HOWZAT! SUCCESS AND IMPACT OF START-UPS

2018 EDITION

INDIA VENTURE CAPITAL & PRIVATE EQUITY REPORT
SUCCESS AND IMPACT OF START-UPS

Edited by Thillai Rajan A.
PREVIOUS REPORTS

2009: On top of the world, still miles to go
   A report on venture capital and private equity investments

2010: The contours of smart capital
   A report on venture capital and private equity investors

2011: Fueling growth and economic development
   Private equity investments in real estate and infrastructure

2012: Stimulus for the new and the nascent
   A report on angel investments and incubation

2013: Convergence of patience, purpose, and profit
   A report on social ventures and impact investments

2014: The fuel for wealth creation
   Capital providers to the Indian venture industry

2015: The alchemy of judgment and objectivity
   Valuation and structuring of investments

2016: Inspiration and momentum for the gladiators
   A study and analysis of the start-ups

2017: The state & the start-up
   An analysis of government policies and support for start-ups

© Indian Institute of Technology Madras

The India Venture Capital and Private Equity Report Series is an annual publication of the Indian Institute of Technology Madras

All the previous reports are accessible and can be downloaded from www.ynos.in

Any correspondence can be addressed to:
Thillai Rajan A., Professor, 202, Department of Management Studies,
Indian Institute of Technology Madras, Chennai 600036. India.
Telephone: +91 44 2257 4569
Email: thillair@iitm.ac.in
Contents

08 The Team
09 Editorial Advisory Review Board
10 Editors’ Note
12 Foreword

Articles

15 Off the Starting Block: Getting Venture Funding
31 Pitching it Right: Raising Successive Funding Rounds
43 Crossing the Finish Line: Investment to Exit
63 Beyond the Finish Line: Exit Returns
79 The End Game: Type of Exit
93 The Home Run: From Venture Launch to Exit
105 Start-ups and Employment

Conversations

25 Tarun Khanna
   Professor, Harvard Business School
   Director, Lakshmi Mittal and Family South Asia Institute, Harvard University

55 V. Senthil Kumar
   Co-founder, Qube Cinema

87 Girish Mathrubootham
   Founder and CEO, Freshworks

113 Venkat Subramanyam
   Co-founder & Director, Veda Corporate Advisors

By Invitation

73 Incubators: How can we unleash their potential?
   B. Mahesh Sarma

101 Benefiting from Start-ups: The case of FinTech Partnership Program at ICICI Bank
   Madhivanan Balakrishnan

119 Where Change Gets Called by Tradition: The Case Study of SportsMechanics
   Hari, Varun, Shrey, Kumar and Arjun
The Team

Editor in Chief
Thillai Rajan A.
Professor, Department of Management Studies, Indian Institute of Technology Madras &
Associate at the Mossavar Rahmani Centre for Business and Government, Harvard Kennedy School, Harvard University

Chapter Editors
Dr. Ambuj Gupta
Associate Professor (Finance), Deccan Education Society’ Institute of Management Development and Research, Pune
Ramesh Kuruva
Senior Research Scholar, IIT Madras

Senior Research Fellows
Niroopa Rani
Denila Jinny

Research Associates
Adithya Vikram Sakthivel
Bhavani Kumara Masillamani

Research Assistance
Amartya Prem
Apoorv Harsh
Gunthavi N.

