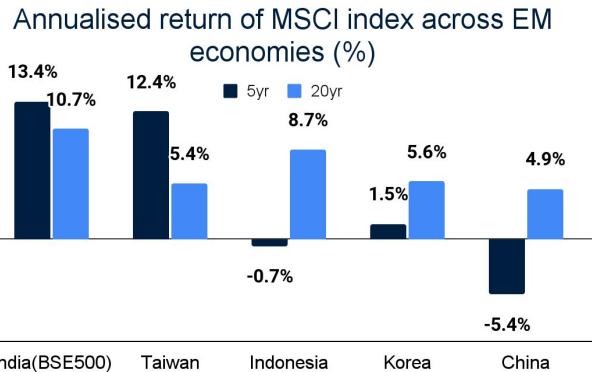
IPO Frenzy: Investors lock up  
₹2,58,000 crore in race for shares  
worth ₹7,400 crore



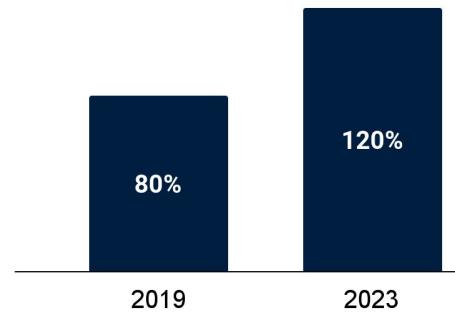
India is in the midst of an unusual  
IPO boom

Extraordinary economic growth makes even ordinary companies look good

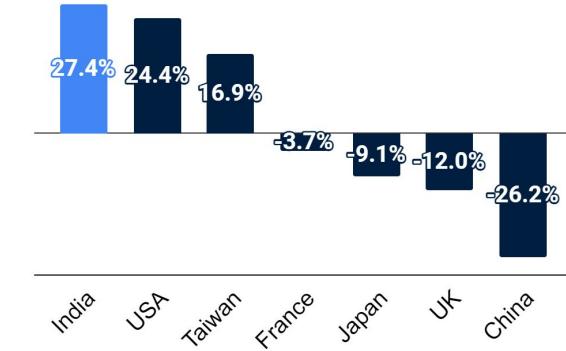
# All of these monies going into the stock market means India is an outperformer market but also an expensive one



India's market capitalisation to GDP (%)



Valuation premium/discount to 18Y avg (%)



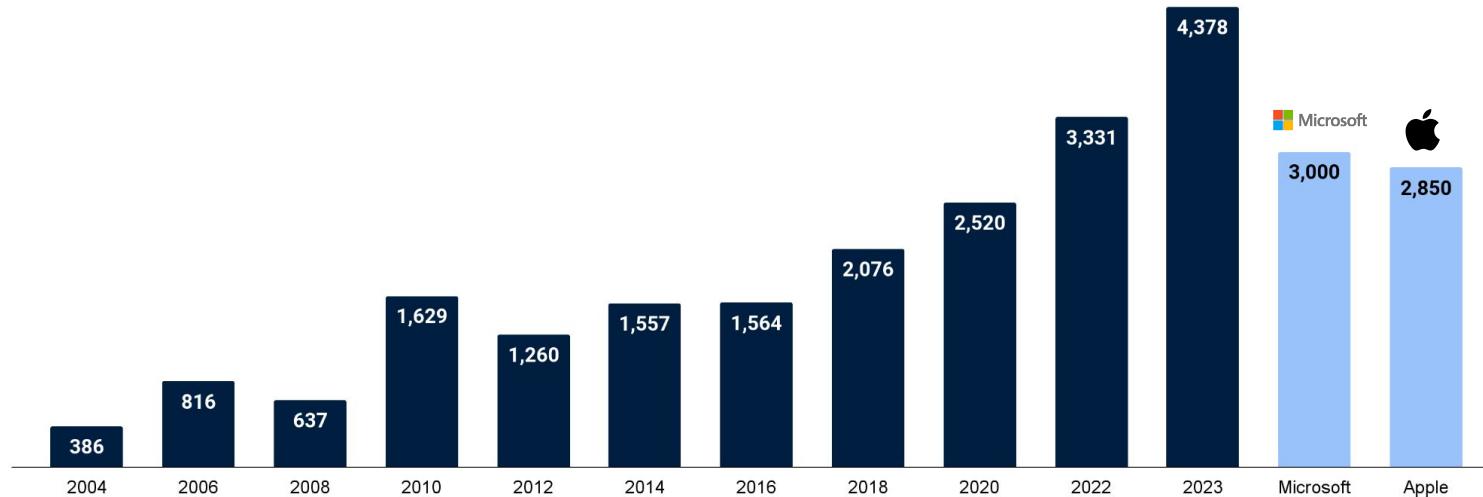
*Comparing peer economies market cap as a % of GDP (2023)*

USA 190% (highest)  
UK 100%  
China (including HK) 80%

# An ‘unfair but relevant’ comparison

The Indian stock market has had an impressive journey, but it is still smaller than two US tech stocks.

India stock market capitalisation trend (\$bn)



**India's biggest company by market cap is Reliance (~\$250 bn)**

In the coming years, we hope to see Indus Valley generate a company on the scale of the US tech giants!

## Section I: India

# Personal Loans

A key theme of the past few years has been the boom in retail credit especially unsecured Personal Loans

Equity Market

## → Rise of small ticket loans

India's fintechs expand the credit market, bringing in India2 and New to Credit Borrowers

## → Why RBI is worried!

These New to Credit borrowers push down asset quality, driving NPAs high, and getting RBI worried

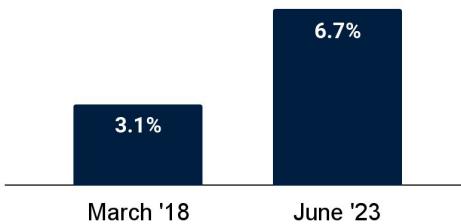
India's Export

# It is all personal!

The rise of unsecured credit has been one of the key themes of the Indian economy in recent years

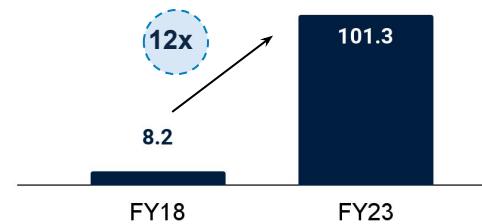
Personal loan disbursements have steadily risen

Personal loans as % of total loans



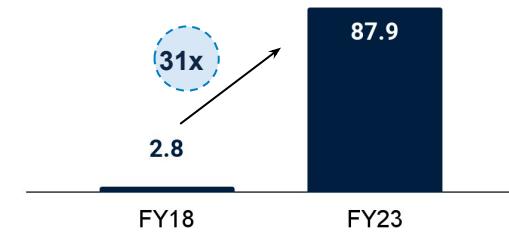
Personal loans have grown 12x in volume

Total Personal loan by volume (mn)



...which means most loans are small ticket personal loans (< ₹1L)

Small ticket loans in volume (mn)

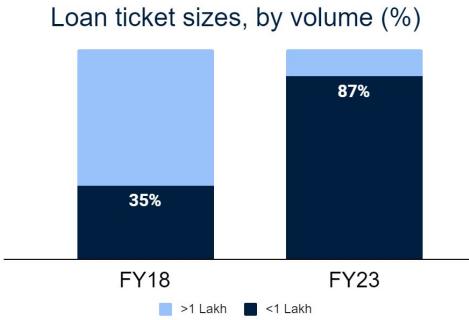


...but have only grown 3.5x by value...

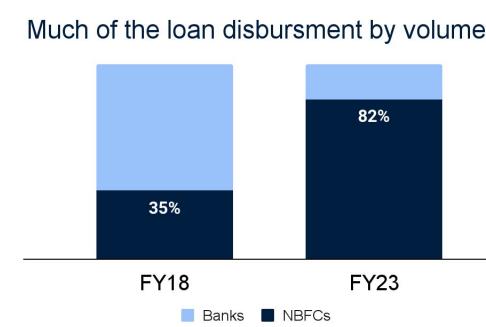
# Much of small ticket personal loans are via NBFCs, not banks

82% of all personal loans are dispersed by NBFCs (a fair bit of these are fintechs, or originated via them) but they only make up about 30% in value.

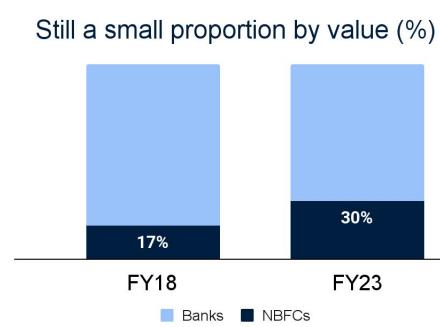
**1** Small ticket loans account for nearly 9/10ths of loans by volume



**2** NBFCs account for four out of five personal loans disbursed in FY23...

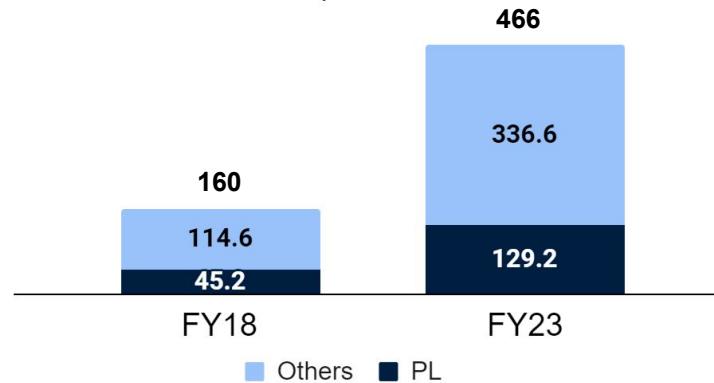


**3** ...but less than 1/3 by value and hence are mostly driving small ticket personal loans.

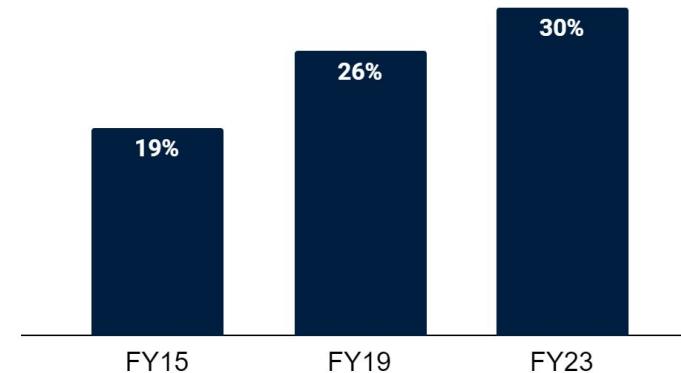


# Spurred by the growth in personal loans, retail credit has grown to be the largest segment of credit in India

Total retail loans (and share of personal loans) in \$ bn

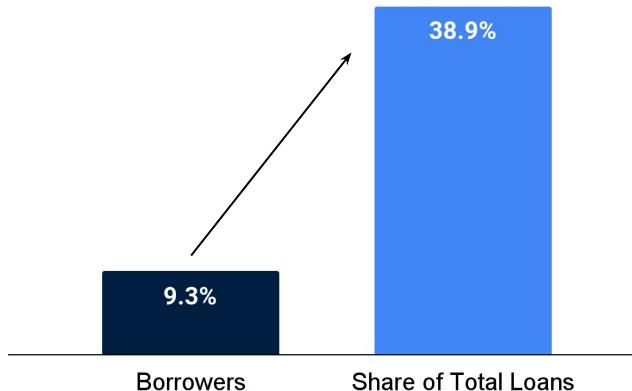


Retail credit as % of overall credit



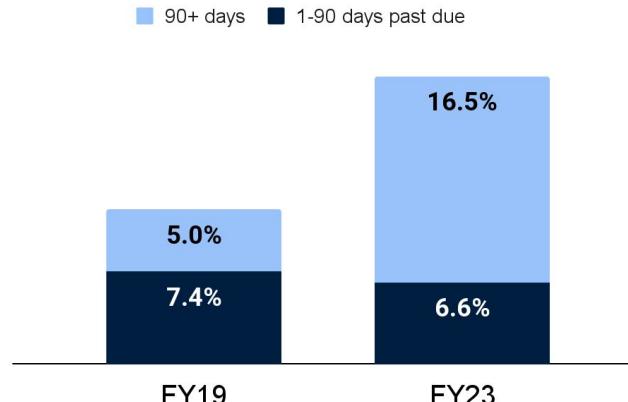
# However, much of personal loans growth is on the back of poor quality borrowers

Two-fifths of personal loans are to borrowers with 5+ loans



About 10% of the borrower base have 5+ loans and they account for two-fifths of the loans. Clearly some are using it to rotate monies across these loans, and are in a debt spiral.

>3x increase in loans to defaulters with a 90+ day due loan

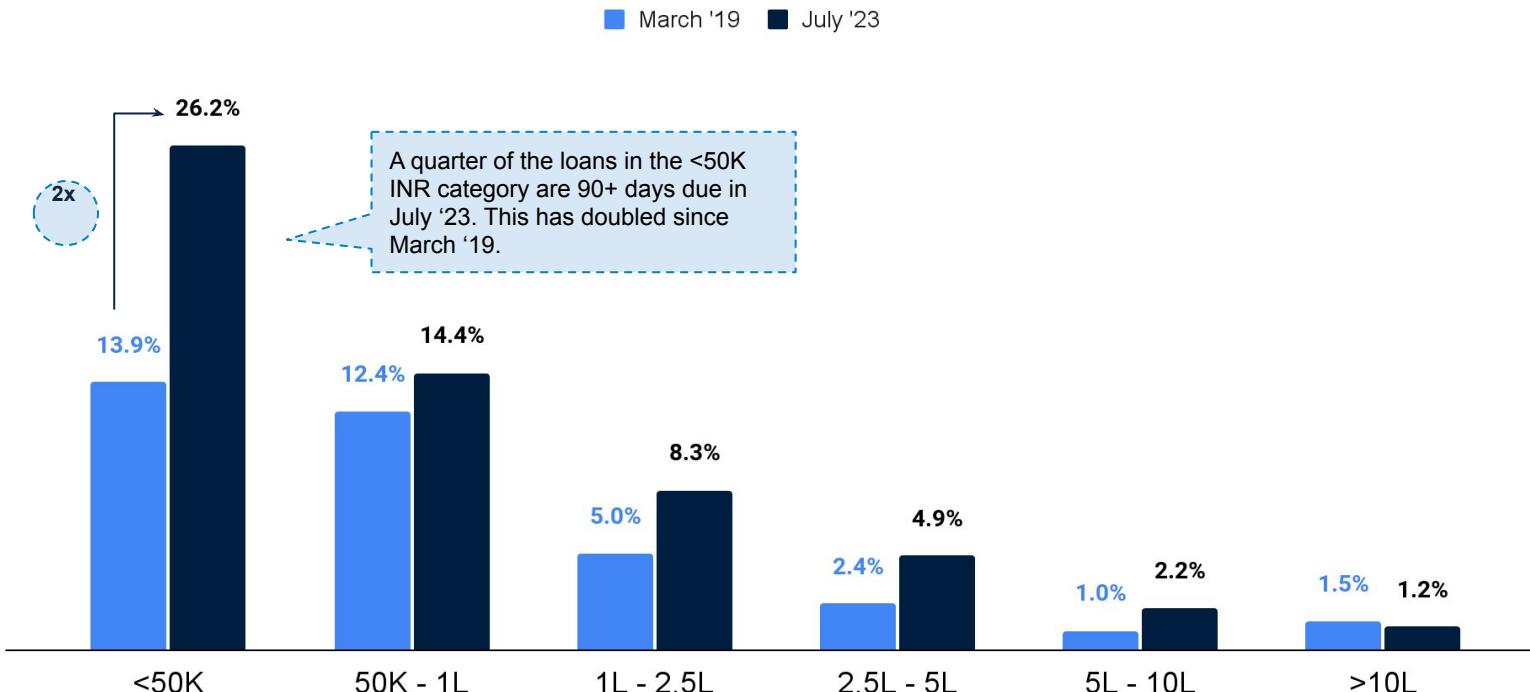


23.1% of new loans in FY23 were to borrowers who had at least 1 delinquency. This has doubled from FY19. Even as delinquency worsens due to poor quality borrowers coming on board, these borrowers are targeted further for newer loans.

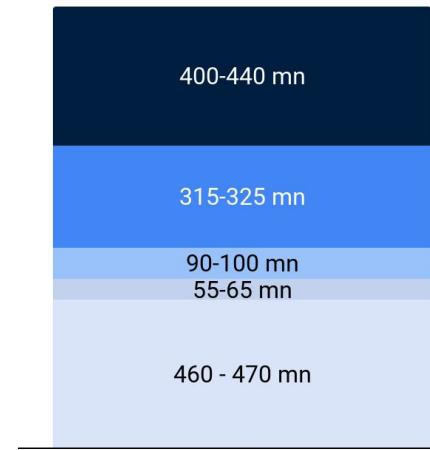
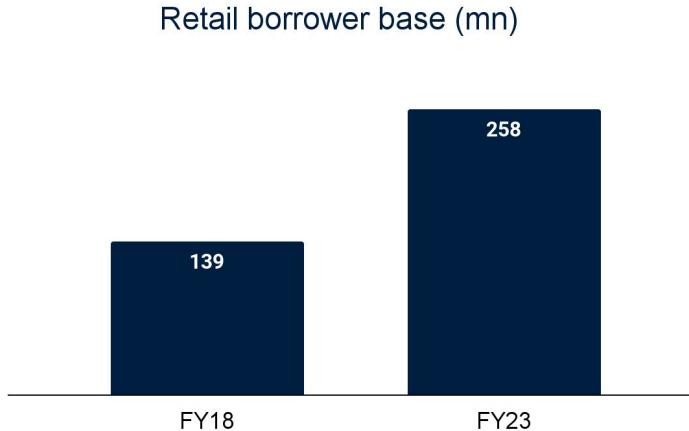
# Just over a quarter of loans < ₹50k are NPAs (90+ days due)

Rise of personal credit on the backs of dispersal to high credit risk customers is leading to higher NPAs. The lower the loan ticket size, the higher the default rate.

Percentage of loans which are NPAs (90 days past due)



# At 258m borrowers, we are nearing the limit of the addressable market for credit (India1 + India2)



McKinsey estimates ~400m, but given our estimates of ~100m India1+2 Households and 2.5 adults per Household we feel we are hitting the limits of the credit-viable segment

**Eligible customer base**

**Rural population (Low income)**

**Urban population (Low income)**

**Population >65 y/o**

**Population <20 y/o**

New to credit customers (barring young India1 entrants, i.e., career starters) are typically from the bottom half of India2. They are economically less well off, and not used to how credit works, and the discipline of paying it back.

# And hence, RBI is worried

## 'Worried over high growth in personal loans'

2 min read • 07 Oct 2023, 12:27 AM IST

Gopika Gopakumar

Personal loans are 30% of bank advances today, up from 18% in 2010

RBI is monitoring personal loans for signs of stress



Shaktikanta Das, governor of the Reserve Bank of India (RBI) (Bloomberg)

New Delhi: Reserve Bank of India governor Shaktikanta Das cautioned against the risks of "very high growth" in personal loans and urged lenders to strengthen their internal surveillance mechanisms and address the build-up of risks.

Deepak Shenoy ✅  
@deepakshenoy

This can also be a problem, as they note at the RBI, with too high a concentration of growth in loans, and then what they call "stacking" which is effectively people taking loans from multiple lenders and then finding it difficult to repay.

The resulting credit concentration in the retail segment can be a source of systemic risk (RBI, 2022). In the long term, such concentration or co-movement of portfolio strategies can still result in the emergence of systemic risks. Another retail loan portfolio concentration risk can arise from loan stacking, wherein borrowers can avail of loans from many lenders, which over time can adversely affect the borrower's capacity to repay.

1:17 PM · Jun 26, 2023 · 5,913 Views

In December '23, RBI intervened by increasing the risk weight of personal loans to 125%, implying that lenders needed to raise more capital to grow. This slows down lending though won't stop it altogether.

