

Early-stage startups are continuing to garner funds, despite venture capitalists treading with caution, but growth-stage players are finding it difficult to get the kind of valuations they want. Morgan Stanley's move to cut the value of its Flipkart holding by over a quarter is a sign of things to come

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Across the country, warnings are being sounded about the coming summer likely to be the hottest one yet. But the ones already feeling the heat are entrepreneurs looking to raise millions of dollars to fund their big ideas.

If 2015 was a record year for startups receiving funding, early signs in 2016 point towards a parched year ahead. In the first two months of 2015, 85 deals worth \$306 million were closed; the same period in 2016 has witnessed only 48 deals at \$121 million. While some analysts describe it as a correction following a spell of wild investing, others say it's time to brace for the drought.

Going by the data, early-stage startups are continuing to garner funds, but those that have already raised significant funds are finding it difficult to raise more at higher valuations. "Early-stage startups with niche models will continue to hold investors' interest. Besides, the funding requirements at that stage are lower as the concept is not proven," says Sanjeev Krishan, a partner at PricewaterhouseCoopers (PwC).

At the other end are large players, particularly in e-commerce, who are well funded, and where the story is different. A mutual fund managed by Morgan Stanley has just cut the value of its Flipkart holding by over a quarter — suggesting that, as far as Morgan Stanley is concerned, Flipkart is now valued at about \$11 billion, down from \$15.2 billion in its last round.

"After multiple rounds of funding and a lot of 'promise investing', investors are looking for actual performance," says Krishan. He points out that in many cases, the same investor or investor groups have put money into multiple platforms in the same segment, and they see benefits in consolidating rather than burning cash.

PERFORMANCE COUNTS

"Many companies were funded purely with an intention of using capital as a weapon to destroy competition. They will die or find it difficult to raise capital unless they are ready for a massive down round," says Mohan Kumar, executive director, Norwest Venture Partners.

Domestic and international factors have

played a role in the squeeze in private equity and venture capital funding in India. The wobbling Chinese economy has cast a cloud over global markets. In the US, tech stocks have taken a beating and investors, such as Bill Gurley of VC firm Benchmark, which invested in Uber and DropBox, have told unicorns to be prepared for leaner times. Back home, volatility in the stock markets and a line of startup failures have added to the gloom. Many food-tech and hyper-local firms that took off with much fanfare and A-list backers are struggling to raise funding past the Series A round.

Food delivery startups, which are capital intensive, have been the worst hit. In October 2015, Bengaluru-based meal delivery startup Dazo — backed by Google India chief Rajan Anandan, Amazon's

country manager Amit Agarwal, and others — shut down within a year of its launch after it ran short of capital.

Rocket Internet-backed Foodpanda had raised over \$300 million since its launch in March 2012, but by 2015, it was beleaguered with reports of fraud. After a churn in the senior management, 300 people were fired. Its competitors Zomato and TinyOwl together fired more than 500 people in 2015 and have been scaling down. Online restaurant SpoonJoy, which was backed by Flipkart's Sachin Bansal and got \$1 million from SAIF Partners, could not sustain operations and was eventually acquired by Grofers.

Startups in the e-commerce space have also found it difficult to hold their ground. Valyoo Tech, which operated a suite of premium e-commerce sites — Bagskart,

Jewelkart, Watchkart and Lenskart, decided to focus on its best performer, Lenskart, and shutter the rest.

Prof Thillai Rajan, department of management studies, IIT Madras, says commerce companies that got valuations in the second or third funding round and could not deliver are "For such startups, the economy is not working out," Rajan says.

PICKY INVESTORS?

As more people choose the entrepreneurial path and reach out for funds, are they becoming picky? Not really, says Swamy, managing partner, Priit Partners, which invests in very early-stage startups. "We look for entrepreneurs working on huge pro-

STARTUPS BRACE FOR DRY SEASON

COUNTING CASH

VC INVESTMENTS IN INDIAN STARTUPS HAVE BEEN DROPPING

JANUARY

Week 1: Jan 8

Week 2: Jan 15

12 deals worth

\$43 million

Week 3: Jan 22

9 deals worth

\$39 million

Week 4: Jan 29

8 deals worth

\$9 million

Comparison between 2015 and 2016

JANUARY

2015	No. of investments	36
	Amount(\$M)	111
2016	No. of investments	29
	Amount(\$M)	91

First 2 months of 2015

85	306
No. of investments	Amount (\$M)

FEBRUARY

Week 1: Feb 5

9 deals worth

\$12 million

Week 2: Feb 12

7 deals worth

\$10 million

Week 3: Feb 19

3 deals worth

\$8 million

Comparison between 2015 and 2016

FEBRUARY

2015	No. of investments	12
	Amount(\$M)	12
2016	No. of investments	7
	Amount(\$M)	8

First 2 months of 2016

48	121
No. of investments	Amount (\$M)

Week-on-week movement in 2016



Source: Venture Intelligence

that end, nothing has changed for us — the quality of entrepreneurs and opportunities continue to be on the rise," he says.