Editing Support
Akila Arvind
Vidya Raman

Design
Krishna Kireeti

Printing
New Horizon Media

Photographs
unsplash.com
Editorial Advisory Review Board

**Anup Bagchi**  
Executive Director, ICICI Bank Limited & Chairman of the Advisory Review Board

**Girish Mathrubootham**  
Founder & CEO, Freshworks

**Gopal Srinivasan**  
Chairman, TVS Capital

**Jayesh Ranjan, IAS**  
Principal Secretary - IT and Industries, Govt. of Telangana

**Kris Gopalakrishnan**  
Co-Founder, Infosys & Chairman, Axilor Ventures

**R. Krishnakumar**  
Institute Professor & Perry L Blackshear Institute Chair Professor, IIT Madras

**Phanindra Sama**  
Co-Founder, RedBus & Chief Innovation Officer, Govt. of Telangana

**R. Ramaraj**  
Advisor, Elevar Equity

**V. Shankar**  
Founder, Computer Age Management Services Pvt. Ltd. & President, TiE Chennai

**Kalpathi S. Suresh**  
Chairman & CEO, Kalpathi AGS Group
Editors’ Note

The world is obsessed with winners and success. But the winners are not the only ones who make it to the podium. A valiant loser is also applauded in the same breath as the winner. Each and every one who tried earnestly but failed for reasons beyond their control is also a winner in some sense. The Olympics movement is the biggest congregation and celebration of people who give their best, but need not be podium finishers. An Olympian is a very much revered listing in any sportspersons CV. It is in this spirit that we decided on the theme of this years’ report. For an entrepreneur to succeed many factors have to come together, many of which are beyond anybody’s control. While a strong business plan, passionate team, incredible work ethic, are important components of success, many of the successful entrepreneurs also credit a significant portion of their success to Luck.

Luck, defined as, “success or failure apparently brought by chance rather than through one’s own actions”, often masks to the simpleton, years of hard work and preparation, that the entrepreneur has put in to take advantage of the fortuitous circumstances when it presents itself. For “Luck is a matter of preparation meeting opportunity.” Therefore to be there in the right place and the right time can significantly improve the chance of success. The decision on where and when to be there may have been a tap of inspiration, but it has to be backed by careful planning and preparation.

The focus of this years’ report is Success and Impact of Start-Ups. We decided to combine the topic of impact along with success because the country needs not only successful start-ups, but also those that can create a significant impact in contributing to economy and society, be it employment, innovation, new products and services, quality, and so on. The core of a successful venture is its idea. But to be able to transform a great idea to a commercial venture, needs good execution and planning.

This edition has three types of collections. Analytical articles, conversations with successful entrepreneurs and those associated with the startup ecosystem, and articles contributed by guest authors on select topics. The analytical section consists of a series of seven articles. The first article focuses on factors that could help the entrepreneur to raise venture funding in the first six years of incorporation. The focus is on the initial years, because it is then the startups are most vulnerable and need external capital to sustain the operations. The second article focuses on factors that help in raising successive rounds of venture funding. Most ventures need several rounds of funding before they can turn cash positive. With the odds of getting successive rounds continuously decreasing, the trends seen in those companies that have successfully raised multiple rounds can benefit the early stage entrepreneurs. Exit is a very important part of the venture capital life cycle. There are three articles that focus on various aspects of exits (i) timing of exits; (ii) returns realized at the time of exit; and (iii) types of exit. Entrepreneurs have to understand the dependency between these three elements of exit while deciding their exit strategy. One of the important focus areas of startup policies is generation of employment. The seventh article analyses the impact of start-ups on employment. While there are no many positive aspects, the results in terms of employment creation are unenviable.

As the Editor, I had the fortune to have detailed conversations with four illustrious leaders who have made a significant mark in the entrepreneurial arena. Each of these conversations have appeared as separate articles in this edition and provides insights and viewpoints from their long years of experience in the field. The first conversation is with Prof. Tarun Khanna, who have made significant contributions in understanding the field of entrepreneurship, specifically in the context of developing countries. The second conversation is with Senthil Kumar, Co-founder of Qube Cinemas, who did not stop with the experience of providing digital cinema to Indian viewers, but went on to invent technologies that would compete with the top companies globally. The third conversation is with Girish Mathrubootham, Founder and CEO of Freshworks, who created a disruptive model for providing customer service for the SME segment. The latest funding round catapulted his venture to a unicorn, the first to reach that status from Chennai. The fourth conversation is with Venkat Subramanyam, Co-founder and Director of Veda Corporate Advisors. As a successful investment banker, Venkat has been part of the fund raising dressing room for close to two decades. In this conversation, Venkat has shared his experience of fund raising for mid-sized businesses.

We are privileged to have three contributions from guest authors. The first article by Mahesh Sarma examines the impact of incubation on institutions and how it can be made more ef-
effective. Start-ups can also benefit large organizations. As an example, Madhavan Balakrishnan of ICICI Bank describes how the FinTech Partnership program of the bank has helped in improving the efficiency in the bank leading to significant savings in cost and time. The third article by the content team at SportsMechanics, describes how the startup has been able to bring data driven analytics to sports in India, thereby fundamentally changing the way sports was looked at.