## Section I: India

# India's Exports

India's most powerful export is people and the ideas Indian people embody

## → **India's Diaspora**

Deconstructing the Indian diaspora

## → **India's different exports**

Beyond services exports, there are other people exports too

Personal  
Loans

Government



Anmol   
@anmolm\_

India's greatest global export isn't software, but its people

9:30 AM · Jan 12, 2024 · 33.1K Views

23

20

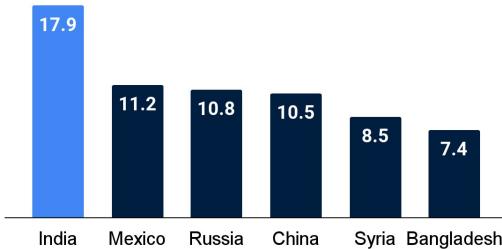
195

2

# India is the largest exporter of human capital in the world...

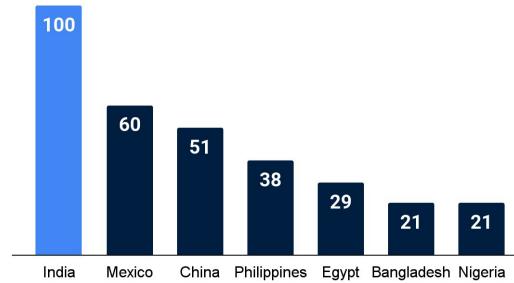
**India is the largest migrant country in the world**

Top country of origin for migrants (in mn)



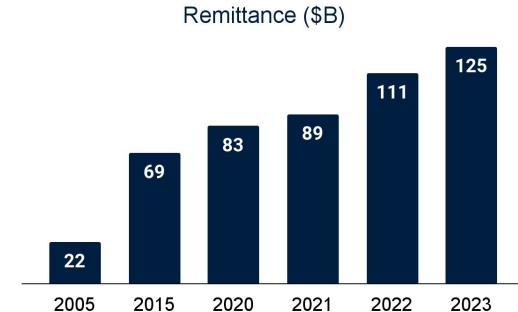
**Indians abroad send back a lot of money, the highest in fact**

Top recipients of remittance (\$B)



**This remittance has been growing steadily**

Remittance (\$B)

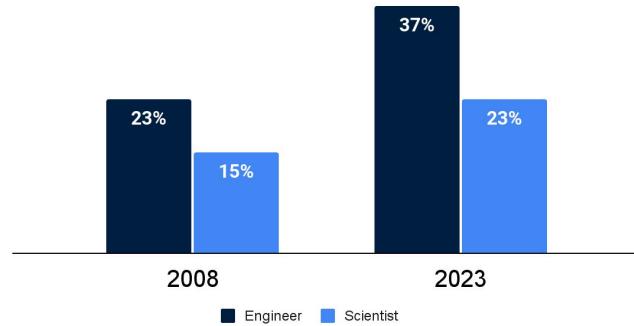


Migrant transfers to India are deemed to be a more stable form of foreign inflows vis-a-vis those like foreign direct investment (FDI) due to their relative stability even during macroeconomic downturns. Remittances account for over 20% of the total foreign exchange reserves in the country and has helped prop up the INR

# ...and has the 2nd largest diaspora in USA, but the highest earning

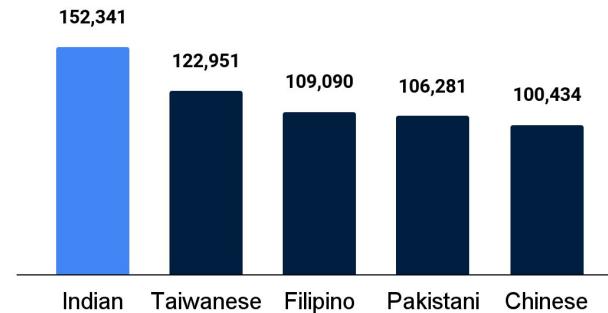
About a third of engineers & a quarter of scientists in US IT companies are of Indian origin, per Barclays

Indian workforce in IT/software companies in US (%)



In the US, the Indian community is the model minority, with the highest incomes of any ethnic groups

Median household income by ancestry (in \$)

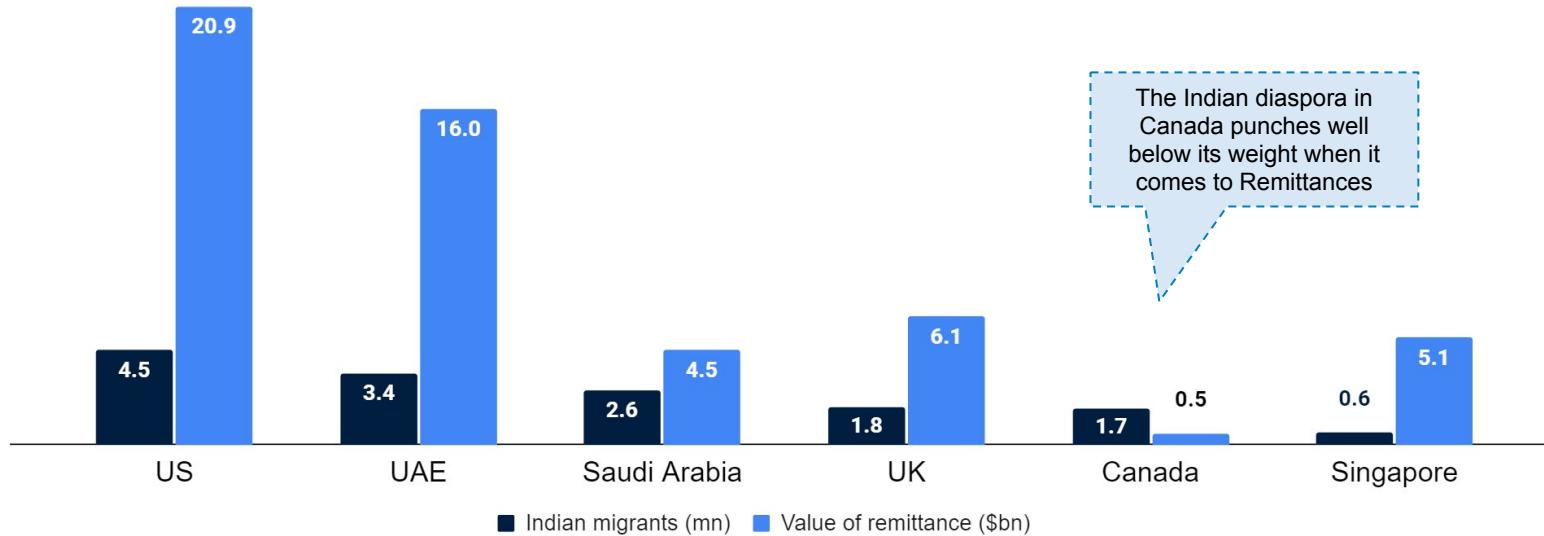


In Australia, they are the second highest earning migrant group, but in other countries like UK, Canada, there is a lot more blue collar migration pulling down income of Indian-origin migrants in those counties.

# But not all migrants are model migrants

India has two sets of migrants - the 'English' class and the Exit class; the first an elite white collar class, and then the second seeking an exit from economic or social distress

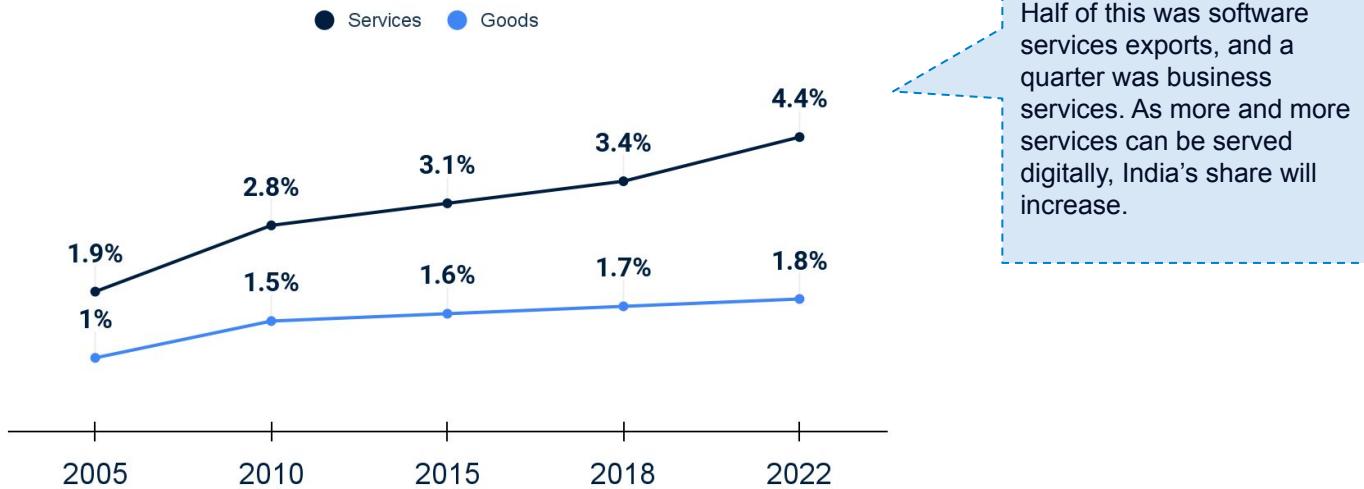
Indian migrants (in mn) and 2022 remittance (\$bn) from top destinations



# India's rising services exports is a testament to the power of its human capital

India punches above its weight class on services exports

India's share of world exports, for services & goods

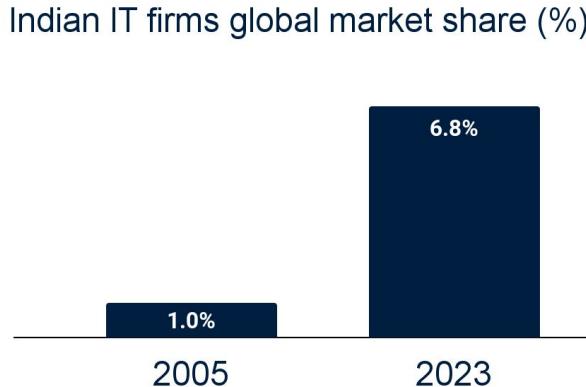


Half of this was software services exports, and a quarter was business services. As more and more services can be served digitally, India's share will increase.

# After people, India's most influential export is software services

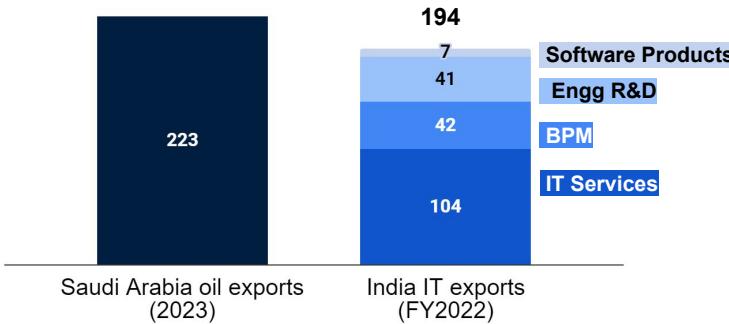
The software (or IT) sector has created 4.5m direct jobs & 12m indirect jobs, which is ~30% of India's white collar sector

## Indian IT sector's global market share



## An 'unfair but relevant' comparison

Saudi Arabia oil exports vs Indian IT exports (\$bn)



# And now India Stack / Digital Public Infra is getting exported too

Indiastack, the Digital Public Infrastructure stack (which includes, UPI, Aadhaar and other digital rails) pioneered by India, has caught the world's attention and is being exported to the rest of the world.



The World Ahead | Asia in 2024

## India has big plans to export its e-government technology

*From biometric IDs to payment systems, it has a lot to offer*



State of the Markets: India  
Sept 2023

"Digital public infrastructure developed in India is being adapted globally. For example, UPI developed by the National Payments Corporation of India (NPCI) has become the world's fifth-largest payment network behind only Visa, Alipay, WeChat Pay and Mastercard. UPI is currently live in countries like Nepal, Bhutan, Singapore and UAE and is expected to double the next 12 to 18 months"



## India points the way to digital access across Africa

David Pilling

The so-called India Stack — a public digital highway that enables payments and biometric identification — has transformed the lives of millions of Indians, according to its advocates. Now, this kind of digital public infrastructure, or DPI, is being held up as model for other countries seeking to boost economic growth, and meet sustainable development goals.



## Trinidad and Tobago becomes latest country to sign up for IndiaStack tech package

*The Caribbean nation joins the list of others such as Papua New Guinea, Antigua & Barbuda, Armenia to tap India's home-grown technologies such as UPI to advance their own digitization.*

# Increasingly India is also exporting culture, and flexing its soft power

Thanks to a combination of a large english speaking population, huge diaspora, a large market, India's culture is quickly seeping into the world

## 1 Indian culture is going global

'Naatu Naatu' From 'RRR' Wins Best Original Song

The rollicking dance hit beat out two songs featuring American pop megastars.

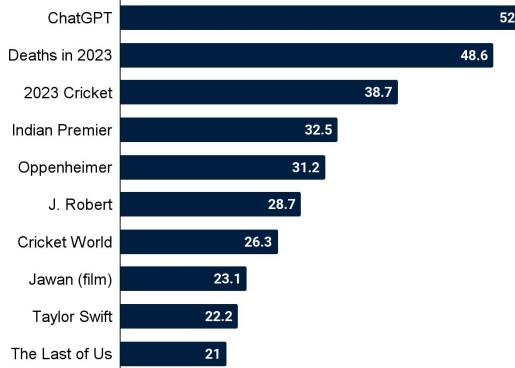
[Share full article](#)



Chandrabose and M. M. Keeravani accept the best original song award for "Naatu"

## 2 Slowly, steadily, an Indian Internet

Most viewed wikipedia pages in 2023 (mn)



*In all likelihood, India (~120m) constitutes the second-largest English reading country after the U.S.*

## 3 Pay via UPI overseas



UPI formally launched at the iconic Eiffel Tower at the huge Republic Day Reception. 🇮🇳🇫🇷

Implementing PM @narendramodi's announcement & the vision of taking UPI global.



Jawed Ashraf and 6 others

6:44 PM · Feb 2, 2024 · 1.1M Views

## Section I: India

### India's Exports

## Government & Indus Valley

A key theme of the past 15 years has seen the rise of Digital Public Infrastructure and how governments and startups have leveraged those for productivity and growth

### → **DPI and its impact**

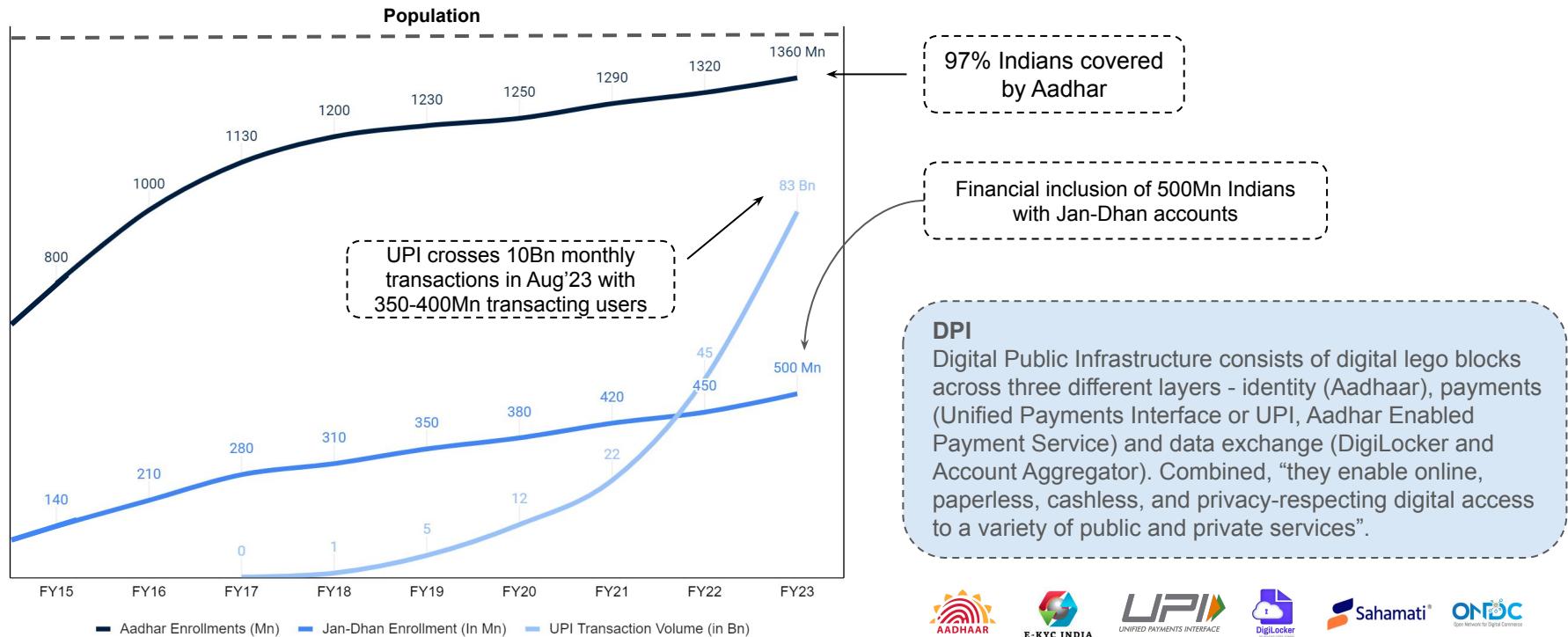
How government and startups have leveraged DPI

### → **Government taketh too**

Crypto, Fintech and Gaming have scar tissue

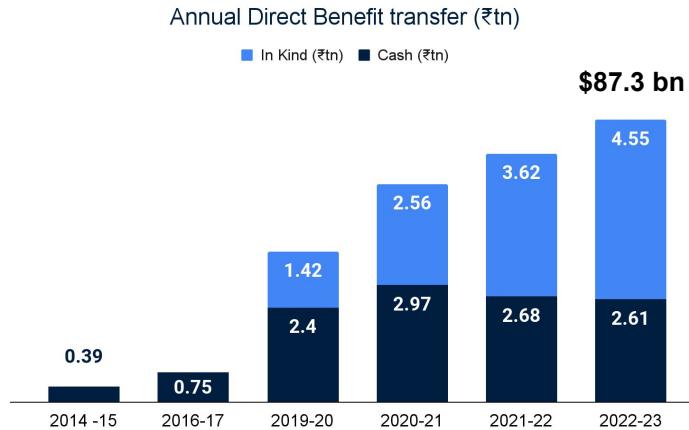
# India has incorporated technology as a key element of governance

A key development of the last ~15 years is India's emergence as a Digital Welfare State, leveraging Digital Public Infrastructure (DPI) for welfare goals

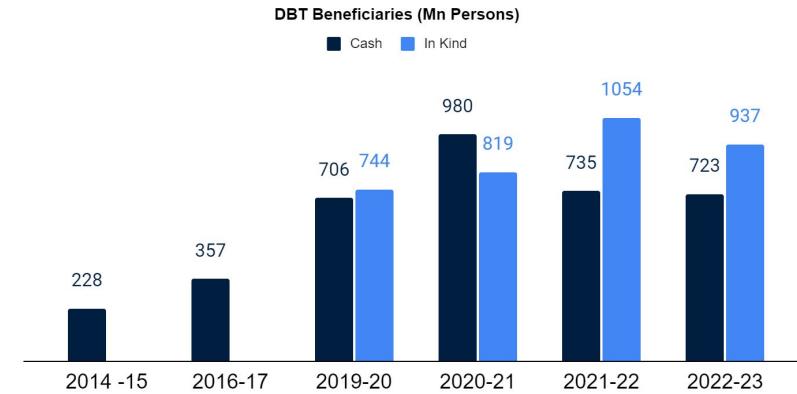


# How India uses Digital Public Infrastructure (DPI) to become a digital welfare state

Direct benefit transfer (DBT) allows the government to reach almost every citizen efficiently and cheaply.



*In kind* is when government gives provision of goods, services, or benefits, rather than providing cash or monetary assistance



In the last decade, India has built one of the world's largest welfare programs leveraging DPI. This approach has supported transfers amounting to about \$350 billion directly to beneficiaries. Per the government, as of March 2022, this had resulted in a total savings of \$33 billion, equivalent to nearly 1.14% of GDP.

# Startups have leveraged DPI to grow faster, as well as create new revenue opportunities

Fintech, and now Mobility and Ecommerce sectors have benefited from incorporating DPI into their workflows, or building business models atop these protocols

DPIs	How startups leveraged these	Examples of startups who leverage these DPIs
 	Used for onboarding (faster KYC)	 Groww  slice  Jio  ZERODHA
	Build consumer apps aboard the protocol	 Paytm  PhonePe  Google Pay
	Access to documents held for verification	 CRED  ZERODHA
	Building consumer apps aboard the ONDC protocol	 namma yatri  magicpin
	Playing the Account Aggregator role or lending using AA framework	 FINVU  OneMoney  LENDINGKART

# Case study: How Zerodha leveraged DPI

Zerodha's Nithin Kamath tweeted about how they leverage Aadhar eKYC, eSign & DigiLocker to ramp up account creation



Nithin Kamath

@Nithin0dha

1

We, [@zerodhaonline](#), just got to 1 crore customers.

Looking back, the biggest tipping point was AADHAR for online account opening. Can't thank the Government & SEBI & Exchanges & Depositories enough for making this happen.



