

6 NEW ECONOMY

Starting trouble: a dull investment climate

Corroding investor confidence and unrealistic valuations deter funding

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Amidst the growing cacophony of e-commerce start-ups announcing plans to raise capital, what goes unnoticed is the fate of many others that struggle to mop up funding after the initial seed round.

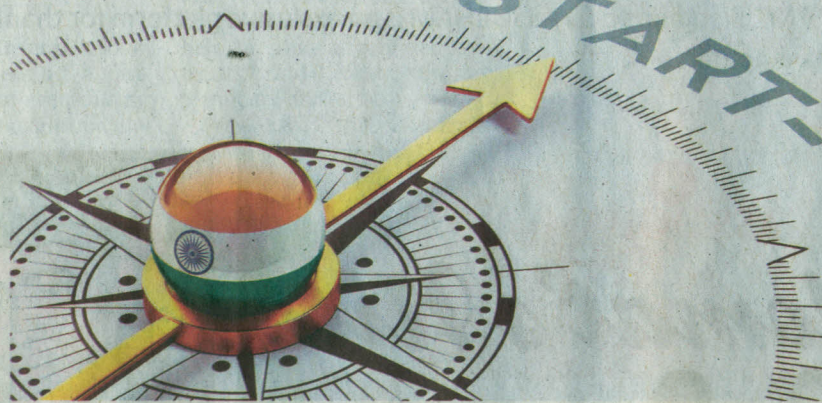
The past 6-8 months have witnessed a complete slowdown in the investment climate as the euphoria created by large American hedge funds and PE firms — which entered the VC space and signed huge cheques for Indian start-ups upwards of \$50-\$100 million, from end 2014 to mid 2015 — eventually dried up.

This created a situation where start-ups that typically raised \$3-\$5 million in Series A, \$10-\$20 million in Series B and \$20-\$30 million in Series C, received larger amounts than normally given out for each round. Encouraged by the response, other start-ups

that pitched to raise similar amounts, ended up disappointed as VCs refused to bite the bait.

For instance, real estate portal IndiaProperty.com, which was looking to close Series-C round of \$50 million last May, is yet to close the round. Sequoia Capital-backed, modular furniture solutions start-up HomeLane.com, which was in advanced stages of talks to raise \$50 million in Series B last June, is still at the negotiating table.

Similarly, last-mile marketing and logistics start-up Daa-kiya, which was hopeful of raising its first round of \$10 million last June, remained unsuccessful. And 'Sunday', the country's first sleep start-up modelled on the lines of US-headquartered Casper.com, which initiated talks to raise its first round of \$5 million in funding last October, says it may take another 6-7 months before investors are



Start-ups with smaller funding requirements failed to clinch the deal SHUTTERSTOCK.COM

ready to write out a cheque.

BusinessLine talked to start-up founders, investors and analysts to find out why ventures with smaller funding requirements failed to clinch the deal while others like Ola mopped up \$900 million, Paytm closed \$890 million, Flipkart \$750 million, Snapdeal \$500 million, Grofers \$165 million, OYO Rooms \$100 million and Pepperfry \$100

million. The first half of 2016 does not look good for fund raising, observed Amit Somani, Managing Partner of Prime Venture Partners which makes seed-stage investments.

FOMO

Stating that the crazy euphoric period when investors were throwing money around for FOMO (Fear Of Missing Out)

on good bets is over, Somani said, "many of the start-ups which were unsuccessful in raising Series B funding of \$15-\$20 million last year are now looking to raise pre-Series B bridge rounds, and those that couldn't raise Series A are now looking to raise second and third-seed bridge rounds to keep their heads above water, until they clinch Series A or B."

Angel investor Sachin Bha-

tia, who has made 20 investments and is also the co-founder and CEO of dating app TrulyMadly, put it down to changing investor expectations in a highly dynamic environment. "Investors would like start-ups to focus on getting their key metrics in place and then start monetising on it, before they part with investments. Start-ups that don't achieve it, cannot get funded," he said.

Never say die

Alphonse Reddy, Founder-CEO of Sunday, feels 2015 was a period of reflection on the part of investors to re-align their investment strategies away from discount-driven e-commerce start-ups that showed no clear path to profitability.

On a confident note, he said, going forward, "There is no dearth of capital as most of the VCs, including Sequoia, Nexus, Accel, Kalaari and Endiya, have raised large funds that are ready to be deployed. While part of that capital will go to more mature business-

climate for start-ups

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es, the other part will go towards those start-ups with a 'real' business model where discounts are not involved." Reddy expects to raise \$5 million in the next few months.

Ganesh Vasudevan, CEO, IndiaProperty.com, who is also hopeful of closing a "big" round of funding soon, told *BusinessLine*, "Although multiple investors reached out to partner with us last year, the Board felt the options put to us by the investors were not aligned to our strategy, therefore we didn't pursue those. Luckily, we are a capital-efficient company and still have money in the bank from the \$19 million we raised from two earlier rounds of funding."

Investor confidence

Corroding investor confidence and unrealistic valuations of start-ups had a major role to play in these ventures not being able to close funding last year, say analysts.

Sanchit Vir Gogia, Chief Analyst, Greyhound Research, pointed out that investor con-

fidence weakened as start-ups could not achieve what they had promised to deliver in terms of huge spikes in user-base growth, revenue growth or profitability milestones. "Then, there are a lot of me-too start-ups floating around with little or no differentiation to offer, which need to re-hash their business models to suit Indian consumers and conditions, before they can attract any amount of investment," noted Gogia.

Start-ups failed to raise capital last year due to bearish investor sentiment, concluded Harminder Sahni, MD, Wazir Advisors. They were looking to raise money based on unrealistic, inflated valuation numbers that investors felt were not justified. Funding will start flowing again when one of the big e-commerce firms such as Flipkart that has raised over a billion dollars, raises a fresh round of funding at a lower, more realistic valuation than its previous round, setting a new benchmark for the others to follow, he said.