Looking back, the annual India Venture Capital and Private Equity Report series almost started like a venture on the venture industry. As I sit to write this note for the tenth time, the first report seems a distant past. Not that my memory is short, but we have travelled quite a distance since that November of 2009. The objective of the report series was not to provide a round-up of what happened in the industry, but to take a step back and look at the big picture from different perspectives. There was an intellectual opportunity that existed for such an effort, which we wanted to fulfil. That so far, we never had to repeat a theme suggests the rich mosaic that exists in the venture industry. As they say, the final should be a game that is worthy of being called the final. The 2018 report is the tenth edition in the series. We have tried our best to come out with a publication that is worthy of being this milestone.

I hope you enjoy reading this report. We believe this report would augment your understanding of the startup trends and ecosystem in the country. It would encourage the team greatly if you could write and let us know your feedback and comments.

To all those who have supported in this journey – the research and editorial teams, colleagues, members of the industry, institution and departmental heads, friends, well-wishers, and last but not the least, my family and parents, no words of gratitude are enough.

Thillai Rajan A.
India is among the top three countries worldwide in terms of the number of start-ups. Many of these start-ups were incorporated post 2010. Though India had always boasted a strong culture of entrepreneurship as seen in the number of SME’s, start-ups brought in a new era in entrepreneurship – one that anchored on technology, innovation, and growth. People could experience the impact of start-ups in almost every walk of life. And successful entrepreneurs have a rock star like following, becoming role models for students in campuses. The start-up revolution has captured the attention of all segments in the society and the start-up kranti has resulted in substantial positive impacts in the economy.

**Growth in Start-ups**

The total venture investment in start-ups during the decade 2005-15 has been estimated at ₹1117 billion. The average annual growth rate in investment flow during the same period was about 42 percent and more than 10,000 start-ups have received venture funding. The average annual growth in the number of start-ups that have been funded for the period 2005-15 has been 16 percent. However, an important aspect has been that the start-up creation process has largely been a big city phenomenon. For example, there has been a dramatic increase in the number of incubators in Tier 1 cities after 2010. Except for a couple, virtually almost all of the accelerators are located in the main cities – Chennai, Bengaluru, Hyderabad, Mumbai, Ahmedabad, and New Delhi. Ventures in Tier 1 cities are getting funded earlier and obtaining larger amounts of funding. Average deal sizes for Start-ups in Tier 1 cities are about 62 percent higher than that of deals in Tier 2 cities. Investment rounds are more than 40 percent higher in Tier 1 cities as compared to that of Tier 2 cities. The 6 Tier 1 cities of India account for about two-thirds of the angel and venture funding.

**Increasing investor interest**

A very heartening development has been the robust interest from angel and venture investors to support start-ups. In recent years, angel deals have shown an annual average growth rate of 124 percent while the average investment has grown at an annual rate of 205 percent. The number of angel investors also has grown at an annual average of 107 percent. Investors have also developed a healthy appetite for early stage risk, which is reflected in the steady decrease in the average age of the start-up - about 27 percent annually. The strong emergence of angel investment networks, such as The Chennai Angels, Mumbai Angels, India Angel Network, Native Angel Network, and so on has further facilitated fund raising by the entrepreneurs. In a span of 7 years, the number of networks have increased 20 times. Average aggregate investment amounts made by angels have consistently increased at an annual growth rate of 27 percent.

**Policy focus**

Start-ups and entrepreneurship has become the focal point of policy makers today. The ecosystem for start-ups and entrepreneurship has never been so supportive. The call for “Start-up India, Stand-up India” campaign has matched the intensity of the some of the previous clarion calls of the government such as poverty alleviation. Consistent with the vision, there has been visible progress on the ground as well. At least 14 national government ministries and departments have formulated start-up policies. This focus has had a cascading effect on the state governments as well. At least 22 of the 29 states have in place a start-up or innovation policy that is targeted at promoting ventures. The crux of most of the policies has been to encourage innovation driven and technology led ventures rather than routine, run-of-the-mill start-ups. The emphasis on innovation is also enshrined in the policies and also reflects in several other places. For example, the Entrepreneurship Development Institute set up by the Government of Tamil Nadu has been renamed as the Entrepreneurship Development and Innovation Institute.