Nithin Kamath

@Nithin0dha

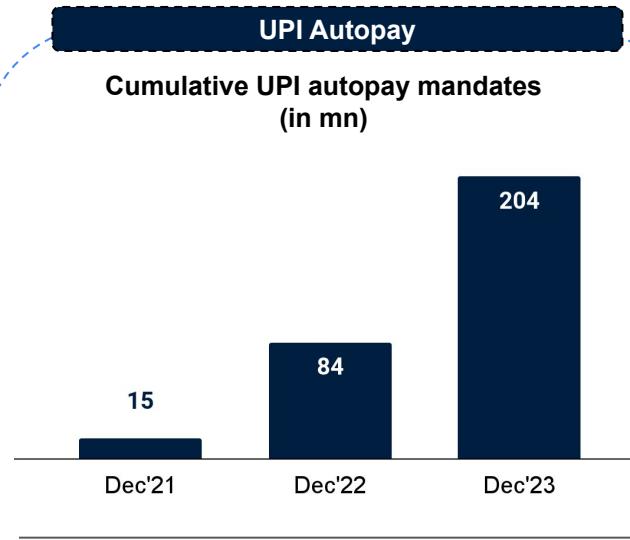
2

It took us 6 years to get to our first 60k customers, each of whom had to sign and courier 40+ pages of forms and wait for days. We got to 1 crore customers in the next 6, entirely eliminating paper in the process. This was enabled by eKYC, digital signatures (eSign), & digital documents (Digilocker).

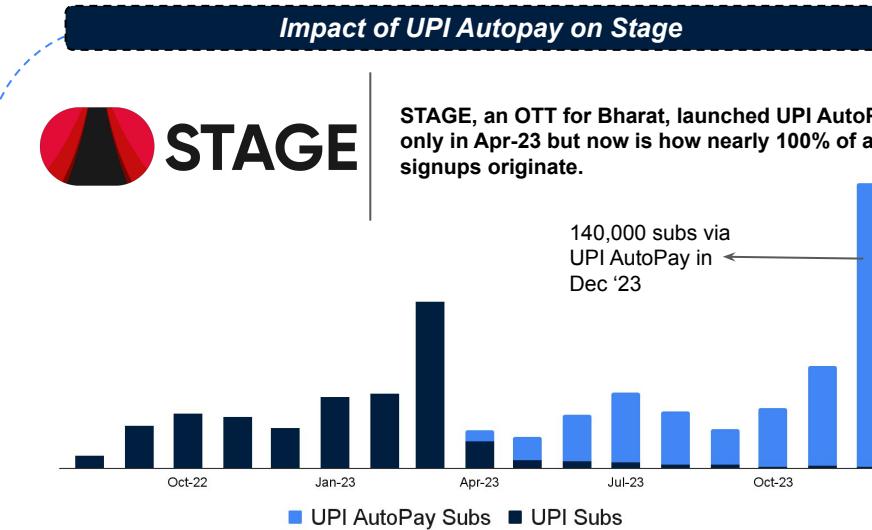
Source: [First tweet](#), [Second tweet](#)

# Case study: How STAGE leveraged DPI

UPI Autopay (Direct Debit / AutoRenew) has been a gamechanger for STAGE, and is now nearly 100% of subs signup flows



100+ merchants live on UPI Autopay



“UPI is ease of payment, hence solves for acquisition. UPI autopay is ease of renewal, hence solves for retention. The real power of UPI autopay is that it brings down the cost of re-acquiring a customer by 70-80%. For any business that serves the customer on a recurring basis, it is very effective.”

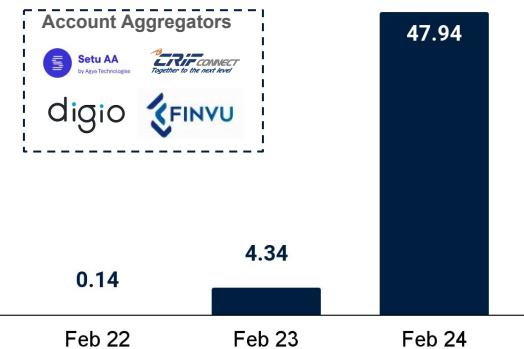
- Vinay Singhal, STAGE

# Case study: How Snapmint leveraged DPI for lending

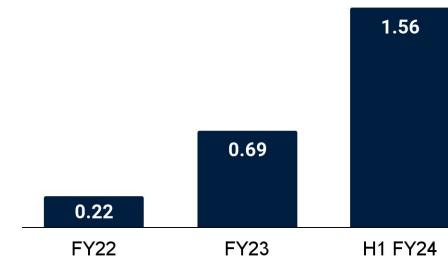
Using the Account Aggregator (AA) Framework helped SnapMint reduce costs of processing and grow revenues

## Account Aggregator Framework

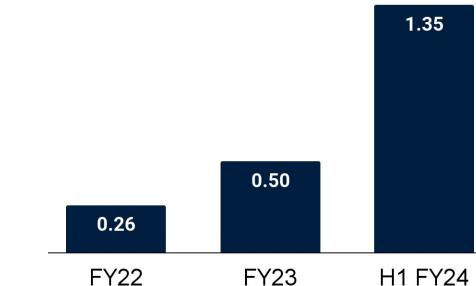
**Cumulative count of accounts linked by account holders (in mn)**



**Disbursement value (\$bn) of loans enabled via AA Framework**



**Number of loans (mn) enabled via AA Framework**



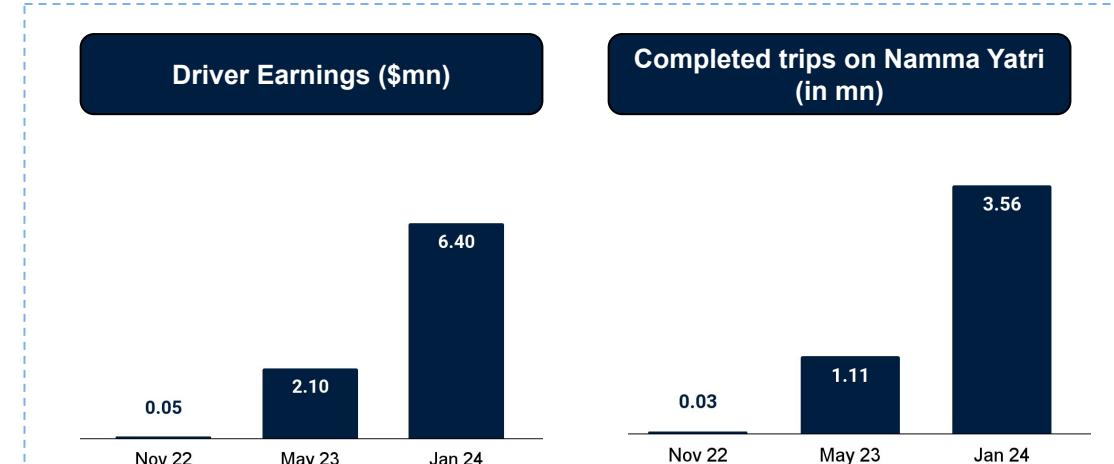
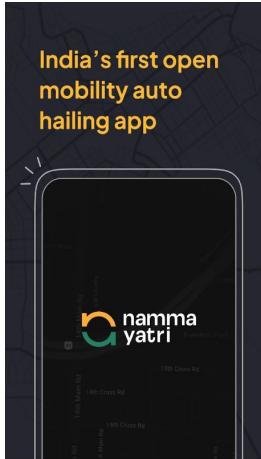
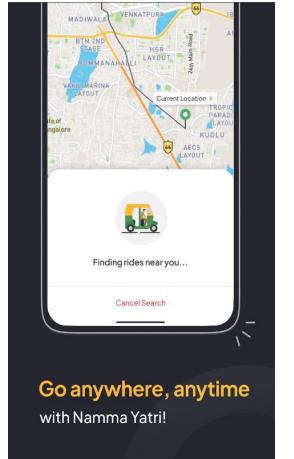
## Impact of AA Framework on Snapmint



- Drop in fraud rates to zero
- Cost of loan processing drops from ₹440 to ₹100
- Credit Limit Improvement up 55%
- Revenue lift 27%
- Bottomline lift 4%

# Case study: How Namma Yatri leveraged DPI

Namma Yatri is built on the open source Beckn Protocol, and helps drivers serve consumers without paying commission to rideshare platforms



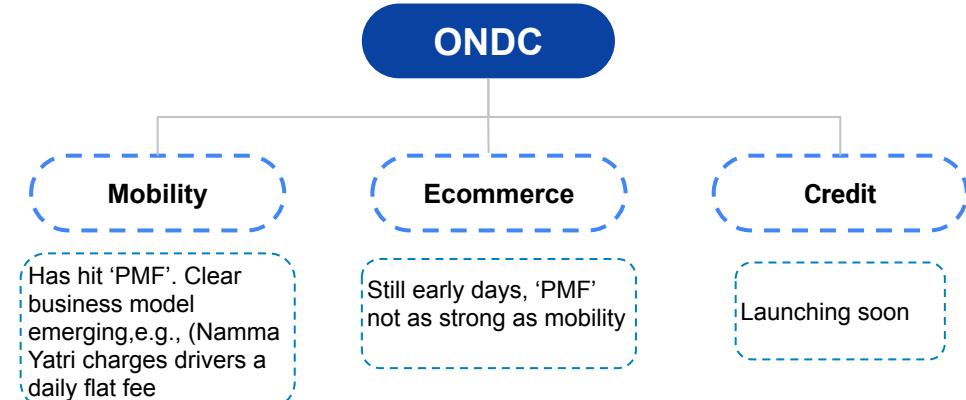
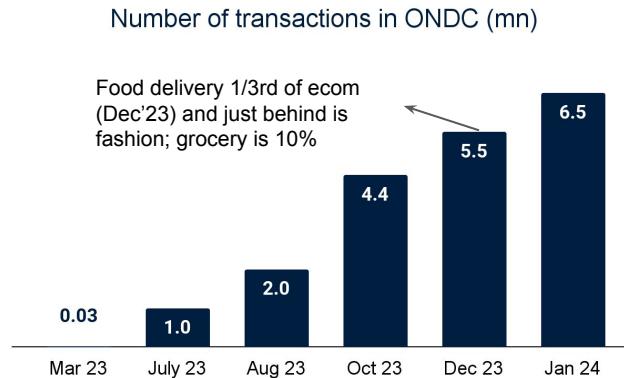
Unlike Ola, Uber which dock the driver a commission of ~20%, Namma Yatri charges drivers ₹25 (\$0.3) per day.

Drivers are matched with riders, and they settle payments amongst themselves.

## 21st Feb, 2024 Stats

- Bangalore ~120k trips & ₹~1.6crs (\$200k) earnings
- All India ~ 135k trips & ₹~2crs (\$250k) earnings

# Sidebar: ONDC Network



Anyone can plug into the ONDC network (which is based on the open source Beckn Protocol) as buyer, seller or enabler (seller aggregator, logistics provider, Online Dispute Resolver). On the Mobility front, JusPay (via Namma Yatri) has been an early mover. On the commerce front, PhonePe (via Pincode) and Paytm (via Paytm Mall) have taken the most aggressive steps in ecommerce. Magicpin in Food delivery has been aggressive too. No strong use case yet, take off point has been seen yet.

**ONDC's goal is to enable every seller to have access to the same tools that Amazon or Flipkart has.** A big focus is Kirana stores and helping them be able to sell, instead of large sellers dominating like Cloudtail. That said it isn't entirely clear how the ecommerce and credit space will evolve. Mobility is a lot more clearer.

The team seems keen for economic models to be discovered, and understands that UPI created value for users, but not entirely for providers. They are keen that the same mistakes don't repeat. That said, from their statements, it is clear that there won't be double digit margins to be made. The ONDC team is working on rolling out experiments in energy, skilling etc.

# DPI is not the only largesse from the government for startups

There are several schemes and funds for startups too



## Govt schemes & startup programs

Most of these have funding as an element of the program / scheme



**ASPIRE**  
A Scheme for Promotion of Innovation,  
Rural Industries and Entrepreneurship



## Space sector reforms

Non-Government Entities (NGE) such as startups to carry out independent space activities, coordinated through IN-SPACe a single window clearance agency under ISRO.

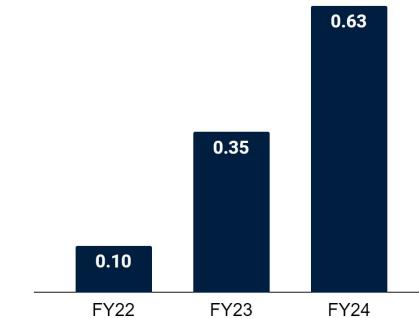
Opening up ISRO infrastructure and facilities and enable transfer of technology to industries.



## FAME subsidy

Promoting the adoption of electric vehicles by offering financial incentives to consumers to reduce the cost of acquiring electric vehicles, thus encouraging their use and manufacturing.

Fame subsidy allocation (\$bn)



## Biotechnology grants

Indian biotech startups have secured over \$50M of pre-seed grant funding via BIRAC grant.

BIRAC offers Incubation Support Scheme. The scheme offers up to 50% of the project cost as a grant.

# While the government mostly giveth, occasionally they also taketh



## Real-money gaming

[economictimes.indiatimes.com](http://economictimes.indiatimes.com)

### India set to implement 28% GST on online gaming from October 1

ANI

~4 minutes

Synopsis

**India is set to implement a 28% Goods and Services Tax (GST) rate on online gaming starting from October 1, following the consensus of all Indian states. The amendments to GST laws were recently passed in the Lok Sabha, and the law for the GST rate on online gaming will have to be passed by the assembly of states.**

1

The Indian government imposed a 28% Goods and Services Tax (GST) on online real money gaming, equating it with gambling. In addition it also imposed a 30% tax on the net winnings. This is likely to have impacted revenues of all the players.



## Crypto

[restofworld.org](http://restofworld.org)

### Indian crypto exchanges are losing investors in droves

7-8 minutes

On February 24, Indian crypto exchange WazirX abruptly shut down its NFT marketplace [“due to low volume and traction.”](#) The company said it had collected a fee of just around \$6 over the past 30 days while its “server expenses are in thousands of dollars.”

The development occurred about a month after WeTrade, an Indian cryptocurrency trading app, suddenly [paused operations](#) due to the “crypto winter deepening and the ambience turning increasingly hostile.” WeTrade had [originally targeted](#) a turnover of 100 crore rupees (around \$12 million) for the 2023 financial year.

WeTrade and WazirX’s NFT marketplace are just two among many casualties of the Indian government’s decision to bring crypto and virtual digital assets under its tax ambit. Since April 2022, all

2

All income from crypto and virtual digital assets in India is taxed at 30%, with an additional 1% charged as tax deducted at source (TDS) for every transaction over 10,000 rupees (\$125). This has decimated the industry, with volumes dropping 70-90% per estimates.



## Fintech

[businesstoday.in](http://businesstoday.in)

### RBI bars non-bank PPIs from loading credit lines; details here

Business Today Desk

4-5 minutes

Reserve Bank of India (RBI) has barred all non-bank prepaid payment instrument (PPI) issuers from loading credit lines, according to its recent notification. The central bank directed PPIs to stop this practice immediately if not done already.

Founder of portfolio management service (PMS) Capital Mind Deepak Shenoy tweeted, “So prepaid wallets from non-banks are told specifically that they can’t be loaded from a ‘credit line’ (as in, on-demand credit from a lender). This changes business models for the NBFC-linked wallets that allowed a ‘buy now pay later’ thing with on-tap loans.”

3

RBI’s above regulation impacted the fast-growing BNPL or Buy Now Pay Later business model. Effectively, RBI said non-Banks can no longer load credit on prepaid instruments such as digital wallets, or stored-value cards.

RBI’s mandate on recurring payments or auto-renew payments is making it necessary to provide an OTP for any transaction over ₹5k (now 15k or ~\$200). This impacted subscriptions of several startups in India and made paying for global SaaS tougher.

# **Section II: Indus Valley**



## Section II: Indus Valley

# Funding + Macro

What happened in the venture market in 2023, especially in regards to funding, and some macro trends

- **Slowdown in late stage capital**

The decline in venture funding was led by a sharp drop in growth funding. We try and ask why.

- **PE vs VC in India and China**

What the comparison of VC and PE funding across India and China points to.

IPO



Paul Graham



@paulg

I feel a bit out of touch with current fashions, because a couple days ago an Indian founder in the current batch asked if he should base the company in SF or India, and I said the Indian startup community seemed to be thriving and it would be fine if he wanted to go back.

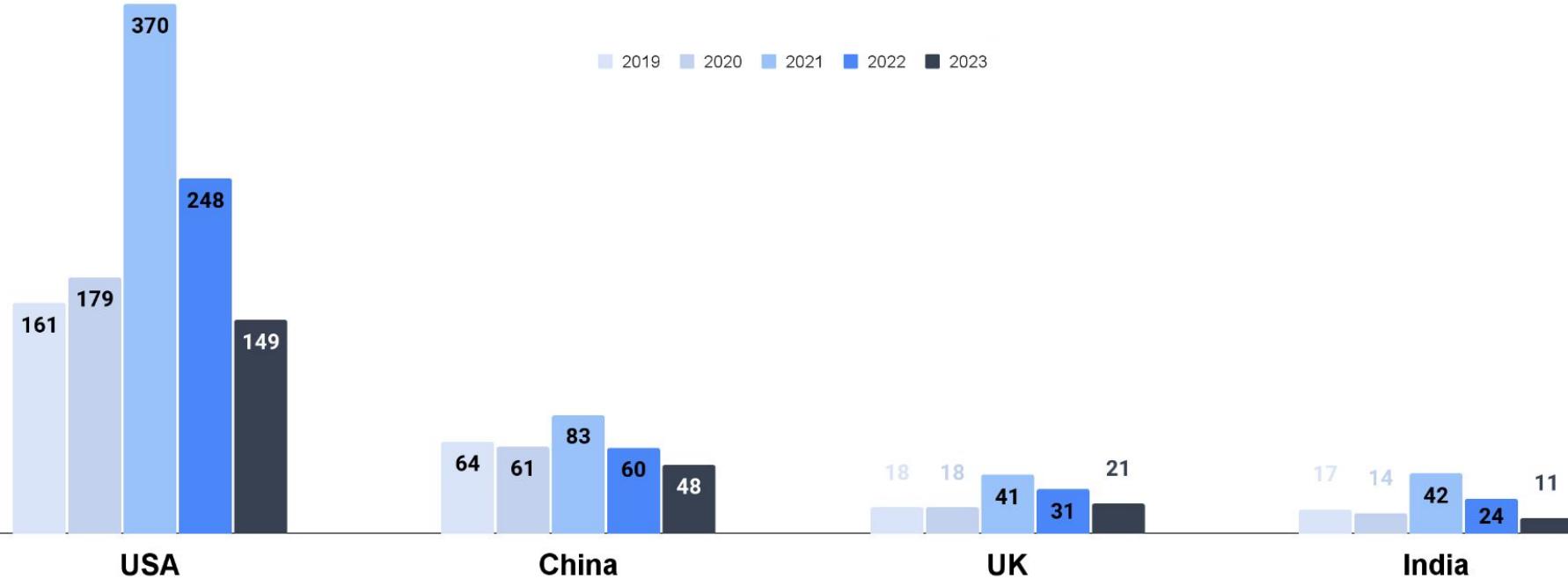
6:34 AM · Feb 20, 2024 · 856.4K Views

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# Venture deceleration continues, albeit more sharply in India

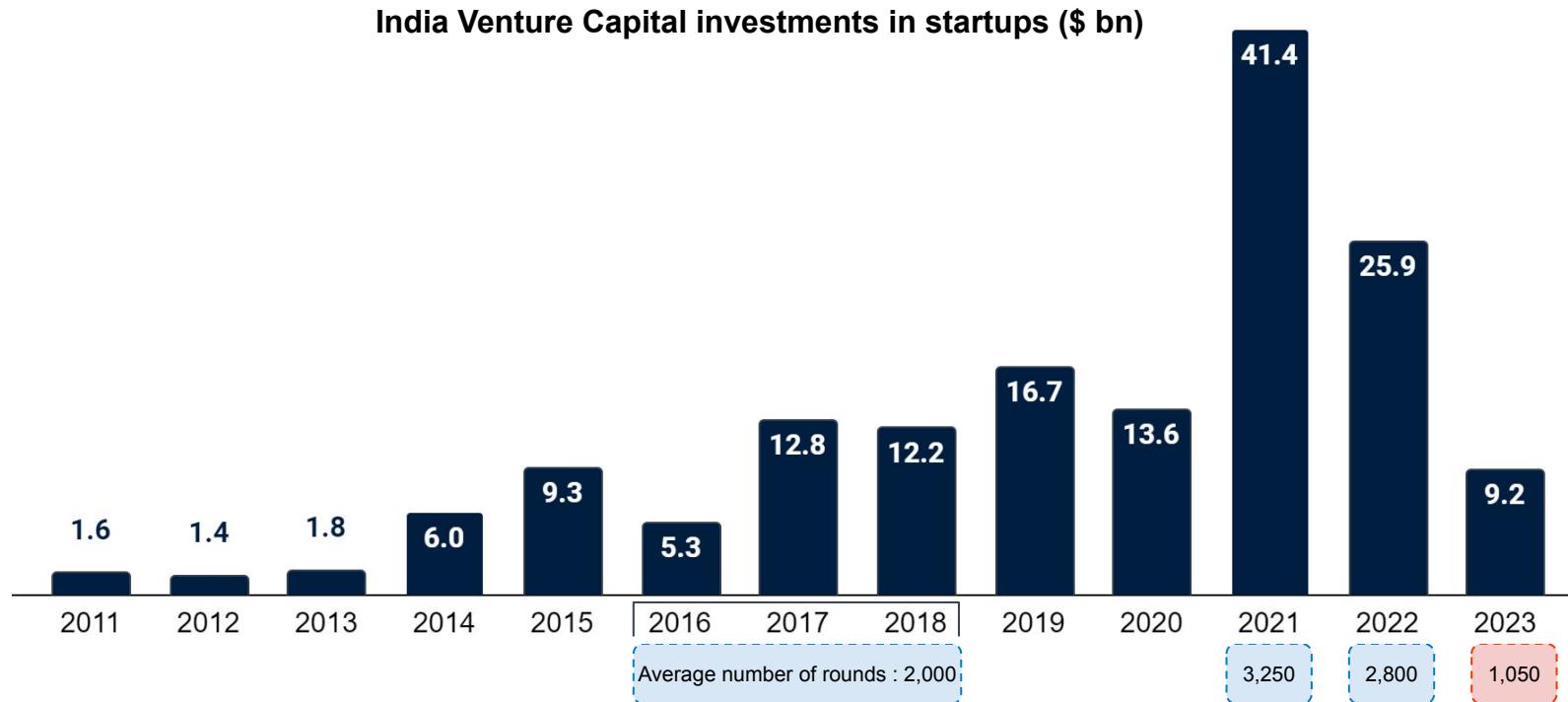
India continues to remain the 4th largest venture market globally in 2023, but about a fourth of what it was 2021

Venture Capital investments in startups over last 5 years (\$ bn)



# Venture funding in India has dropped to pre-2017 levels

Both the total value of deals, as well as the number of deals have dropped by over 60%!