Karthik Reddy, managing partner of Blume Ventures, adds that the fundamentals of team, market opportunities and innovation are always the same.

Some investors feel, if it comes, the chill will be welcome as it will separate the men from the boys and help the right ideas shine through. Norwest's Kumar says: "Capital as a barrier is giving way to companies that have good execution, great product and path to profitability. Such companies will get funded and need not worry. This trend is actually very good for entrepreneurs."

Rajan believes very early and early-stage startups need not worry. "The angel network which was absent four to five years ago is strengthening now. Several new investment avenues and platforms are opening up for entrepreneurs who need help converting their ideas into businesses," he says.

Industry veterans like Nandan Nilekani, N R Narayana Murthy, Ratan Tata and T V Mohandas Pai are putting money into the startup ecosystem. Murthy's Catamaran Ventures has backed several startups, including online insurance platform Coverfox and payment solutions startup Innoviti. His fellow Infosys founders Kris Gopalakrishnan and S D Shibulal have set up an incubator, Axilor Ventures, in Bengaluru.

GAME GOES LOCAL

Tata and Pai have been on an investment spree. In two years, Tata has invested in 24 startups, while Pai has pumped money into 34 startups. Reddy of Blume Ventures believes this is a trend to cheer. "Domestic home-grown capital sources are a sign of a long-term sustainable healthy ecosystem that can build exit outcomes of all sizes, not just limit all chases to unicorn hunting," he says.

PwC's Krishan, on the contrary, notes that HNI investments are quite small in value, and would not have a significant impact on the startup funding ecosystem. But Prime Venture's Swamy says the real value from such leaders is less the money itself and more their time, mentoring and guidance.

Despite treading with care, venture capitalists do have their eye on certain sectors. For Northwest Venture Partners, early-stage software, consumer, financial services/fintech and healthcare companies will be areas to watch. Prime Venture is bullish on financial services, healthcare, education, consumer/mobile Internet and internet-of-things (IoT). Blume will focus on consumer businesses, followed by deep technology, enterprise software and data analytics.

Krishan notes that the large amounts of funding that have gone into e-commerce, education tech and food tech have changed the way people shop, study and eat. "That buying itself is unlikely to slow, unless there is a general slowdown in the economy," says Krishan.

After a frenetic period of backing ideas and enthusiasm, VC investment might become subdued. But money will still be available for good teams and good ideas.

NEWSMAKER OF THE WEEK



MANOJ GUPTA: THE CRAFT OF SUCCESS

Earlier this week, Craftsvilla, a Mumbai-based online marketplace for ethnic products, acquired food etailer PlacesofOrigin in an all equity deal. This was Craftsvilla's second acquisition in a month, after it bought out virtual logistics startup Sendd. The idea behind these acquisitions is to build Craftsvilla into a one-stop destination for all things ethnic, says its founder Manoj Gupta. Bengaluru-based PlacesofOrigin which retails sweets, savouries and other local specialities from across the country fits into Craftsvilla's vision of building the foods category into a huge one for the company, as it plans to go public in the next two years. Gupta, an IIT Bombay and IIM Ahmedabad alumnus, says there's going to be three to four more such acquisitions to bulk up Craftsvilla this year. "We are looking at strategic acquisitions in the ethnic space to ensure we realize our vision sooner. Sendd's acquisition helps us reach smaller towns and villages, which is the ethnic heartland of India. Ethnic food is a \$10 billion category for us. PlacesofOrigin has cracked issues related to ethnic foods supply chain, which is a major challenge in this space. We are excited about ethnic services and Ayurveda as our next frontier category," he explains. An ex-VC with Nexus Venture Partners, Gupta started Craftsvilla in 2011 along with his wife Monica as a platform to sell products across categories, including clothing, handicrafts, jewellery and art. Having raised \$1.5 million in initial capital from Nexus and Lightspeed Venture Partners, Craftsvilla went through tough times as the business did not grow as expected for the next few years. After four years, the etailer racked up fresh funds last year from Sequoia Capital and Global Founders Capital, among others, across two new financing rounds totaling \$54 million.