While the comprehensiveness and robustness may vary between policies, some of the common features seen across policies are: (1) The focus is on creating an ecosystem for establishing start-ups, rather than focus only on providing funding; (2) Involvement of industry and academia as key partners and stakeholders in the process; (3) Priority for creation of physical infrastructure in many of the policies; (4) Democratizing the process of start-up formation by providing access to various facilities for creating start-ups to entrepreneurs from disadvantaged backgrounds; and (5) Setting up of high aspirational goals and targets.

Since 2016, at the nudge of the central government, the PSUs and the CSIR labs have taken major strides in supporting start-ups. The focus of these programs have been to support
start-ups in those sectors that are either capital intensive or very niche and therefore has had very few start-ups, such as oil and gas, defence, food technology, and so on. Since most of the PSUs are implementing their program through partnership with various incubators in academic institutes, it would strengthen industry-academia collaboration and would also hasten the diffusion of innovation process. As government backed institutions, they are keen to democratise the support for start-ups by making it accessible to not just those from metro cities or those who have graduated from elite institutions. For those who would like to know more on the state initiatives as well as to get some interesting perspectives, I would suggest the 2017 report on “The State & the Start-up”.

India’s Unicorns

The dominance of India in the start-up world started getting attention not only on the increasing number of deals or quantum of investment that was being made, but by the number of Unicorns that were emerging. It was in 2014, that Unicorns, a mythical animal typically represented as a horse with a single straight horn projecting from its forehead, started to acquire a new meaning. Aileen Lee, the founder of Cowboy Ventures used the term to refer to those tech start-up companies that have reached a $1 billion dollar market value. While today the list of companies that qualifies for a unicorn tag has expanded significantly, there are several Indian start-ups that feature among the list of Global Unicorns, indicating that start-ups from India are now marking a mark in the global arena.

Social Impact

Start-ups have also impacted the lives of people indirectly by changing the rules of the game. Traditional businesses or businesses with traditional mind set are now under pressure. For example, the traditional mobile recharge points franchise by different companies are losing their business to the online recharge counterparts. Similarly, many traditional businesses like Banarasi sari weavers, Pochampally sari cluster, and so on are at the brink of change. Start-ups offer a ray of hope for bringing change to the lives of deprived sections of society like farmers, traditional weavers and other traditional professions.

The 2013 report in this series focused on the rise of impact funds – those that also had the objective of creating social good in addition to financial returns. A major contribution of such social venture funds has been their ability to facilitate additional investments from larger mainstream investors. On the whole, a dollar of investment from social funds was associated with an investment of 2.2 dollars from mainstream investors. While the average investment per deal by a social investor was $1.46 million, it was $4.11 million in the case of a mainstream investor. The results indicate that, though the social venture funds make smaller investments per deal, their presence leads to a certification effect, thereby leading to a larger investment by mainstream venture funds.

Fair Weather Friends

Similar to the economic cycles seen in most industry, the venture and private equity investment has its own cycles. Often murmurs become louder that the start-up financing party is likely to end soon. Articles questioning the judgement of investors in valuing loss making firms in billions starts appearing more frequently, not just in business and finance media, but also in general media. However the industry, which has been marked by several troughs such as in 2001-02, 2008-09, 2013, has also shown remarkable resilience in bouncing back. For example the 2015 Unicorn report predicted the onset of winter soon, as venture valuations are unlikely to remain lofty for long and some of the unicorns would be doubtful to survive. But bubbles and exuberance are nothing new in the venture capital industry and the dot-com boom and bust is not a really distant memory. If past trends are anything to go by, the start-up and venture segment would continue to emerge stronger after a downtrend.