Source: Tracxn

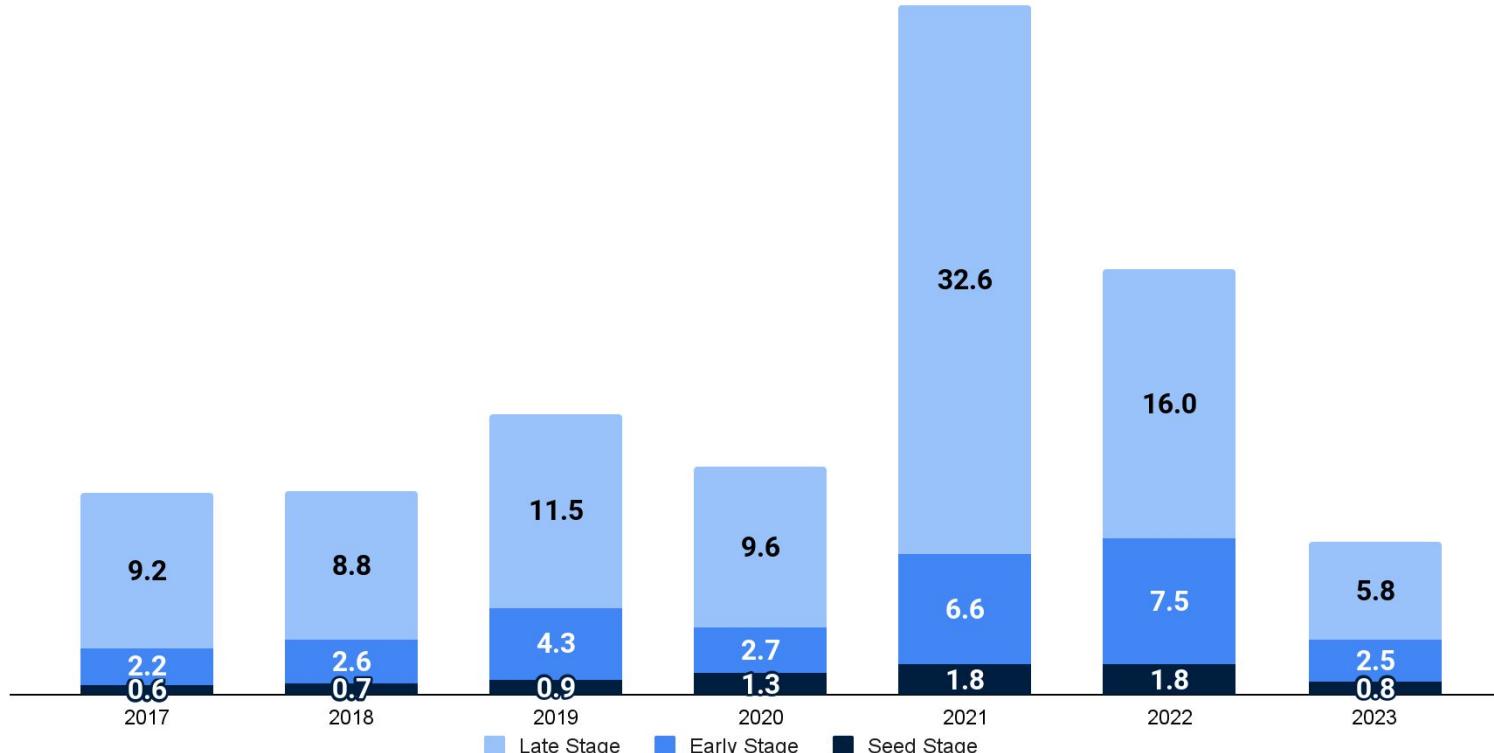
Each database may present data differently depending on how they categorised certain transactions.

You may see numbers differ from chart to chart depending on the database; that said the broad trendline should hold!

# Unpacking the drop in venture funding in India

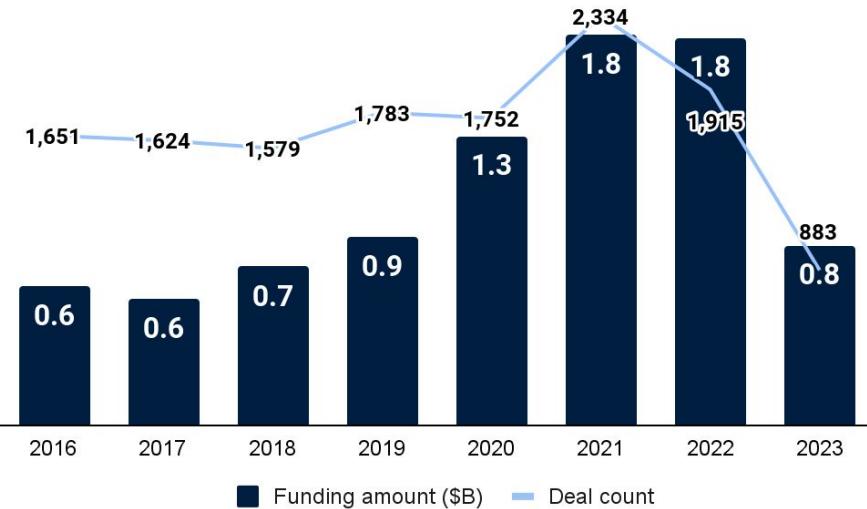
Seed funding has halved, but Early and Late Stage Funding has dropped two-thirds!

How Seed, Early, and Late Stage financing stacks up (\$ bn)



# Notes on the Seed market

Seed round funding and deal count



The average seed cheque has grown from \$360k (2.3crs) in 2016 to \$900k (7.3crs) in 2023

1

## The seed market is active but slow

A slow growth market as well as not seeing their high growth 2021 & 2022 seeds not get uprounds, led to seed firms slowing down

2

## First-time founders didn't get as much love as in previous years from seed funds

Seed firms became picky given slow growth market. They are paying up for higher quality deals, and became highly selective in the first-time founder market. This is seen in lower number of seed deals.

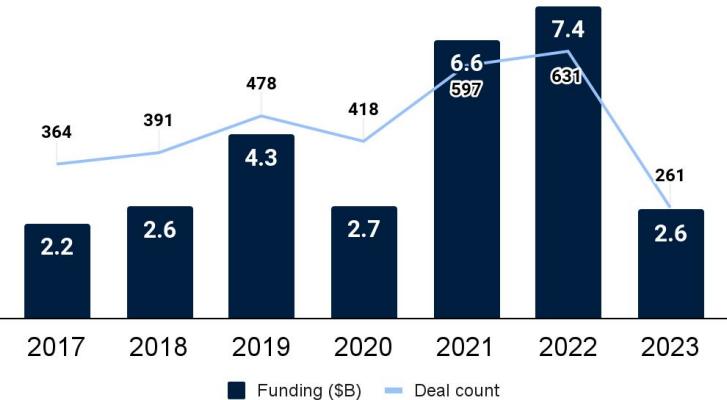
3

## Leading to the rise of Micro-VCs to better cover the first-time founder space

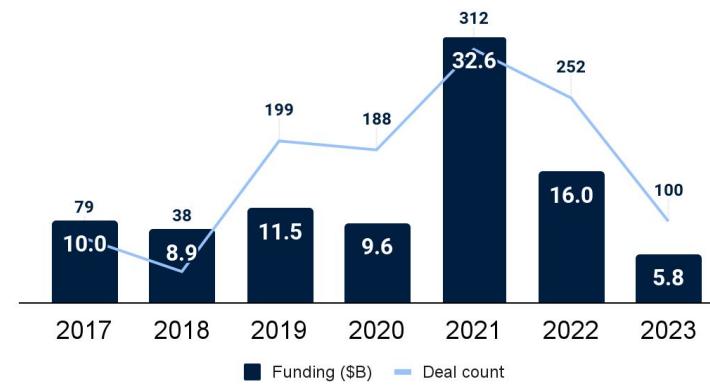
We also saw a decline in the Junior Operator founder persona [2-3 years experience in product and tech from high growth startups], typically more opportunistic than missionary, spurred by the then ZIRP bull market for VC.

# Notes on the Growth market

Series A + B near two-thirds drop in funding



Late stage funding drops by 82% in last 2 years



## No FOMO in the Early Growth market

Given challenges with own portfolio (whose old valuations don't hold now), multiple compression, and limited downstream appetite (from larger growth / crossover funds), early growth funds have become risk averse. FOMO has disappeared from the growth market, with deals not happening or taking a lot of time, at much lower multiples than 2021.

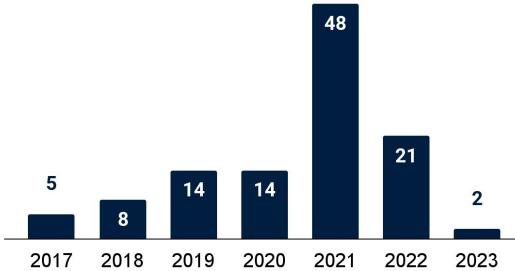
## Unicorns play a wait and watch game

Most unicorns, fattened up on the funds raised in '21 are working on improving their margins and waiting for a more buoyant growth market to raise funds (or building to IPO). Only those in tough situations like Udaan, Byju's raised funds. A few exceptional plays like PhonePe, Lenskart with stellar numbers operate like it was 2021.

# 2021's leading late stage investors are staying on the sidelines

Late stage investors are highly selective, reflecting in the sharp drop in late stage round participation in 2023

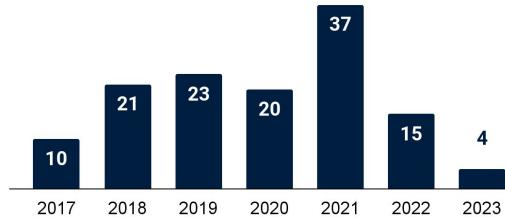
Tiger Global (# of late stage deals)



Softbank (# of late stage deals)



Sequoia (# of late stage deals)

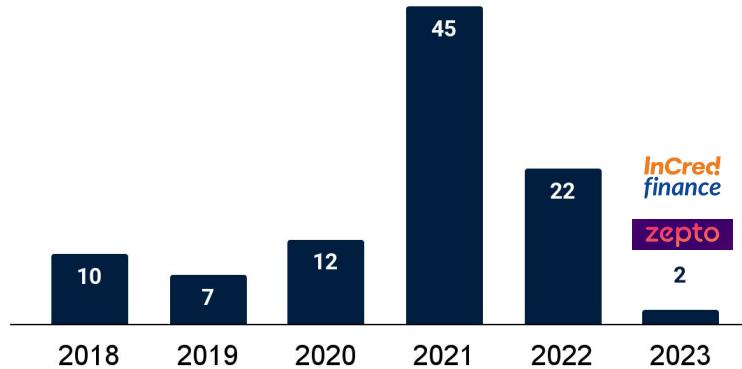


In Jun'23, Sequoia's India arm split to become Peak XV. We have used the term Sequoia, purely given the chart covers a large period when they operated as Sequoia.

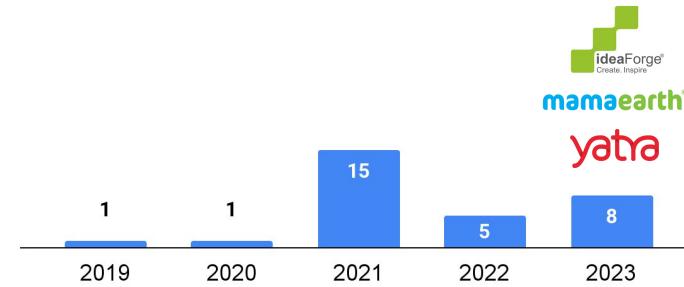
# Unicorn minting slows down, and IPOs become attractive

With little late stage funding coming in, startups are looking to go IPO early. The unicorn vs IPO count inverts!

Unicorn minting comes to a halt

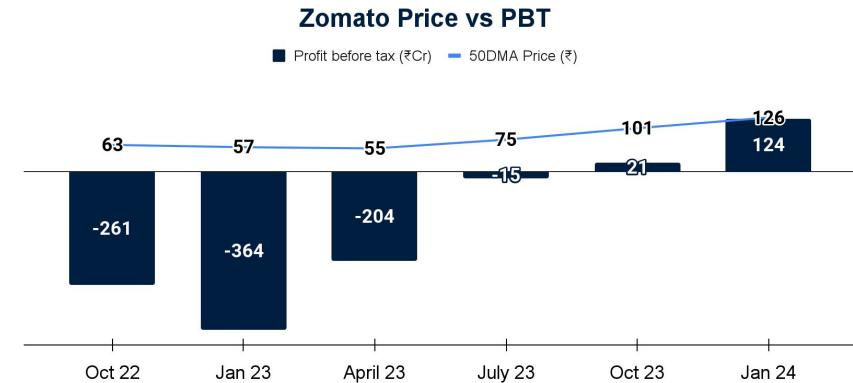
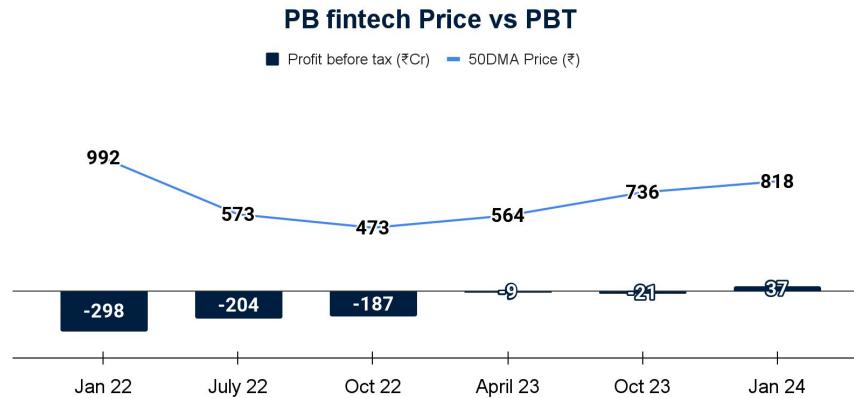


Startup IPOs in India



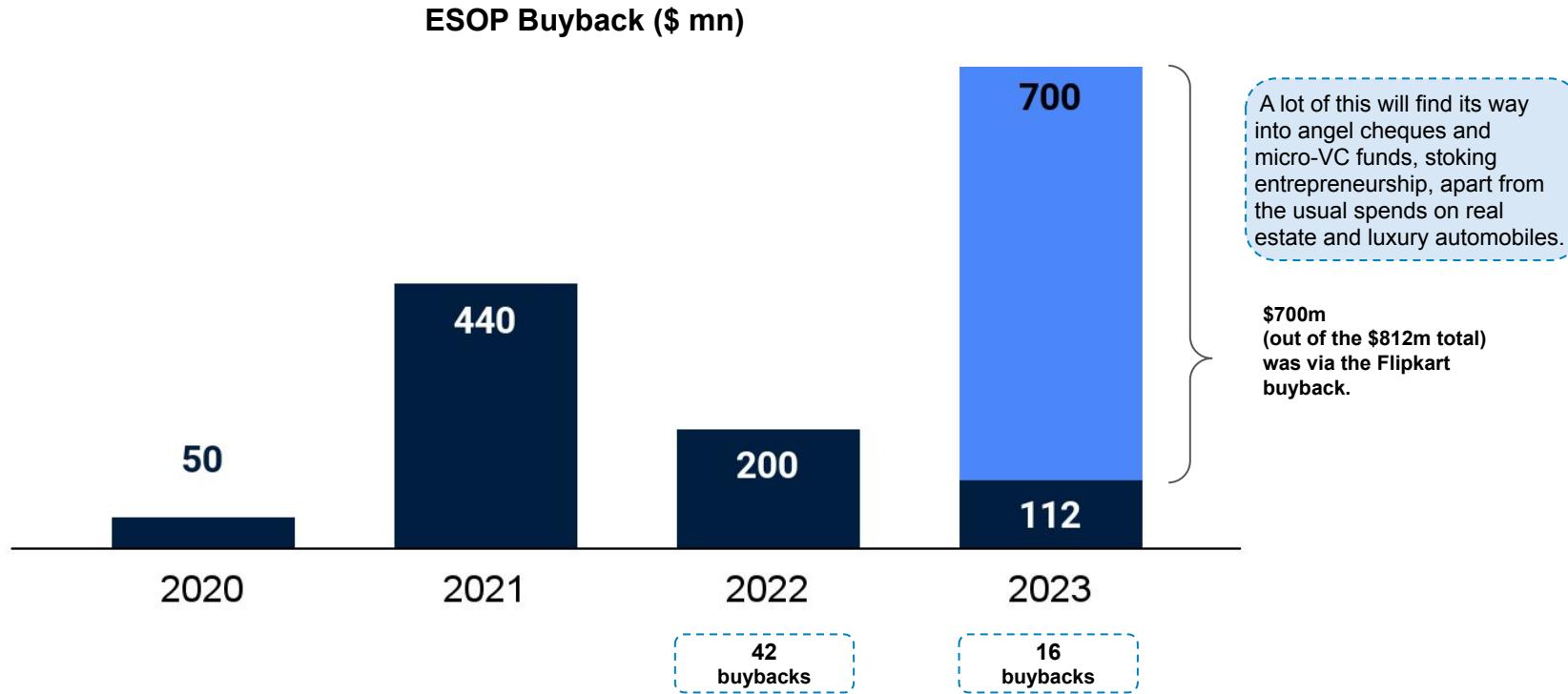
# Post IPO: 2021 IPOs Zomato & PolicyBazaar scripted a turnaround

Zomato and PolicyBazaar (PB Fintech) struggled in '22 following their IPOs, but have scripted sharp turnarounds after working on their profitability, while maintaining growth. Unlike the '20 and '21 market which put a premium on growth, the '23 market demands both



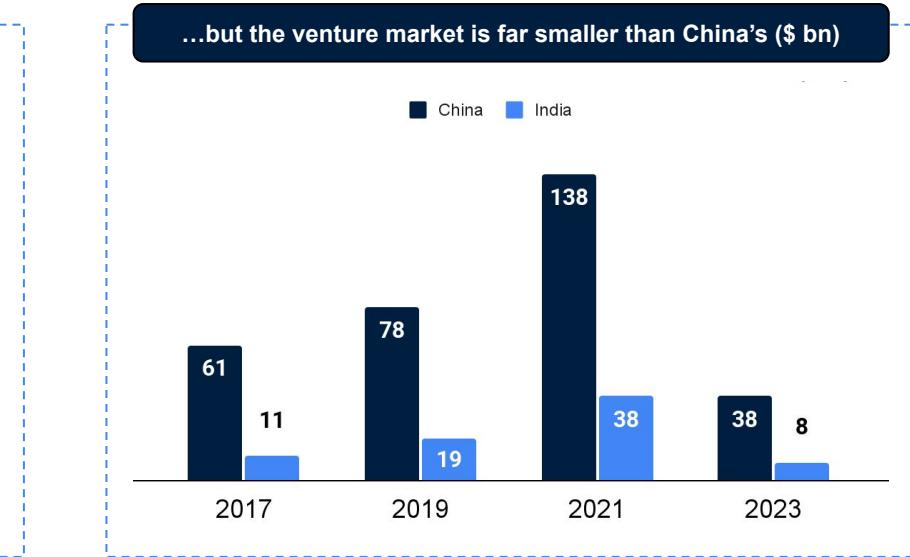
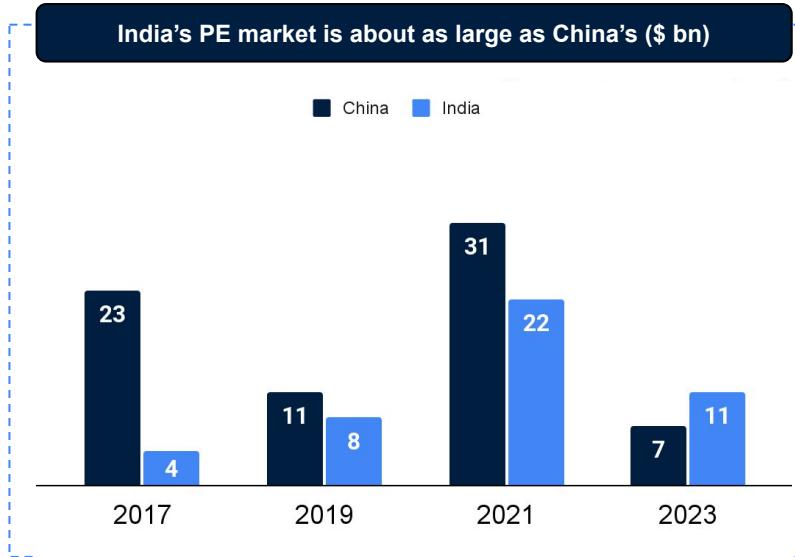
# ESOPs' not entirely fabulous!

