

Startup valuations are high, so are the risks

Mamta Bhardwaj, October 19, 2015, DHNS

The increase in ticket sizes doesn't seem to reflect a broad-based rally

The startup scene in India is bustling with both entrepreneurs and investors. This harmony has seen 206 deals worth \$3.51 billion by far in 2015 (till June 30, 2015), according to data by CB Insights.

Eight-year old 'startup' and eCommerce giant, Flipkart valued at \$15 billion as of October 2015, raised India's largest venture capital round at \$1 bn in Series-G funding in July 2014. This was followed by a massive Series-H round worth \$700 million in December 2014. It raised a further \$700 mn in 2015.

Across 2014 and 2015, One97, owner of online payment wallet Paytm, which raised \$680 mn from Ant Financial in September 2015, was the next big round, followed by two rounds of \$627 mn (October 2014) and \$500 mn (August 2015) raised by Snapdeal. Olacabs is another big ticket funding recipient with a \$400-mn round in April 2015 and a \$225-mn round last month. CB Insights found that internet and mobile companies took a combined 82 per cent of Asian VC funding in Q1 (Jan–March) and 80 per cent in Q2 (April–June). In India too, the situation is not much different. Internet-based companies include eCommerce, online payments, and taxi-hailing apps.

The eCommerce allure

Sanjay Swamy, managing partner, Prime Venture Partners, describes this as "the second coming of eCommerce, something that is gaining momentum now". He reiterates that eCommerce appears to be gaining traction simply because the ticket sizes are big. "Funding is pretty much concentrated at the top, most of the big fund-raising incidences have revolved around bigger players like Flipkart, Snapdeal, Ola, etc.," he says.

ECommerce — India's star segment in funding — poses its own challenges. "The Indian eCommerce market is very small, and growing rather slowly. It doesn't warrant the level of investment or valuation it is getting right now," says Sramana Mitra, founder of 1Mby1M, an entrepreneur and a strategy consultant in Silicon Valley. "The VC industry is not very old in India. Initially, Indian VCs were more fundamentally driven, and were risk-averse. Valuations were more reasonable."

She added, "Now they have gotten completely swayed by this Unicorn mania, and are creating a gigantic mess. India's eCommerce is mostly C-O-D (cash on delivery) driven which weighs heavily on expenses from the logistics point of view. Mobile penetration in India is much lower than in the US and China, so is the penetration of credit cards and net banking. VCs are behaving much more speculatively than anticipated," she said.

The niche factor

Sumchit Anand, founder and managing director of Acquisory Consulting India, says it looks like entrepreneurship in India has taken flight. "Entrepreneurship is substantially high at about 4,000 entrepreneurs in a year now. This number was less than 600 just 4-5 years ago," said Swamy. When one talks about what venture capitalists are looking for — 'unique' and 'niche' — are the two keywords that resonate. Anand says: "India has genuine consumerism because we have the population. And even on the business side, there may be a lot of players, but each has his niche."

"The F&B segment is one of the fastest growing segments gaining huge traction. Any segment that has a huge consumer angle to it, takes the pie," says Anand. According to him, that is where the F&B segment plays, both in terms of restaurant chains as well as groceries. Beer Café, Chaayos, Swiggy, Holachef, and Veeba Foods are some of the startups in the F&B manufacturing and delivery segments that have received funding in the recent past.

'Old' is still gold

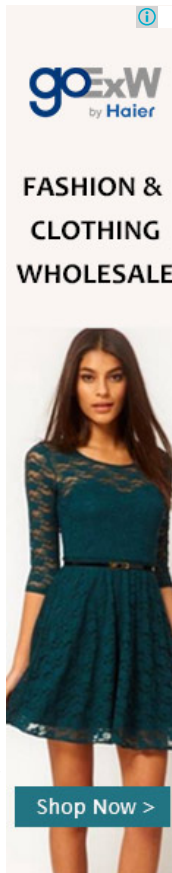
"If you closely watch, the number of new companies getting funded is quite small with rounds as small as \$4 million to \$5 million," Swamy adds. "In the past it was very difficult to get initial funding, which is definitely changing. Although one hears about these colourful funding rounds, it takes a lot of investment in the non-monetary space, in terms of time, research, etc." With limited players investing at the seed stage, the challenges for a startup are still very high, he adds.

Speaking about the opportunistic behaviour in the space, Swamy who categorises investors into informed and fashionable, confirms a herd mentality. "To make the best of an opportunity is one of the reasons we write cheques in this industry. When the stakes are high, so are the rewards." Anand cites the example of OYO Rooms which raised \$100 million in a round. "OYO got funded and then immediately five to seven others in the segment came up," he said.

Swamy added, "It may appear fashionable to make an investment, but he/she has to realise that there is a wide range of risks involved. This is a period of massive opportunity in India. There is no reason not to try and make the best of it. However, one has to understand that it is a high stakes play."

Top 10 VC funding in 2015

Company	\$(million)
Paytm	680.0
Snapdeal	500.0
Ola Cabs	225.0
Inmobi	100.0
Oyoro Rooms	100.0
Practo	90.0



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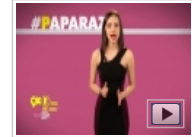
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