The Indian Venture Capital and Private Equity industry has been by and large practitioner driven. While investors would tend to be occupied with deal-by-deal or quarter-on-quarter developments, the refreshing practice of taking a step back and getting in the big picture is often given the go by because of the day-to-day demands of the profession. On the other hand, entrepreneurs who are passionate in developing their idea to a multi-million dollar venture, can rarely afford to have the luxury of taking the eye of the ball despite the need for understanding the landscape. It is in this context that the academic leadership taken by IIT Madras to present perspectives on the Indian Venture Industry and Start-ups have to be applauded. What started as a small initiative in 2009, has grown significantly over the last decade. The 2018 report is the tenth in the series. Each and every report has focused on a specific facet of the Indian venture industry, thereby providing important insights for the policy makers, investors, and entrepreneurs. In recent years, I am aware that this report has been a kind of industry benchmark with the findings and implications getting more nuanced every passing year.

An initiative that has sustained for 10 continuous years, is a milestone by any measure, and I congratulate the research teams that prepared this edition as well as the previous editions for their effort and tenacity. As the Chair of the Editorial Advisory Board for the 2018 India Venture Report, I am happy to present you this years’ report. I hope you would enjoy the contents of the report and share it within your network.
Off the Starting Block: Getting Venture Funding

“Success is where preparation and opportunity meet.”
- BOBBY USNER

“Many men go fishing all of their lives without knowing that it is not fish they are after.”
- HENRY DAVID THOREAU

Introduction

Traditionally, it takes several years to build a business. But in today’s era and context, business years are compressed and the ambition of many of today’s entrepreneurs is to scale up as quickly as possible. Because, the stakes are high and it is a winner takes it all market. Therefore, entrepreneurs want to be the first to reach a critical size and sustain their leadership position. Many of the technology and innovation driven businesses have several years of negative cash flows, before they can turn profitable. Therefore, to be able to scale up and grow, it is important to have external capital.

The start-up landscape is today a lot more democratic. A majority of those who venture on their own today are not from the traditionally rich business families. They come from a middle class background and are first generation entrepreneurs. While family and friends can contribute to a part of the initial seed capital, serious investment has to be from external sources. Given the nature of the business - technology and innovation driven, and characterized by intangible assets, access to bank funding would be limited. It is here that venture investors play an important role by providing equity funding in the seed and growth stages of the venture. As Girish Mathrubootham has said in his conversation that appears later in this publication, venture capital is like rocket fuel. Venture capital helps the entrepreneur to quickly grow and reach critical size. Non-availability of this external capital in the early stage of the ventures can lead to a premature death of the ventures. Therefore, many start-ups consider investments from venture capital firms as a lifeline and getting venture funding is seen as a measure of intermediate success. By analyzing start-ups that have received venture funding, this article attempts to understand factors that can increase the probability of getting venture funded.
Data

Since the start-ups are most vulnerable in their initial years, this article focuses on the fund raising in the first six years after incorporation of the start-up. The amount and probability of getting funding increases significantly with time. Therefore, we have analyzed the trends separately across two time phases: 0 – 3 years and 3 – 6 years. The variables that has been considered for analysis include: start-up sector, city of the start-up, quantum of investment received, equity valuation and shareholding acquired by the investor in the funding round, and the type of investor. Since the data encompasses over a long period, the investment variables have been converted to 2017 base year values to facilitate comparison.

Sectors and venture funding

It is by and large known that some sectors are more favored than the others in terms of attracting venture funding. Our results reinforce that trend. Figure 1 gives the results of total venture funding received by each company in different sectors. Each and every line represents a single round of funding.

The visual representation clearly shows that the Software and Internet Services has received the maximum rounds of funding (and also the quantum). This is followed by Consumer Products and Services and FinTech and Payments category. The average investment per round in the FinTech and Payments sector is higher than that of other sectors, as most of the rounds are concentrated on the top end of the spectrum. Unfortunately, Technology sector has the lowest amounts of funding. It can also be seen that funding received during 3 to 6 years is on an average higher than that of the funding received from 0 to 3 years. However, the number of rounds are much lower in the former. Even in the 3 to 6 year time frame, Software and Internet Services sector has had the largest number of rounds.