While the ESOP buyback amount nearly quadrupled over last year, almost 90% of it was thanks to Flipkart!



# How VC and PE funding in India contrast with China

India's PE-market is not too far apart from China's, though the venture market is much smaller.



## The Asia Head of a global PE franchise shared his perspective on the above charts:

"Lack of many venture-backed success stories, like on the scale of a Alibaba in India limit the size of the venture market. Flipkart still not on that scale. Lack of biz or product model innovation on a global scale like in China (Alibaba, TikTok, Shein, PDD, Temu) is another factor. Conversely, the market for PE-type stories has been limited in China because of any real M&A liquidity, lack of appetite for PE-type IPOs. Exits eventually force input behaviour."

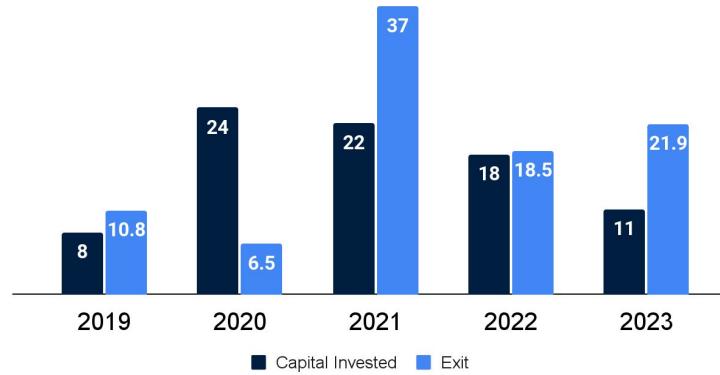
Source: Pitchbook, via Barclays

Each database may present data differently depending on how they categorised certain transactions. You may see numbers differ from chart to chart depending on the database; that said the broad trendline should hold!

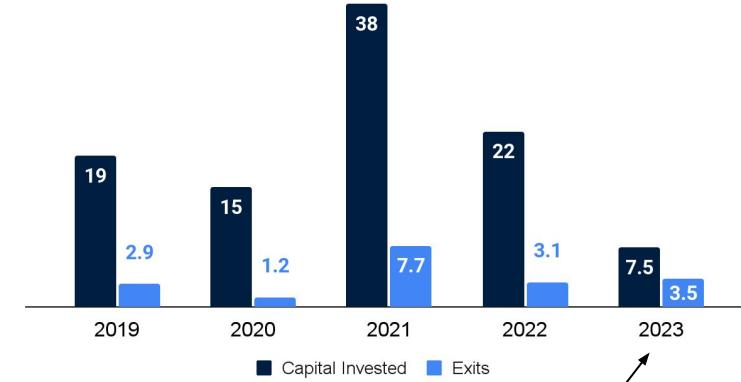
# Exits: A tale of two contrasts

Indian PEs have delivered exits consistently; Indian VC funds in contrast haven't hit that level of consistency yet

India's PE investments vs exits (\$ bn)



India VC investments vs exits (\$ bn)



Flipkart still drove more than half of the total exit; Tiger Global and Accel India sold their entire stake to Walmart for \$1.8B taking a complete exit.

## Section II: Indus Valley

# IPO Boom

What does the booming IPO market, and specifically the SMB IPO market foretell for Indus Valley startups?

Funding +  
Macro

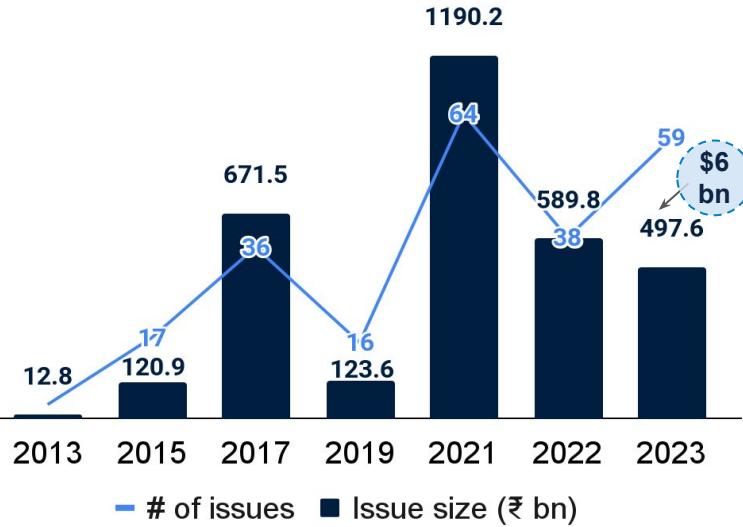
- **A buoyant IPO market**  
Stats; and how the valuation bar for Indian IPOs is lower than you think.
- **Rise of SME IPOs**  
Is the SME IPO the new growth round for startups that VCs don't find attractive enough?

Digital Native  
Brands

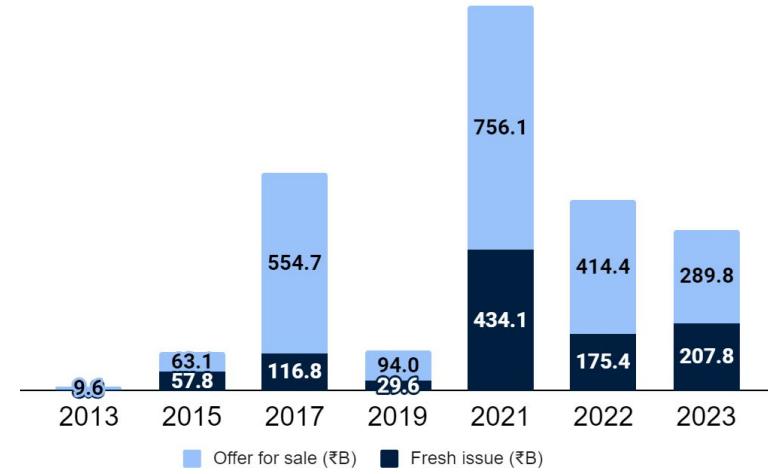
# The Indian IPO market had a good year

Unlike the venture market, the IPO market stayed buoyant

Main board IPO trends



Like in previous years, we saw sales from existing investors dominate, though to a lesser degree



# A flourishing IPO market is creating liquidity for investors



**Tiger Global exits Zomato, sells entire shareholding for Rs 1,124 crore**

**Softbank's SVF Growth Exits Zomato, Major Investors Exit Amid Surging Stocks**

11 Dec, 2023 | 3:10 PM

Bulk deals data reveals the sale of the remaining 9.35 crore equity shares at an average price of Rs 120.5 per share, totaling Rs 1,127.5 crore.

**China's Alipay to sell its 3.4% stake in Zomato for Rs 3,300 cr, says report**

Alipay, owned by Ant Group, will offload its entire 3.44% stake by selling 29.6 crore shares at Rs 111.28 per share, said a report.




Temasek sells entire holding in Policybazaar for Rs 2,425 crore



Softbank takes home Rs 914 crore via 2.5% stake sale in PB Fintech



Peak XV Partners exits Go Fashion, makes 15x gain



**Softbank sells 1.83 crore shares of Delhivery in ₹739-crore bulk deal: NSE Data**



**Paytm shares in news as Antfin likely to sell 3.6% stake via block deal today**

# The valuation bar for IPOs in India is much lower than you think!

Only a quarter of Indian listed companies trade above \$250m in valuation!



Nice post by @vikramg05 with more detailed thoughts on how Indian founders should think about IPOs.

While a few things can be debated, there's no doubt this is going to be the most viable predictable liquidity plan for startups over the next 3-5 years.

Vikram Gawande @vikramg05 · Dec 12, 2023

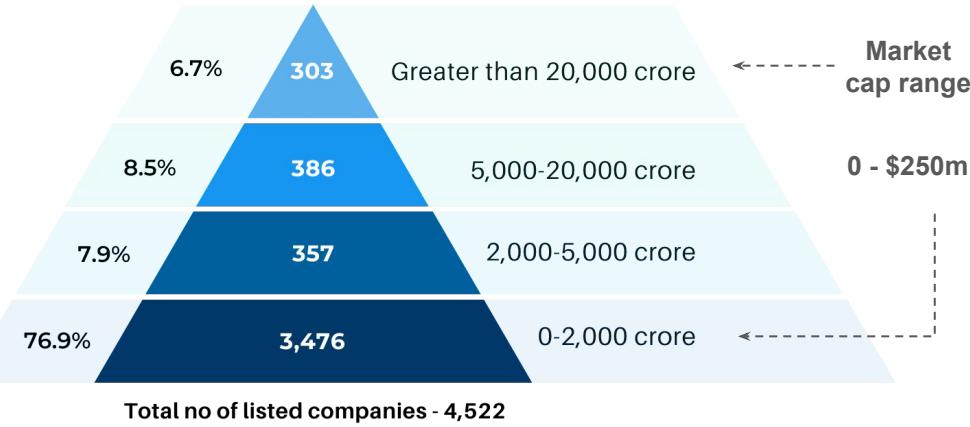
Why wait for \$bn valuation for listing? Grow into your dream valuation on the bourses. Only ~10% of the ~4500 Indian listed companies have a 1bn+ market cap.

More here blume.vc/commentaries/s.....

Show more



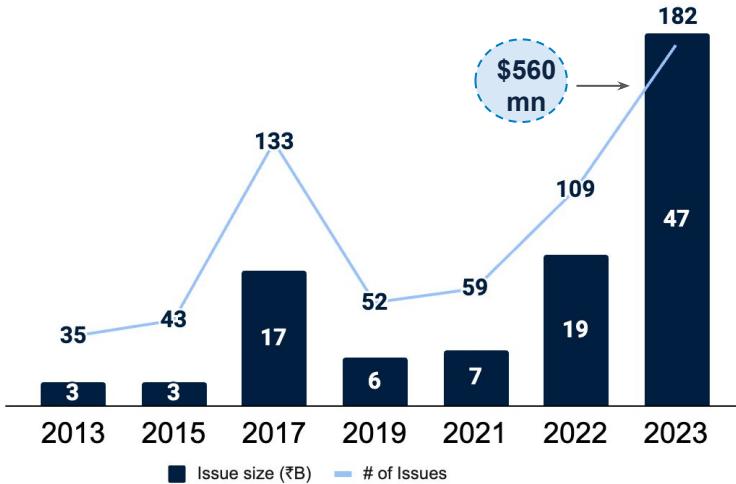
# of companies in specific market cap ranges



# SME IPOs are at an all time high

We saw SME issuances hit record highs on both issue size as well as number

SME board IPO Trends



Venture-funded startups such as Infollion took advantage of the red hot SME IPO market



Blume Ventures  
@BlumeVentures

Congrats @munjalg on @infollion's listing today!

@sajithpai was present as Blume's cheerleader at the launch.

So was @tarundua81 of E2E - Blume's first-ever IPO.

This is the 2nd IPO in our portfolio. Grateful to have had a chance to play a small role in their journey 🙏

NSE India 🇮🇳 @NSEIndia · Jun 8, 2023

Congratulations Infollion Research Services Limited on getting listed on NSE Emerge today!

The Company is a tech-oriented marketplace, operating in the B2B Human Cloud segment, catering to on-demand contingent hiring and work arrangements with senior management talent, subject...

Show more

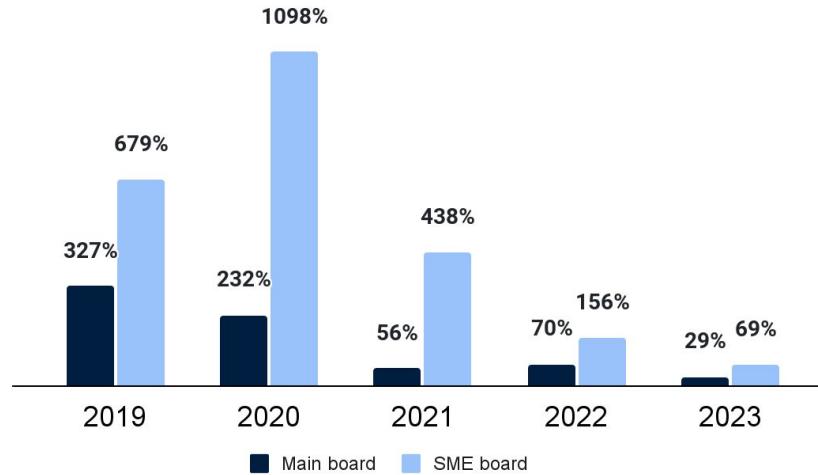


4:22 PM · Jun 8, 2023 · 2,517 Views

# SME IPOs have consistently outperformed their main board brethren

With little late stage funding coming in, startups are looking to go IPO early. The unicorn vs IPO count inverts!

Main board vs SME board - IPO performance (%)



The outperformance of SME IPOs has begun to attract investor attention

THE HINDU  
**businessline.**

**Small is big: Alpha chasing investors push SME IPO subscription to new high**

Updated - December 25, 2023 at 09:46 PM | Mumbai, Dec 25

Fifty one of the 166 companies see subscription of 100 times, with 12 logging over 300 times subscription

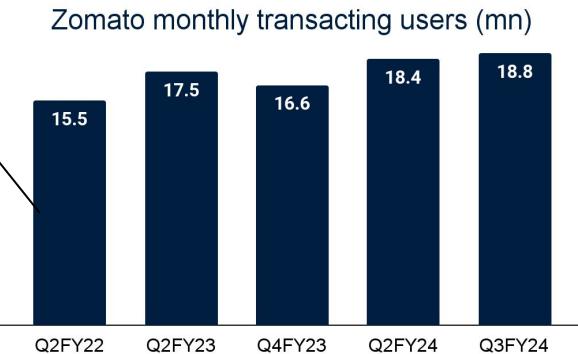
# Is the SME IPO the new growth round?

## SME IPOs are not for everyone.

That said, for certain types of startups

- a) those not seeing a lot of interest from growth investors
- b) those hitting a growth ceiling, and feel it is better to build profitably than burn for growth (without hope of future love from late stage VCs), we believe SME IPOs are worth a look!

Most segments hit a ceiling in India, sooner than later (here is Zomato's user base)



- Growth investors are chasing power law outcomes, and also wish to deploy large sums, as smaller tickets don't move their IRR needle.
- The revenue bar for SME IPO listing is not very high (Series B, C revenue) it makes sense for founders who wish to pursue a steadier route to company building to consider listing on the SME bourse.

## A look at some of the latest SME IPOs

All FY23 ₹crs	Rev	PAT
<b>Baweja Studios</b>	74	8
<b>Megatherm</b>	266	14
<b>Delapex</b>	54	8
<b>Docmode</b>	33	2
<b>LawSikho</b>	34	2

Two of Blume's portfolio have had an SME IPO listing. Their revenues and PAT for the year preceding their IPOs were:

- **E2E Networks** (66crs rev, 10crs PAT in FY18)
- **Infollion** (36crs rev, 5crs PAT in FY23)

E2E has migrated to the main bourse!

## Section II: Indus Valley

### Digital Native Brands

All about Digital Native Brands (DNBs) with a brief foray into their enablers, specifically QCommerce

IPO Boom

Deeptech

#### → Rise of DNBs in India

How DNBs have disrupted the landscape, and how they are evolving.

#### → Quick Commerce

QCommerce finds PMF in India.



Vineeta Singh [in](#) • 2nd  
CEO at SUGAR Cosmetics  
4mo •

+ Follow • • •

Our biggest day every year is not Valentine's Day or Black Friday. It's actually the day before Karwachauth. We sold products worth 4 cr yesterday and worth 75 cr in October!

Love witnessing the action every Karwachauth and while I'm at it, selling some lipsticks too! This is a general trade store in Ludhiana at 6:30pm. Peak rush hour is at 1am and it's all women!