Figure 2 illustrates the trends in start-up valuation across different sectors. Since valuation details are not available for all the investment rounds, the number of observations are lower. While the top end of the valuations are not significantly different across sectors (actually, the equity valuation is represented in log scales. Even a minor difference in log scale will therefore translate into a very large number), there is a difference in the lower end of the valuation. The minimum valuations in Consumer Products and Services and Software and Internet Services are lower than those seen in other sectors. The lower range of the valuations in FinTech and Payments category are in general higher than that of the other sectors. The number of deals in 0 to 3 years and 3 to 6 years indicate that most of the companies prefer to raise funding as quickly as possible instead of waiting, though delaying the funding can help to raise more amounts at a higher valuation. With increasing time, the valuation is not as concentrated around the mean as in the 0 to 3 years category. As the track record of the venture becomes available, investors are able to arrive at a valuation that is more dependent on the performance of the company rather than broad industry metrics.

Figure 3 gives the average shareholding acquired by the investors in different sectors. Figure 4 shows the percent shareholding acquired per ₹ million in investment. Percentage equity shareholding is arrived by dividing the total investment with equity valuation. It is an indication of how valuable the startup is perceived by the investor – the lower the percentage shareholding, higher the valuation.

If we look at the bands in Figure 3, there is a large concentration of bands in the lower levels for the Software and Internet Services sector, indicating that investors give a higher valuation for companies in this sector. Technology and Internet marketplace and eCommerce companies also receive a fairly higher valuation. Shareholding acquired also depends on the quantum of funding. When the quantum of funding is higher,
investors acquire a higher shareholding or vice versa. A good metric therefore is to look at percentage shareholding per ₹million in investment. This again indicates that Software and Internet Services is seen as the most valuable sector, followed by Internet Marketplace and eCommerce, FinTech and Payments, Health-Tech, and Consumer Products and Services.

Cities and venture funding

Where to start a venture is an important decision for entrepreneurs. In the initial stages, most of the time, the place becomes a default choice depending on the current location or familiarity of the entrepreneur. It is only when they grow, the entrepreneur decides to shift the venture to a different city, if the ecosystem in the existing location is not very favorable. Nevertheless, we analyze whether there are differences in venture funding in some of the key cities. Figure 5 illustrates the venture investment in different cities. It can be seen that Bengaluru, Mumbai and Delhi are the top cities for venture funding. The chances of getting venture funding therefore becomes higher for start-ups in these cities. Visual inspection of the bands indicate that the average round investment is the highest in Bengaluru followed by Mumbai and Delhi. Not only do more number of deals get funded in Bengaluru, they also get higher amounts of funding.

Figure 6 illustrates the equity valuation of the round in different cities. The trend by and large mirrors the trend seen in Figure 5. A possible explanation is that Bengaluru is the base for a large number of start-ups in the Software and Internet
Services sector. Since these companies get a higher valuation (Figure 2), it also reflected in Figure 6. The percentage shareholding in different cities is given in Figure 7. It indicates a fairly homogeneous pattern different cities. There are no significant differences among the cities in terms of percentage shareholding acquired by the investor.

Figure 8 shows the sector wise venture investments in different cities. The number of circles indicate the number of rounds of investment and the size of the circle reflects the quantum of investment in the round. Between Figure 8a and 8b, it can be seen that the number of funding rounds between 3 to 6 years is lower than that of 0 to 3 years, but on an average the size of funding is higher. Bengaluru has a higher number of companies in Software and Internet Services Sector, as compared to that of other cities. In Mumbai, FinTech and Payments, and Consumer Products and Services account for a significant proportion of investments.

Investor category

To analyze whether there are any patterns between investor category and investment in different sectors, we classified the investors by type and domicile. Figure 9 gives the trends in investment when the investors are classified by type and Figure 10 gives the trends in investment when the investors are classified by domicile. The largest number of angel investments are seen in the Software and Internet Services sector, followed by Internet Marketplace and eCommerce, and Consumer Products and Services. FinTech and Payments have a
Figure 6: Equity valuation in venture investments in different cities

Figure 7: Percentage shareholding in different cities

Figure 8a: Sector wise venture rounds in different cities (0 to 3 years)

Figure 8b: Sector wise venture rounds in different cities (3 to 6 years)
predominance of boutique investors as compared to that of angel investors. Angel investments are more seen in the 0 to 3 years timeframe.