Bharat rocks

(PC: [Kunal Sharma](#))



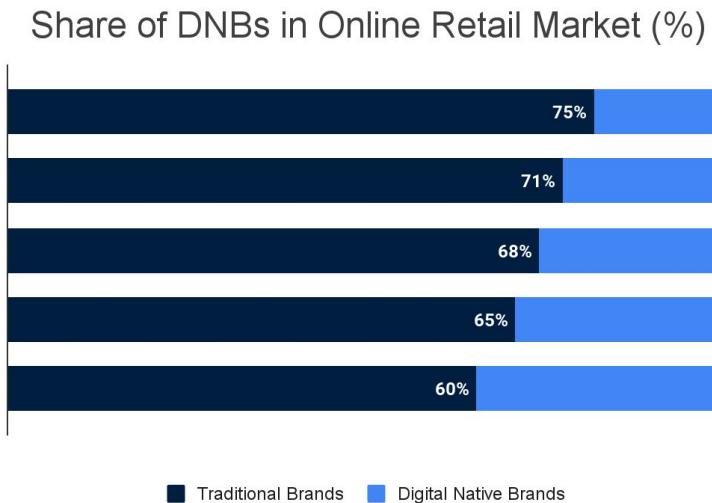
PRITAM DAS and 34,857 others

533 comments • 82 reposts

Source: [Linkedin](#)

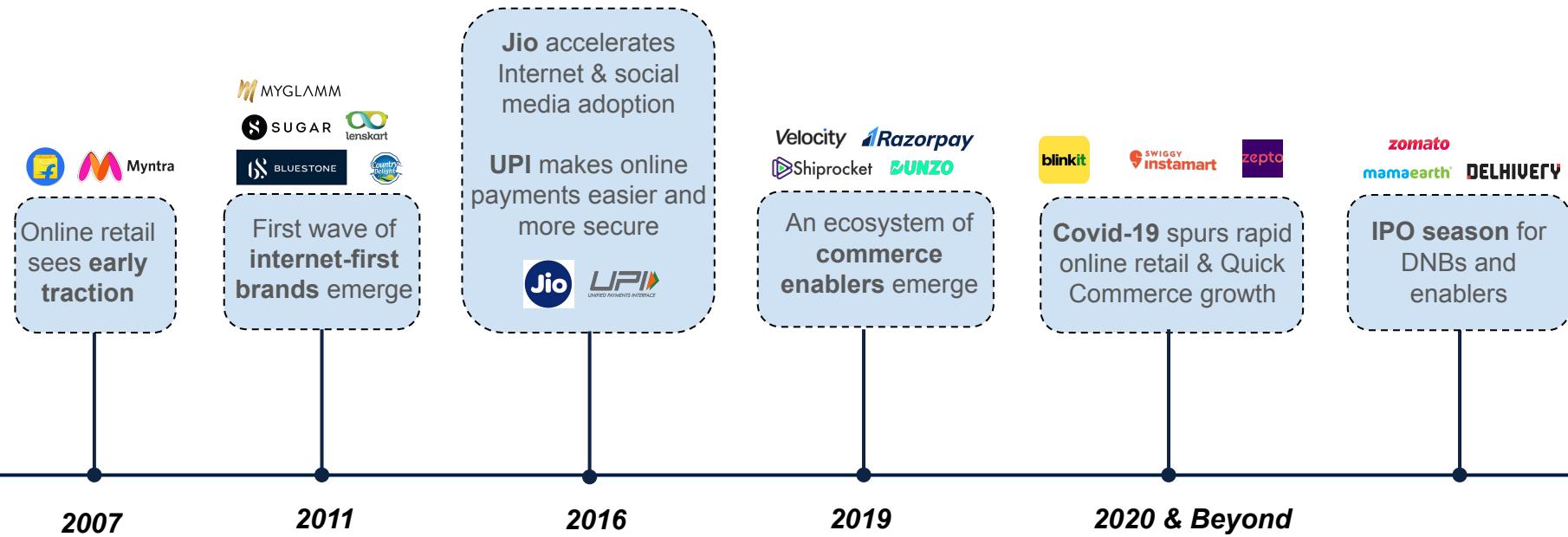
# Slowly, but steadily, Digital Native Brands (DNBs) gather share

As the retail market in India grows, so does online retail, and within that DNBs are becoming prominent



# The evolution of the Digital Native Brands (DNBs) landscape

Changes in the macroeconomic fabric of the Indian economy supported and bolstered the growth of Digital Native Brands

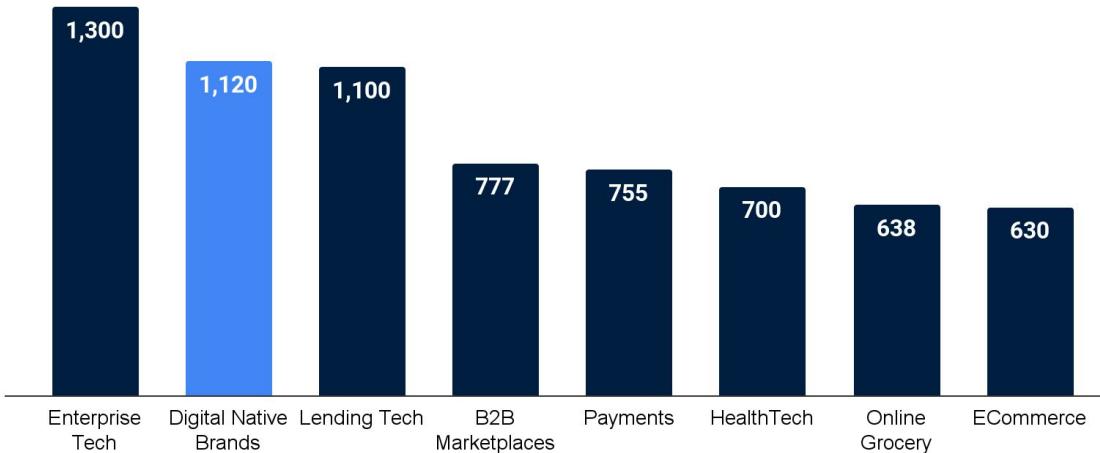


*The above is underpinned by the steady emergence of ~30m affluent India1 households, exposed to global products, with evolved tastes, who are not finding their needs met by analog FMCG (CPG) brands.*

# A vibrant funding market for Digital Native Brands in India

Conviction in Digital Native Brands (DNBs) remain high, and this sub-sector was the second most funded sector.

Funding raised by sub-sector (\$mn)



## 2023 DNB Highlights



The Economic Times **mamaearth**

Mamaearth shares list at 2% premium over IPO price



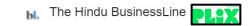
TechCrunch **lenskart**

ADIA invests \$500 million in Lenskart



Business Today **CARAT LANE**

Titan takes over remaining 27.18% stake in CaratLane for Rs 4,600 crore, to hold 98.28% share now



The Hindu BusinessLine **PLSX**

Marico acquires 58% stake in Satiya Nutraceuticals for ₹369 crore



Business Standard **THE AYURVEDA EXPERIENCE**

The ayurveda experience disrupts the global ayurveda industry to become the largest ayurvedic house of brands internationally

# Notes on the Digital Native Brand funding environment



## Crossing the Chasm

A large segment of brands are caught crossing the chasm; ***too PE-like for VCs, but too small for PEs*** (₹50 - 200 crores\* revenue range). Family offices, debt investors, and RBF players fill this financing gap for DNBs.



## Dhandha-fluency

Many DNB founders are well-versed with the nuances of running a business, and are more dhandha-fluent than say VC-fluent; most VCs who focus on consumer brand investing have adapted themselves to this founder profile.



## Enabler Ecosystem

An ecosystem of DNB enablers like working capital financiers, warehousing services, packaging providers, marketing analytics, roll-ups have emerged to create a new opportunity set for DNB investors.

Velocity

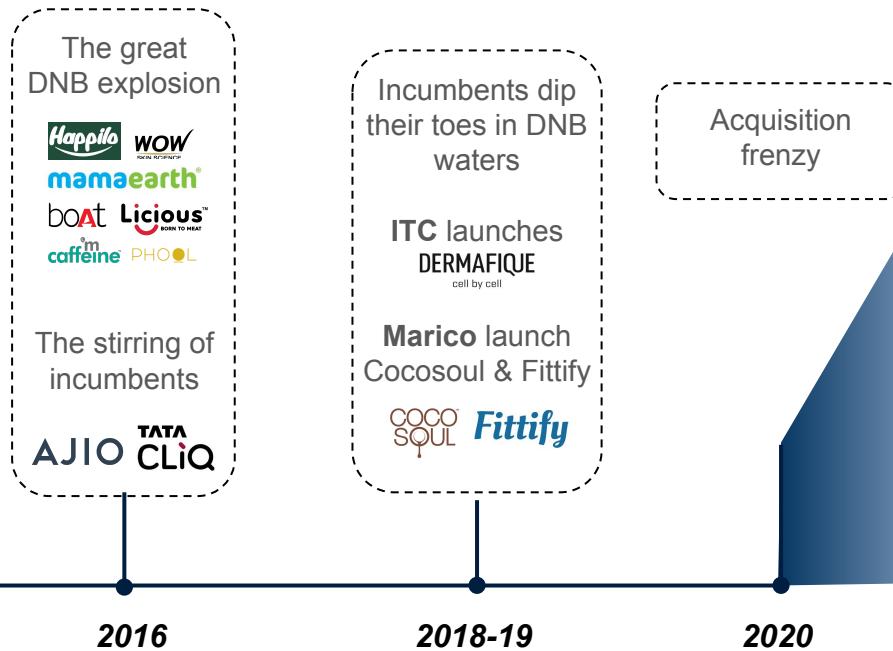


May 2022  
40 X growth

Following the 6 Shark deal, our revenue increased 40X.

# Incumbents take a page from the Digital Native Brand playbook

FMCG / CPG & Retail Giants have started copying from the Digital Native Brand playbook by experimenting with digital channels, launching hyperniche brands themselves, as well as acquiring premium DNB brands to add to their portfolios.



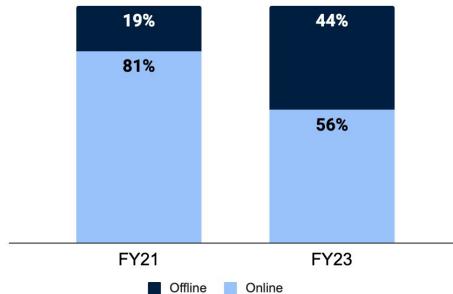
	Own DNB Brand	DNB Acquisition / Strategic Investment
HUL	Simple, Love Beauty & Planet, FYHP	Oziva, Wellbeing Nutrition
Marico	Cocosoul, Puresense, Fittify	Beardo, Plix, Just Herbs, True Elements
ITC	Dermafiique	Mother Sparsh, Mylo, Yogabar
Reliance	Avaasa, Netplay, DNMX, Teamspirit	Zivame, Amante, Clovia, Ed-a-mamma
ABFRL	-	TMRW House of Brands, Bewakoof, Juneberry, Urbano
Tata	Sonnet, Tata Tea	SoulFull, Caratlane
Emami	-	The Man Company, Brillare, Trunative, Fur Ball Story
Colgate - Palmolive	-	Bombay Shaving Company

# Insurgent brands<sup>1</sup> are picking best practices from the Incumbent playbook

With an increase in the cost of digital ads & marketplace commissions, insurgents are feeling the pressure of being digital heavy. Increasingly they are doing corporate branding campaigns, as well as moving offline to make use of better economic structures -> price lower (and pricing is the name of the game in offline) -> and scale to the next 100Mn.

## Digital Only -> Digital First -> Omnichannel

Mamaearth Increases Share of Offline Revenue in Preparation for IPO (%)



## Social Media Influencers -> Celebrity Ambassadors



## Digital Ads -> Print & TV Ad Campaigns



<sup>1</sup>Insurgent brands is a term coined by DSG Consumer Partner. We think this captures the DNB mindset well.

# An offline infra stack for Digital Native Brands emerges

As Digital Native Brands make their foray offline, a new set of commerce enablers arise to help them succeed offline

## Storefront as a Service

Companies offering storefront-as-a-service enable DNBs to test the waters in high footfall areas like malls, shopping districts, without taking on a long term commitment or real estate risk. Brands can rent out spaces for short periods of time to gauge offline interest for their products before committing.

## Offline Distribution Enablers

Retail in India is a function of strong distribution networks, and efficient inventory management. As DNBs enter the offline arena where incumbents already own strong distribution channels, enablers and new age distributors can make all the difference in building relationships and efficiencies.

## Offline Enablers

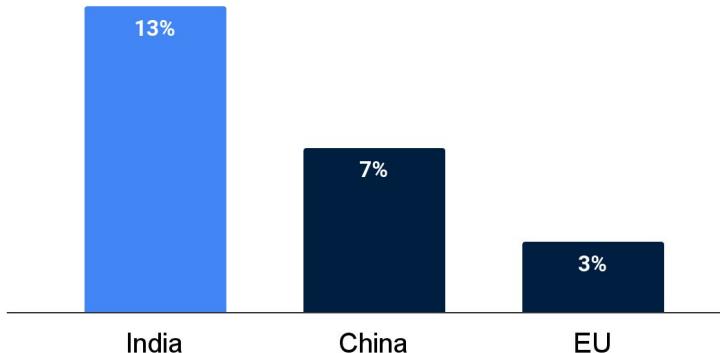


# Quick Commerce (qCommerce) has emerged as a key channel for DNB brands

Quick commerce rapidly burgeons in India, revolutionizing shopping habits with lightning-fast deliveries, and a push for unplanned or top up purchases.

## Higher qCommerce penetration in India

QuickCommerce Penetration (% of Online Grocery, CY21)



## qCommerce is a 3-horse race at present

qCommerce Players Marketshare (Feb '24)

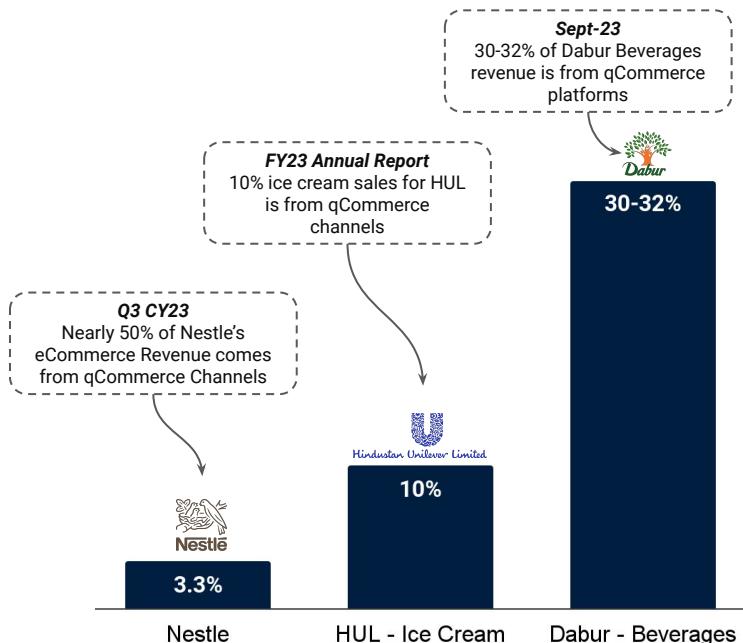


**India's eComm and retail giants initiate experiments with qCommerce and scheduled egrocery models**



# qCommerce offers an equal ground for Incumbents & Insurgents alike

**CPG companies seeing significant revenue from qCommerce channels**



**Insurgents also taste qCommerce success**

Shantanu Deshpande • 2nd  
Founder CEO at Bombay Shaving Company, Bombae, 1...  
1d • Edited •

+ Follow ...

Recently had a day where Blinkit sold more than Amazon.  
2 years back it was zero.  
A year back 10% of Amazon.  
Even today, it's significantly lesser but this one day was very prophetic.  
The urban consumer wants everything and wants it now.  
The 2015/2016/2017 era saw brands built on Amazon and Flipkart (Mamaearth, boAt, BSC, Plum, Noise, mCaffeine, Minimalist etc).  
Today, if you want to build a consumer brand, your best chance is building it on quick commerce.  
But finite inventory, scale will take time because of dark store fulfilment limitations, unit economics pressures will be high from day 1.  
Clear challenges.  
But consumer is moving - and that's HUGE. :)

# Quick Commerce has played the curation game well

qCommerce players have opened up categories such as electronics, apparel and gifting, too.

## Zepto

### Gift By Occasion



## Blinkit

### Dining & ServeWare

### Cookware

### Storage & Containers

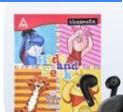


**59% OFF**  
Bajaj KTX 1.2 L  
DLX Electric Kett...  
1 unit



**71% OFF**  
Lifelong Air Fryer  
1 unit

## Instamart



### Office and Electricals

## Seasonal, occasion-based curation

Swiggy Instamart reposted

Rohit Kapoor @rohitisb · Feb 7

Roses have been flying off the shelves since early this morning. But keep ordering! After crossing the million roses mark last year, Swiggy instamart has stocked up on 1.5 million fresh roses and is geared up to spread love this Rose Day and throughout Valentine's week!



Blinkit @letsblinkit · Follow

This Dhanteras, get authentic Silver & Gold coins, stainless steel utensils and more delivered in 10 minutes.

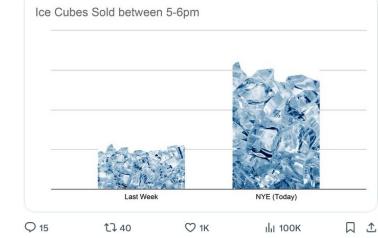
#DhanterasCelebration #BlinkitDelivers #10mindelivery



Adit Palicha @aadit\_palicha · Dec 31, 2023

610 kilograms of ice sold on Zepto just in the last 1 hour ❤️

Numbers like this one make me pinch myself. Sometimes I honestly can't believe how big Zepto has become in 2 years ❤️



15 40 1K 100K

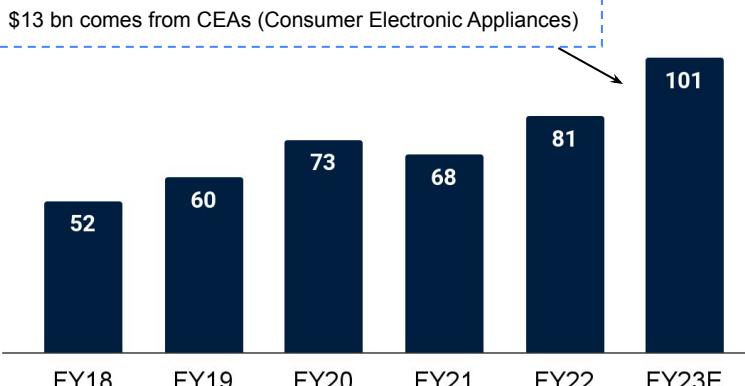
>Last Week NYE (Today)

# But FMCG / CPG products aren't all that India is consuming

A strong base in electronics production underpins the emergence of a new wave of insurgents in wearables and electronics.

## Domestic production of electronic goods on the rise

India's Electronic Goods Domestic Production (\$B)



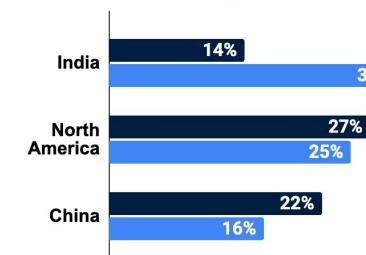
## Consumer electronic startups challenging global giants

Brand	Global Ranking	Market Share
Apple	#1	29.9%
boAt	#2	9.6%
xiaomi	#3	7.8%

### Q3CY23 Data

Per a report by IDC, boAt has climbed the ranks to becomes the world's second largest wearables brand, by shipment volume overtaking the likes of Samsung, Xiaomi, Huawei

## Smartwatch shipment share



India is now the largest smartwatch market by measure of volumes. Majority volume is driven by 2 new age brands:



# A new wave of ‘smart’ appliances are penetrating the Indian home

The modern Indian home is getting smarter. From the living room to the kitchen, Indians are upgrading their devices, thanks to higher incomes, and all that time spent home during COVID. Indian women and men (and now that more men are cooking) are rethinking their mom’s kitchen.

“I believe that the next big consumer appliance will come out of India. India is to the world what Japan, Korea was in the ‘40s and ‘50s, with rising consumer incomes and local manufacturing taking off.”

*Tim Draper, investor in Upliance - DelishUP*

## The rise of automated and assisted cooking

**delishUP**↑



**NOSH**



**EVOCHEF®**



## New age home automation devices



Atomberg



Qubo



Karban

## The rise of health trackers

**ULTRAHUMAN**



**BeatO**



**Healthify**



# DNBs Going Global

Many DNBs are going crossborder from Day 1 or after hitting the ceiling of India's 30m affluent households, in order to tap into larger consumer bases and wallets. Brands have harnessed three main strategies to expand their global sales footprint.

## Global Amazon selling

Indian enterprises trading on Amazon Global Selling exceeded \$5 billion in total exports during the period spanning from 2015 to 2022.

**In 2022, 1200 Indian exporters achieved sales surpassing ₹1 crore.**

In the past, top categories sold were toys, kitchen and office supplies, but now the mix has changed to teas, coffee, ayurveda products, handicrafts signaling Indianisation of the global consumption.

ecoright

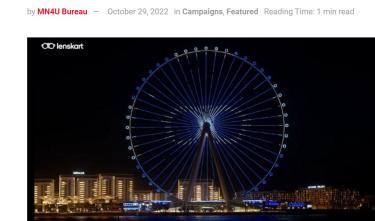


## Direct online & offline retail

**Lenskart** has expanded to UAE and Singapore with online and offline own retail outlets.

**The Ayurveda Experience** sells products and ayurveda education in 20+ countries through their D2C online stores and even has even set up offline stores in Los Angeles.

### Lenskart opens its eighth retail store in UAE with a Display on Ain Dubai

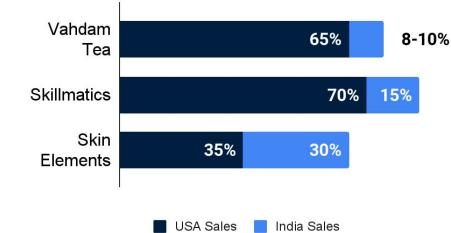


## Multibrand retail presence

**Vahdam Tea, Wow Skin Science, Skin Elements, Skillmatics** are some brands selling in retail channels like Walmart and CVS in the US.

**Minimalist** sells their line of clinical skin care products with Sephora UK and are now on the path to expansion in Vietnam, Singapore, Australia.

Share of Revenue from USA and India



## Section II: Indus Valley

Digital Native  
Brands

# Deeptech

with a closer look at SpaceTech  
(including ISRO)

→ **How India stacks against its peers**

India lags its peer when it comes to innovation and research

→ **ISRO and India's spacetech ambition**

ISRO's secret sauce, and how it supports and underpins the flourishing spacetech ecosystem

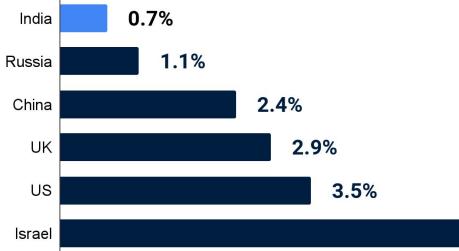
Fintech

# India lags its peers in research and innovation

## HOW?

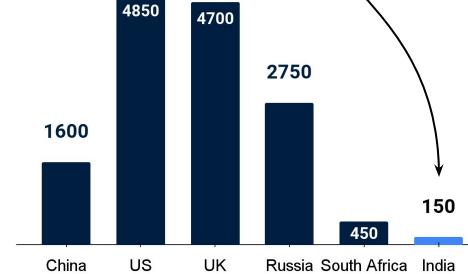
If we look at R&D spend as a % of GDP, India ranks lowest amongst its peers, and has even declined over the years

R&D spend as a % of GDP (latest numbers)



Low R&D spend in turn has led to a low # of researchers per million inhabitants in the country

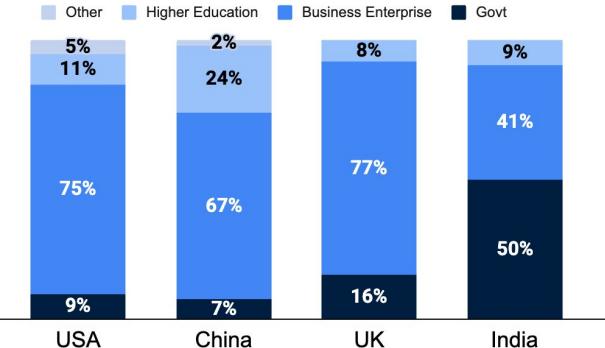
Researchers per million people; India & peers



## WHY?

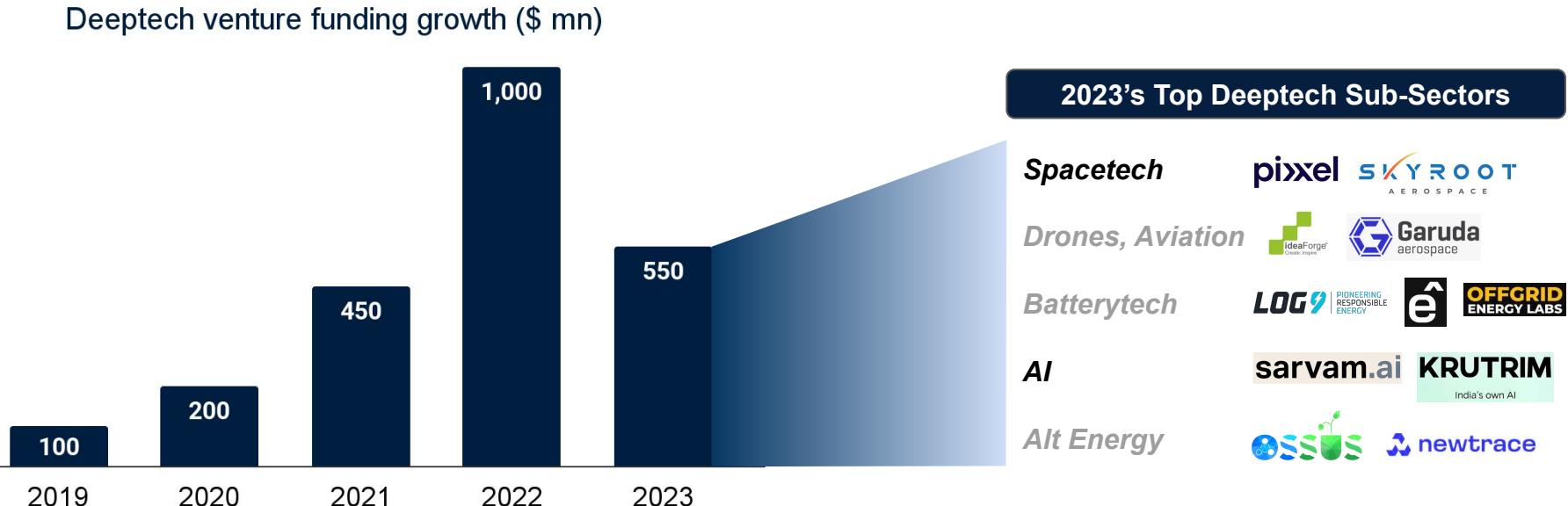
Unlike our peers where private sector shoulders the burden of R&D, in India they step back, which means the Govt has to step in to keep R&D going

Sources of R&D Spend, India vs Peers



# Indus Valley steps up to bat

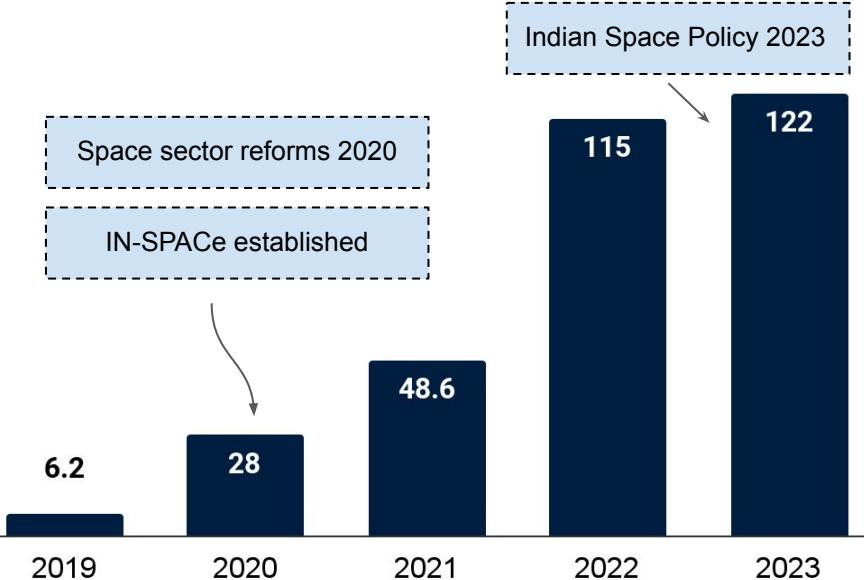
While private funding for the innovation sector has been low in India, the venture ecosystem has stepped up in recent years, helping correct this to some extent.



# Spacetech has seen highest funding activity within Deeptech

ISRO's (Indian Space Research Organisation = India's NASA) initiatives and government policies supporting privatisation of space has led to ambitious founders signing up, making SpaceTech attractive to VCs as well as strategic investors.

**India Spacetech funding (\$ mn)**



On Feb'24 the government announced that  
100% FDI is allowed in space sector

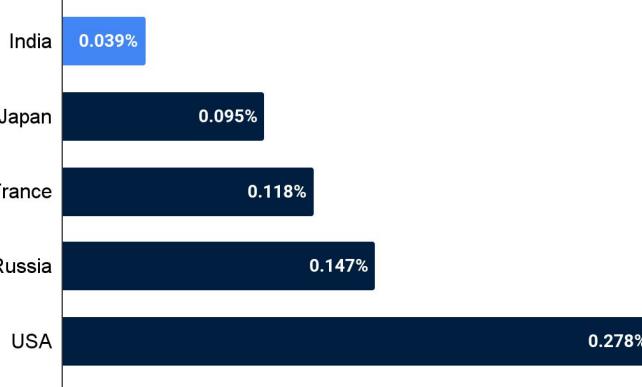
**India's SpaceTech companies by sub-sector**

Sub-sector	Startups
Satellite Applications	
Launch Vehicles	
Satellite, Spacecraft Subsystems	 
Others	

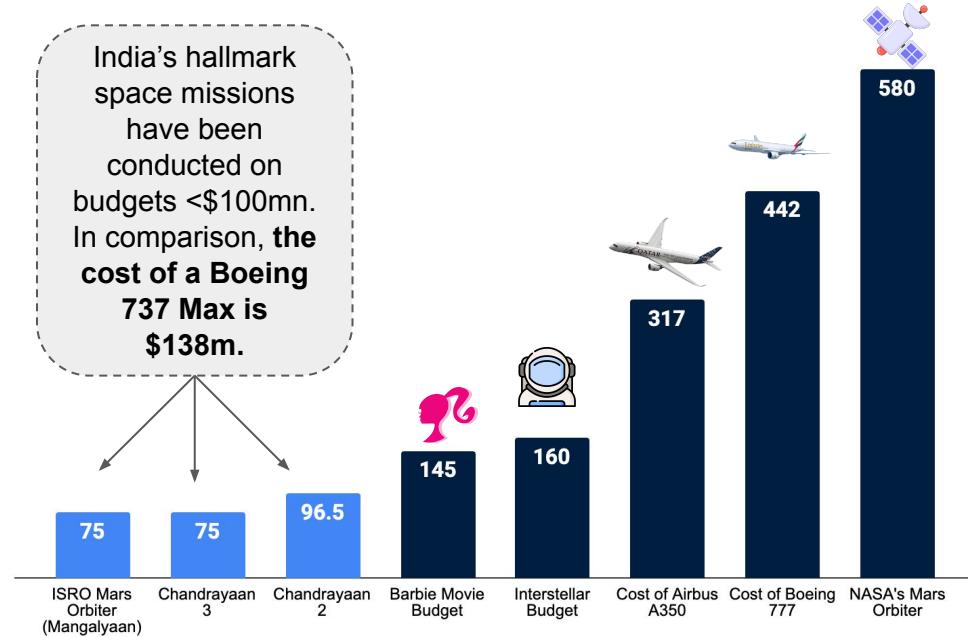
# Big dreams, small pockets: India's low-cost space endeavour

With a focus on indigenisation and frugality, India punches above its weight in the global space race and has built a distinctly frugal space research and exploration program.

Space spend as % of GDP (2022)



India's hallmark space missions have been conducted on budgets <\$100mn. In comparison, the cost of a Boeing 737 Max is \$138m.



These amounts are not inflation-adjusted given they may be in different years. This is meant to highlight how India's space programs have been frugal and low budget.

# India's space story in popular culture

India's space achievements have broken into everyday conversation & popular culture.

## India's Space story in global conversation

Sundar Pichai  @sundarpichai · Aug 23, 2023

What an incredible moment! Congratulations to @isro for the successful landing of #Chandrayaan3 on the moon this morning. Today India became the first country to successfully achieve a soft landing on the southern polar region of the moon.

 ISRO  @isro · Aug 23, 2023

Chandrayaan-3 Mission:  
'India'  
I reached my destination  
and you too!  
: Chandrayaan-3...

[Show more](#)

1K
14K
122K
3.5M
 


Elon Musk  X
@elonmusk
 ...

Super cool!

## India's Space story in movies & series



# The ISRO Model of Success

ISRO has been front and centre to India's space story and has supported and nurtured the growth of an ecosystem of public listed companies, vendors, private sector entrants, and science & research talent across the country. There are two distinct reasons why ISRO has been able to do more with less.

## ISRO's low cost mission model

**Frugal Engineering and launch design** (fewer prototypes, lighter payloads, longer trajectories)

Indigenisation via an **outsourced SME base of suppliers** spread across India.

Suppliers of major components and sub-systems for ISRO launch vehicles and satellites



## ISRO's support of space privatization

ISRO has been a catalyst for space privatization in India, actively encouraging the involvement of private entities in space-related activities. ISRO's single-window clearance model (via in-SPACe) and its tech transfer initiatives help spark innovation and growth in India's space sector.

TH The Hindu

23 private companies in race for SSLV tech transfer from ISRO



Thank you to Prime Minister [@narendramodi](#) & the government for helping open up space to the private sector in the country. With the launch of Shakuntala (India's first ever private commercial satellite in space) in April and now the Anand launch with [@isro](#), Pixxel is taking off.

## Section II: Indus Valley

# Fintech

A review of the Fintech funding landscape, and a look at the different models playing

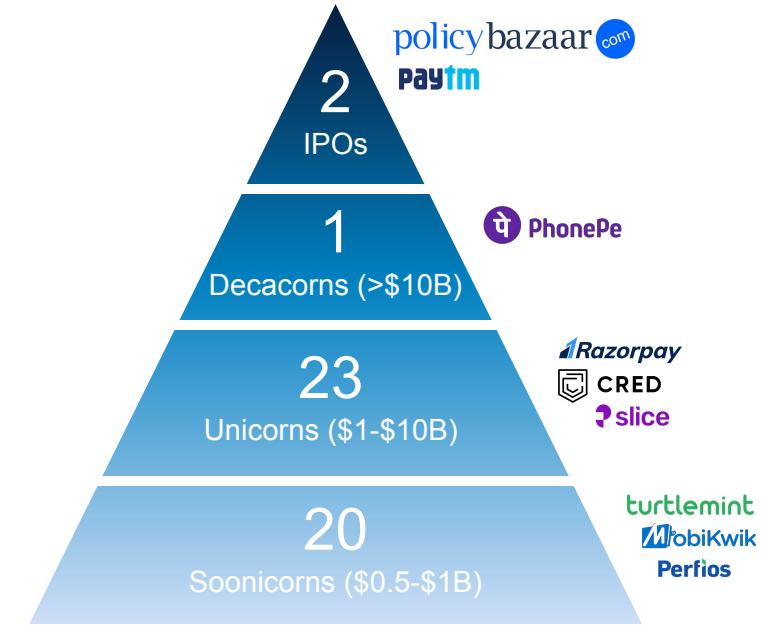
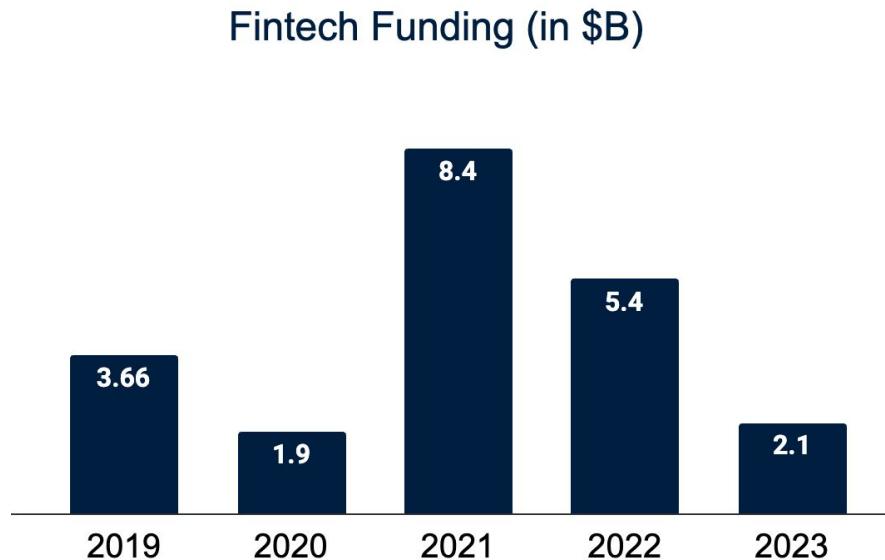
Deeptech

- **Fintech funding review**  
Fintech funding overview and Fintech's impact on lending and broking
  
- **Everyone is a fintech**  
Embedded fintech for non-fintechs but ecommerce for the payment apps

Playbooks

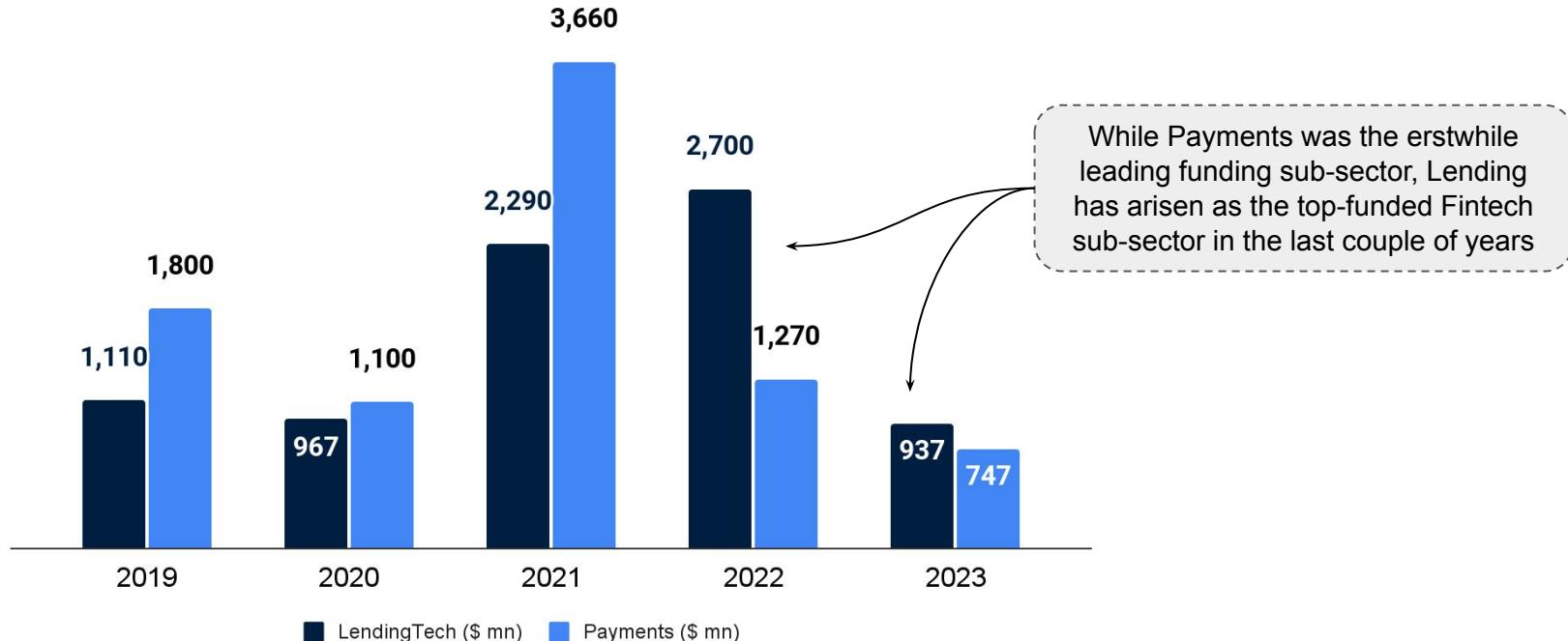
# Fintech was the most funded sector in 2023

Despite a decline in funding (as with the overall venture market), it was still the most funded sector for 2023.



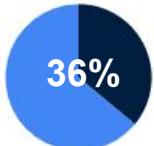
# Lending beats Payments as the preferred funding sub-sector

LendingTech vs Payments (\$mn)

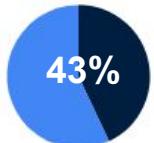


# Fintech's impact on the financial landscape

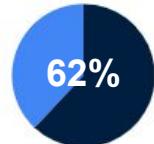
**Fintechs have increased access to credit through better underwriting models, ease of use, and brute force marketing.**



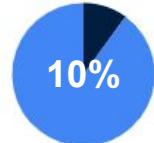
Fintech's market share of NTC (New to Credit) customers  
(H1, FY23-24)



Fintech's market share of customers aged <25, and 30% for customers aged 26-35  
(H1, FY23-24)

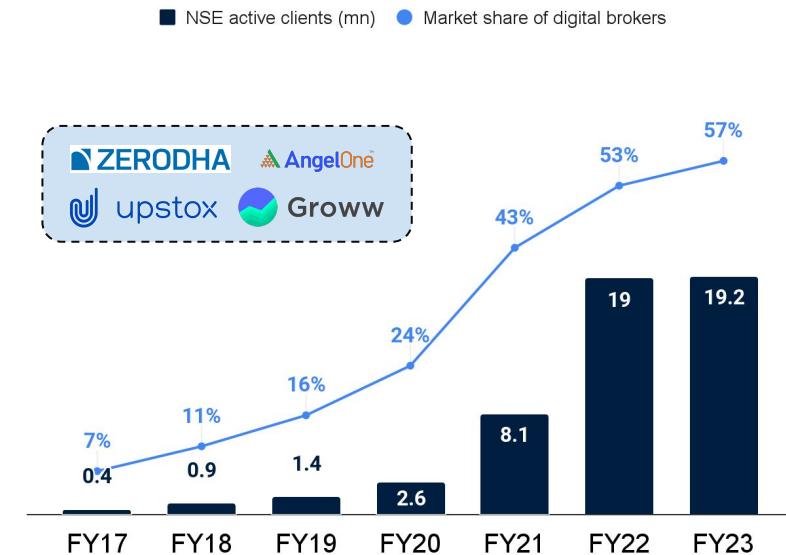


Fintech's market share of personal loans, by sanction volumes  
(H1, FY23-24)



However, Fintech's marketshare of loans, by sanction value, is only 10%  
(H1, FY23-24)

**Fintech digital brokers Zerodha, Groww, Upstox and Angel have helped grow the retail investor landscape**



# Everybody wants to be a Fintech (1/3)



Kunal Shah @kunalb11 · Sep 24, 2018

Top 20 tech companies in China have become fintech companies in last few years, doing stuff from payments to lending to investments. Video apps have a credit line , chat apps dominate payments and investment apps feel like gaming.

Fintech is a feature.