Since it was difficult to classify the angel investors as domestic or foreign, they have been included in both the investor type and domicile classification (Figure 9 and 10). In terms of investor domicile, domestic investors make more number of investments as compared to that of foreign investors. However, relatively speaking, the number of investments by foreign investors are higher in Consumer Products and Services, FinTech and Payments, Technology, and Hyperlocal and Logistics sectors.

Figure 11 illustrates the percentage shareholding acquired per ₹million of investment by investor type. Between 0 to 3 years, it can be seen that the percentage shareholding acquired per unit investment has been the highest for angel investors, followed by boutique investors. Most number of observations have been for angel investors as compared to other investor types for the 0 to 3 year period, indicating that angel investors are the most frequent investors. The number of in-
Investments made by corporate or institutional investors have been modest in the first six years of the start-up. The number of rounds funded by boutique investors’ increase for the 3 to 6 years period, as the quantum of funding required becomes higher. Interestingly, the number of rounds funded between 3 to 6 years are lower for corporates and institutional investors, despite having the capacity to invest larger amounts.

Figure 12 shows the pattern when investors are classified on their domicile. Domestic investors demand a higher shareholding per unit of investment as compared to that of a foreign investor. A possible explanation for the premium is that domestic investors are able to add a lot more value to the investee companies because of the familiarity with the market conditions and their connections in the markets. More number of observations indicate that the probability of getting funded from domestic investors is higher as compared to that of foreign investors. Angel investors could be demanding a premium because not only do they invest very early when the venture is at the most riskiest phase, but they also bring a lot of business expertise that can add value to the venture since many of them have been successful entrepreneurs themselves.
Summary

This article has identified some key trends in venture funding that would help the entrepreneurs in increasing the possibility of venture funding. While the fundamental reasons for getting venture funding would continue to be a sound business model, passionate founding team, and opportunities for scalability and profit margins, for an entrepreneur seeking to raise capital, the findings in this article increase the knowledge on the margins which can be beneficial. Firstly, the sector of the startup plays an important role. More number of companies in some sectors such as Software and Internet Services, Consumer Products and Services, FinTech and Payments have received venture investments as compared to the remaining categories. Entrepreneurs should be aware that venture investments in the remaining sectors are relatively low and would be better off to identify alternate sources of funding. The sectors that have the large number of investments have also received higher valuations, an indication of investor interest.

Secondly, in terms of cities, Bengaluru, Mumbai, and Delhi have emerged as important centres for venture investments. This indicates that venture funding ecosystem in these cities are a lot more developed as compared to that of the remaining cities. Research studies have indicated that at least in the initial years of the startup, venture capital tend to get invested in companies that are geographically proximate. Our results also indicate that some cities are a more fertile ground for start-ups in specific sectors. For example, there has been an agglomeration of Software and Internet Services start-ups in Bengaluru, while Mumbai is more prominent in the case of start-ups in Consumer Products and Services, and FinTech and Payments. Knock and the door shall be opened is a biblical saying. However, it is important for the entrepreneur to know which door to knock for investment and when. Analysis by investor categories indicate that angel investments are predominant in the Software and Internet services category as compared to any other sector. Further, angel investors tend to invest more frequently in start-ups that are 3 years or younger as compared to start-ups aged more than 3 years. Angel investors acquire a higher shareholding per unit of investment because of the higher risk they take, and also possibly because of their business experience and value addition to the entrepreneurs.
Why should one become a member with TiE Chennai?
Over the past 19 years TiE Chennai has mentored businesses, to unlock the big possibility inside every individual entrepreneur.

TiE Chennai Members
Our members include Startups, Business Owners, New Entrepreneur's, VC's, Angel Investors, Technopreneur's, Government Representative's, Research Firms, Business Owners, Tech Parks, Incubators, Corporate Leaders, Policy Makers, Business Legends and more.