16

53

289



# Everybody wants to be a Fintech (2/3)

## Non-Fintech Payment Aggregators

Non-fintech companies, especially those operating in industries such as e-commerce, retail, see payment aggregator (PA) licenses as an opportunity to save on commissions paid to other PAs, loss of sale on account of malfunctioning payment gateways.

### Non-Fintechs - PA License Granted

**zomato**

**ZOHO**

**digio**

## Non-Fintech Lenders

Regulatory changes and advancements in technology have made it easier for non-fintech companies to enter the lending market. Non-fintech companies, can generate additional income beyond their core business activities, deepen their engagement with customers and improve their customers' access to their offerings by providing credit.



"In 2021, we provided loans worth about INR 30Cr. In 2022, the loans reached ₹270 crs, facilitated through banks, lending partners, and NBFCs. With an RBI license to remit, our credibility increased, and this year we expect loans to reach almost ₹700-800 crs."

- Akshay Chaturvedi, Leverage Edu



TechCrunch

<https://techcrunch.com/2023/07/03/flipkart-begins-le...> ::

India's Flipkart begins customer lending in bid to boost sales

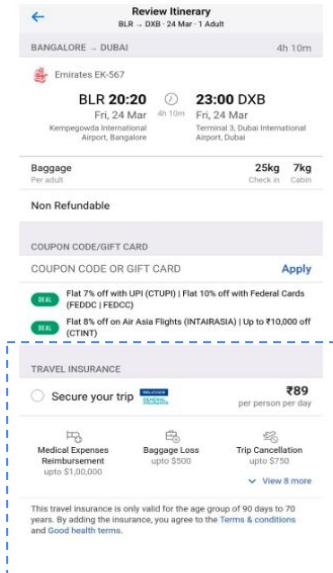
**Zomato incorporates wholly-owned NBFC Zomato Financial Services Ltd**

Updated - February 24, 2023 at 06:19 PM  
The NBFC company will allow Zomato to extend short-term credit to its delivery partners, customers and restaurant partners

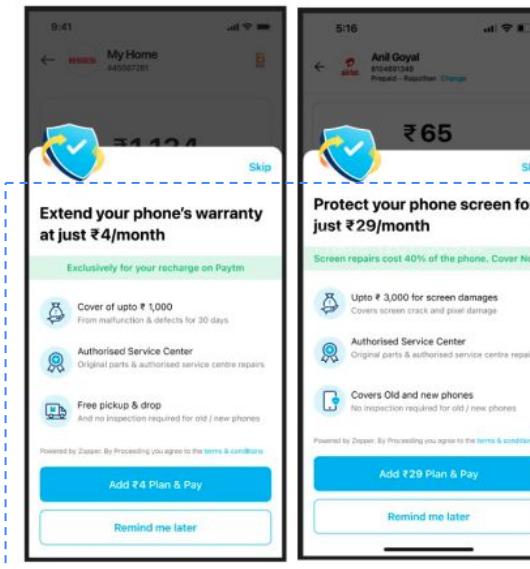
# Everybody wants to be a Fintech (3/3)

An increasing number of consumer services companies, are partnering with insurtechs to offer embedded insurance. As more non-insurers realize the potential of insurance as a lucrative revenue source and a means of distinguishing themselves among customers, embedded insurance will grow into an even bigger market.

## Non-Fintech Insurers



**Embedded insurance in travel booking journey**



**Embedded mobile screen protection in mobile recharge and bill payment journeys**

# However, the Payments biggies want to get into eCommerce

The lack of a viable monetisation model in Payments has forced the biggies in Payments to explore lending (Paytm, CRED) and now ecommerce. PhonePe (via Pincode) and Paytm (via Paytm Mall) are building atop ONDC. Payment players can leverage valuable data insights derived from consumer payments, as well as harness the high traffic they get, in building out their ecommerce plays.

**Pincode**

Add Address

Search for items or stores

Free Delivery

Save ₹100 on every order  
Min. Order Value ₹199

Your everyday must-haves

- Oil & Ghee
- Cleaning Essentials
- Grains & Flour

For the Foodies

- Pizza
- Biryani
- Chinese
- Bo

paytm mall

What are you looking for?

Explore Gift Cards by Category

- Fashion
- Grocery
- Jewellery
- Furniture & Electronics
- Travel & Holiday
- OTT & Recharges
- Food & Drinks
- Beauty & Health
- Gaming & Others
- Explore All Brands

How Gift Cards Work

- Buy Gift Card & Earn Cashback
- Visit Brand Store or Website/App
- Redeem Gift Card to pay your bill

Top Brands in Grocery

- spencer's Flat 7% Cashback
- more Flat 3% Cashback
- SWIGGY Flat 6% Cashback
- SPAR

CRED STORE

most loved brands

- Tummy Pops
- MIVI
- THE WHITE WILLOW
- TECHNOSPORT
- CALL MATE

gadget central

- hammer
- The Old Natural
- KENT

shake each day count with this

set the mood, naturally

let it steep, quickly

## Section II: Indus Valley

### Indus Valley Playbooks

The distinct approaches and tactics that Indian startups are using to drive growth

- Pocket FM
- FRND
- Consumer tech model
- Rise of Merchant Media
- Zetwerk

Fintech

# Indian startups are evolving distinct playbooks for growth

## International Revenues

SaaS has been of course a big success story, but now the consumer apps are coming. Here are key consumer categories and startups (not an exhaustive list) that have done a stellar job.

### Digital Native Brands (DNB)

The Ayurveda Experience  
Vahdam  
Lenskart

Covered in the  
DNB section

### Consumer Apps

Quizziz  
Pocket FM

### Consumer Services

Urban Co

## Domestic Revenues

Thanks to UPI, Jio-led cheap bandwidth, COVID & DeMon, India has a large number of online audiences with cheap bandwidth, a smartphone in every pocket and a frictionless ability (and willingness) to pay. Startups below not an exhaustive list..

### Distinct India only models

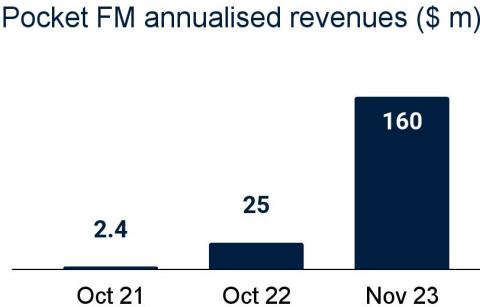
FRND  
Sri Mandir  
Khyaal  
Kutumb  
Zetwerk

### New Growth Drivers

Ecommerce Ads (Merchant Media)  
Referrals  
Subscriptions / Microtransactions

# Pocket FM: Pioneered a playbook for U.S. launch & growth

Audio series platform. Freemium content across multiple languages. Offers limited episodes for free daily. Listeners can consume more episodes by buying coin packs and redeeming them against additional episodes.



## Playbook

- Tasted success in India through its fictional audio series (each episode 10-15 mins long) with the right mix of dramatic, titillating content, with unique cliffhanger endings to create an ideal content format
- Initial episodes have video (some animated visuals, some shot) which phase out after a while, but the initial visuals help “spark imagination of listener, and engage better with the story”, says UX researcher and writer Dharmesh Ba.
- Married the content format with a microtransactions format (vs subscriptions), starting Feb'22, when they saw a sharp spike in monthly revenues, which was languishing at \$200k / month; it doubled in Mar'22 and steadily rose
- Perfected the above combo of product + payment format across different series, across different languages, till they hit it big time with ‘Instamillionaire’ (initially in Hindi, now in English and Tamil too). The content is universally appealing escapist content (Dharmesh Ba: “dreams of regular people as they go to sleep at night, imagining a world where all their problems disappear and they become rich by pure luck.”)



- There are limited episode(s) free daily, and beyond that you have to buy Pocket FM coins, which start as low as ₹9 (which pay for an episode or so). 90% of the revenue comes through purchases of these coins, and the rest via ads.
- Targeted mainstream American viewers, via US-adapted stories (Saving Nora, The Return, etc.) and aggressively advertised on YouTube, to find success. Pocket FM's audience in the US is diverse, spanning various demographics.

# FRND: The Tinder for India2 will not look anything like Tinder



Helps the opposite sex interact with each other via live-streamed audio games such as *Raja Rani Chor Police, Voice Match*, moderated by a chaperone. Offering safe, non-obvious, low pressure surface areas for chatting (precursor to 'dating').

## Performance

- ARR of around \$15m (hearsay)
- Profitable
- 250k payers (16% of users) now vs 7k (0.5%) in Jan-22

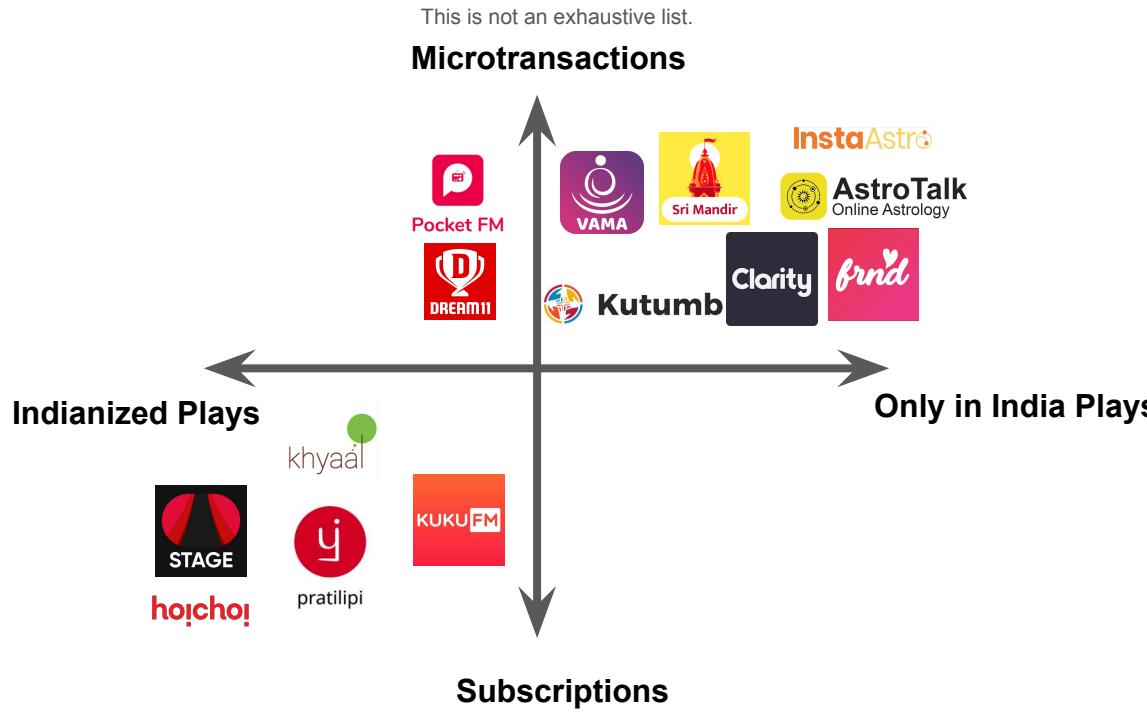
## Playbook

- Understood that most of the western dating app models (Tinder, Bumble, Hinge) will not work outside India1. Bhanu Tanwar, the founder, says in a podcast: "If you are from a Tier 2 city, then within a week of you making a Bumble account, your mother will come to know".
- They had a key insight around getting people to chat (and not 'date') as the key job to be done by the platform. This spurred them to create formats of live online interactions (surface areas) to enable chatting. The second key insight was to use audio prominently, as opposed to text input (Indians are not comfortable on text as much as audio).
- Similar to Pocket FM, they created a pay-per-use model where users could pay very little to purchase app currency or virtual gifts. App currency is needed to initiate one-on-one audio conversations or video chat, or access training sessions ('Love Skool'). Virtual gifts ('roses' or bouquets) can also be used to impress members of the opposite gender. Some basic interaction, like text, group audio and one audio call per day are free.
- One aspect that is worth highlighting is that such pay-per-use models like FRND lead to a small minority of 'whale users' (~5% in their case) who account for ~80% of transaction income.

"Because most Indian users on the internet came post-Jio in '16, their internet age is 7 yrs old, and not 20+ like with us or in the West, and hence you can't use the models like text that will work with us or in the West" - Bhanu, founder FRND

# An Indus Valley consumertech model emerges

We are seeing a wave of consumertech startups emerge attacking distinctly Indian usecases, and monetising via microtransactions. UPI has removed a considerable amount of microtransaction payment friction.



The emergence of a large number of users habituated to paying digitally via UPI has created a fertile environment for these consumertech experiments.

We find most consumertech startups can be mapped on this 2x2 axis.

Many of these startups prioritise voice / oral / aural interactions or even visual and not text as much.

We find that using pay-per-use with microtransaction models leveraging UPI, is another key theme. These could be in app currency purchased in advance, or virtual gifts or products for in app use.

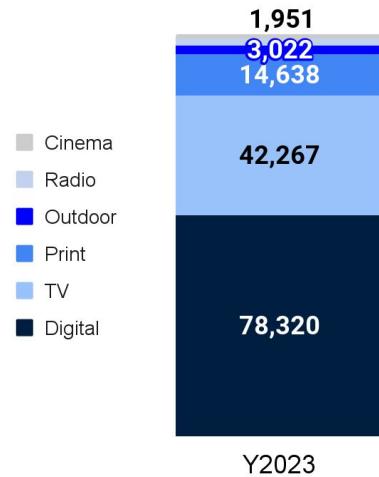
UPI Autopay has been a key tool for those who prefer the subscription approach, enabling better retention, and reducing CAC overall.

All have relied on low prices, or sachet pricing to attract and monetise customers.

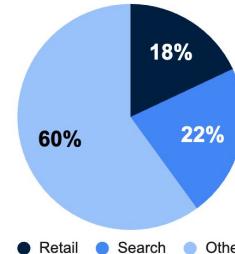
"Our users are happier to pay ₹10 every day for a month than pay ₹300 upfront" - **Harsh Jain of Dream11** (during a conversation with Blume portfolio founders)

# Merchant Media is bigger than Print Ads!

Indian ad revenue by media(₹cr)



Split of digital ad revenue (%)



<b>amazon.in</b>	₹5,380crs / \$670m (FY23) (Economic Times) 4-4.5% of GMV
<b>Flipkart</b>	₹3,324 / \$415m (FY23) (Economic Times) 3-3.5% of GMV
<b>SWIGGY</b>	Annualised run rate of ₹1,000crs (\$120m) (Jan'24) 3-3.5% of GMV
<b>zomato</b>	Zomato (₹200crs) and Blinkit (₹160crs) in FY23 Annualised run rate of 1,600crs (\$200m) for both basis Jefferies / BofA estimate of 3% of GMV.
<b>NYKA</b>	₹~600crs in FY23 (Jefferies estimate at 6% of GMV)
<b>meesho</b>	\$85m in FY23 (4% of NMV per The Arc) \$100m+ run rate for FY24

At ₹~14k crs (\$ 1.8b) Retail Media is almost as big as Google's search business, and equal to the print business.

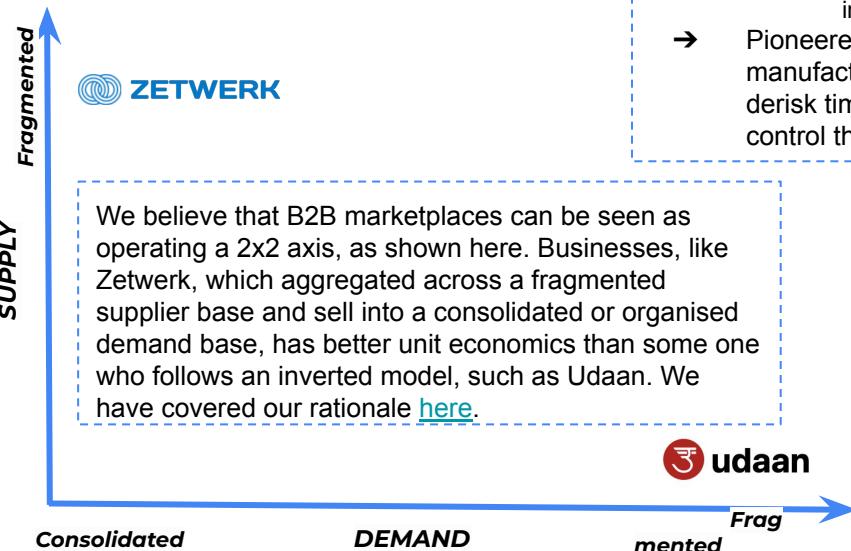
The growth of Retail or Merchant Media has been one of the notable trends in the startup ecosystem. Ecommerce and QCommerce / Food Delivery Platforms are seeing anywhere 3-6% of their GMV and 10-15% of their revenue coming from ads. Given how high margin this is (at least 90% gross margins), it is clearly driving a good chunk of the bottomline.

Who would have expected that ecommerce, grocery and food delivery would become ad businesses? In the early '80s, the Times of India Group pioneered the idea of making losses on newspaper sales to acquire audiences to be sold to advertisers. Four decades hence, online retail stores are replicating the same model.

## Zetwerk: Pioneer of ‘cloud factories’ or aggregated manufacturing



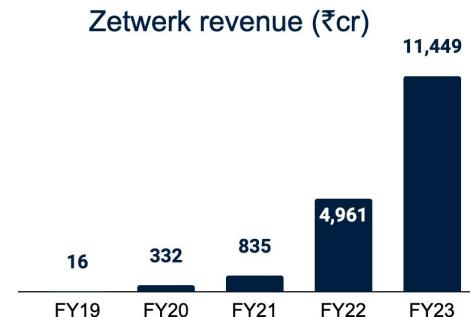
One stop destination for companies to meet their manufacturing demand, essentially acting like a cloud factory aggregating SMEs to execute production faster and help customers reduce costs.



We believe that B2B marketplaces can be seen as operating a 2x2 axis, as shown here. Businesses, like Zetwerk, which aggregated across a fragmented supplier base and sell into a consolidated or organised demand base, has better unit economics than some one who follows an inverted model, such as Udaan. We have covered our rationale [here](#).

## Playbook

- Initially launched a SaaS product helping companies manage sourcing from their vendors, then understood that the real value is in not helping companies manage their vendors better so much as helping them source better, and if it meant fulfilling the order, then so be it. Pivoted to fulfilling the order / full stack.
    - ◆ Shailesh Lakhani, Peak XV: “I think another key insight that Zetwerk had in the early days was that they are the best users of their software themselves. That a customer wouldn’t be able to get the most out of it because of the organizational mindset, the systems and the processes, and the motivation to use it well, is something that they have much more in-house than they can imbibe on a customer.”
  - Pioneered a new model of sourcing by aggregating orders and then getting it manufactured by SMEs. This ‘parallel manufacturing’ or ‘cloud factory’ model helped them derisk timeline and quality by spreading it across multiple vendors and using tech to control the outsourcing.



Source: Peak XV Moonshot podcast, Blume Research



enthu-cutlet 🍔  
 @\_waabi\_saabi\_

Today I met namma Tony Stark in [@nammayatri](#) 🤖

Asked my auto driver for the QR code.

Man flipped his hand and showed me his smartwatch.

Turns out he's saved the QR code as his smartwatch screensaver.

So much swag 💪

[@peakbengaluru](#)



10:46 AM · Aug 15, 2023 · 424K Views

Source: [Twitter](#)

## Acknowledgements

As with all reports, this too rests on the labour of several analysts, researchers and writers whose work we used to build on. We stand on the shoulders of giants. We have acknowledged the sources and their contributions on each of the pages; a shout out to Jefferies, Goldman, Redseer, UBS, CRIF, Barclays, Nuvama, CLSA, Tracxn in particular for their regular reports enabling greater access to data, and enhancing our understanding of the Indian startup ecosystem. We also acknowledge the inputs and insights, including writings of Tanuj Bhojwani, Dharmesh Ba, Mithun Madhusudhan and Rahul Sanghi. To those of you working on Digital Public Infrastructure who wanted to keep their names out of the report, please allow me to share that your inputs were invaluable - thank you for your openness in explaining the world from your perspective, and sharing insights that inform this report.

Lastly, we would also like to thank the wider Blume team for their inputs. A shout out to our intern, Ayan Bindra, for his work on the report.

- Sajith, Anurag & Nachammai

## About Blume Ventures

Blume Ventures is an early stage venture firm based across Mumbai, Bangalore, Delhi and San Francisco, that provides ‘conviction capital’ to founders across India consumer internet as well as software & enterprise technology.

We add value through a platform approach – over 85 specialists across shared CFO services, legal advisory, talent acquisition, capital raising, GTM enablement, operations support – who focus entirely on supporting portfolio companies and helping founders learn, thereby greatly improving their chances of success. Our value-added approach has helped us retain board representation in the vast majority of our top companies; the enterprise value of our top 30 companies is collectively valued at \$14.6 bn presently (all invested at seed stage).

You can read more about us at [blume.vc](http://blume.vc)

# Thank You

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