Fostering entrepreneurship through

MENTORING
Access to 120+ Mentors across all domains through our member portal

EDUCATION
Delivering 80+ Sessions every year
Flagship Conference - TiECON
Chennai

FUNDING
Access to 50+ Investors through our wide network
Investor meetups every month

NETWORKING
Network with 600+ active members
Paving way for more business opportunities both online & offline

INCUBATION
Kick-start your journey
Pre & post Incubation assistance for startups across domains

BECOME A MEMBER OF TiE CHENNAI & AVAIL THESE BENEFITS

GET IN TOUCH

Email: support@tiechennai.org   📞 7200024900
Address: Module -6, 6th Floor, Block A- Phase II, IIT Madras Research Park, Taramani, Chennai 600 113.
Trust: The Foundation of Entrepreneurship

A Conversation with

Tarun Khanna

Professor, Harvard Business School
Director, Lakshmi Mittal and Family South Asia Institute, Harvard University

Dr. Tarun Khanna is currently the Jorge Paulo Lemann Professor at the Harvard Business School (HBS), where he is a member of the strategy group, and the director of Harvard University’s Lakshmi Mittal and Family South Asia Institute since 2010. He has been at the HBS since 1993, after obtaining degrees from Princeton and Harvard. His focus has been to study the drivers of entrepreneurship in emerging markets as a means of economic and social development.

He has published several books over the years — Billions of Entrepreneurs (2008), Winning in Emerging Markets (2010) and recently, Trust: Creating the Foundations of Entrepreneurship in Developing Countries (2018). In 2014, his article ‘Contextual Intelligence’ was a runner-up for the McKinsey Prize for the year’s best article in the Harvard Business Review.

In 2007, Dr. Khanna was nominated as Young Global Leader (under 40) by the World Economic Forum and in 2009, he was elected as a Fellow of the Academy of International Business. In 2015, he was named by the Government of India to chair the nation’s Expert Committee on Innovation and Entrepreneurship to help shape the fabric of India’s entrepreneurial ecosystem. In 2016, the Academy of Management recognized him as Eminent Scholar for Lifetime Achievement in the field of International Management. In 2018, the Government of India named him to its Empowered Expert Committee to help select India’s Institutions of Eminence, a project meant to assist India’s leading universities to attain world-class status. Dr. Khanna is also a co-founder of several entrepreneurial ventures in the developing world spanning India, China, Southeast Asia and the Middle East.
Are the contours of start-ups and entrepreneurship different between developed and emerging markets?

My perspectives are based on two sets of experiences. One is from an academic viewpoint, as I have been studying ventures and entrepreneurs for the past 20 years in developing countries. Another view arises from my experiences over the past 10 years in trying to start my own ventures, encompassing both for-profit ventures and not-for-profit ones, mostly with a focus on Asia.

The first thing I would like to say is that, at the 50,000 foot level, there is really no difference. Entrepreneurs are basically kind of hardwired ‘can-do optimists’; they identify opportunities in situations where most people see only risks. Entrepreneurs roll up their proverbial sleeves, start working on the mission without being excessively worried about the fact that they cannot fully discern the path ahead. So, at that level, entrepreneurship has not been very different between developed and emerging countries.

However, at the same time, we need to be aware of what I call ‘Monday morning reality’. Being aware of the everyday realities is important to understand how entrepreneurship manifests. Krishna Palepu and I had written about it in our book, ‘Winning in Emerging Markets’. The starting point of the book is an attempt to synthesise an approach to thinking about the structure of emerging markets. For instance, the situation is very different when one looks out of a window in Jakarta or in Sao Paulo on a Monday morning. In our book, we have developed a taxonomy to understand these differences across emerging markets.

Conceptually, a market is a set of rules and norms that brings buyers and sellers together. Axiomatically, it is where buyers and sellers find each other and with some mechanism of reassurance, they agree to trade if they find the counterparty trustworthy. Likewise, every piece of information requires some kind of reassurance mechanism. The way in which different societies provide information differs quite dramatically, partly due to historical accidents, partly due to cultural tendency, and partly due to rules and practices that have emerged over the years. Our taxonomy considers several factors that collectively address the information problem or the reassurance problem. It helps the entrepreneur to structurally analyse the situation she is about to enter and to be aware of the limitations or constraints within which she is operating.

In your recent book, ‘Trust: Creating the Foundation for Entrepreneurship in Developing Countries’, you emphasize that entrepreneurs need to build trust to succeed. What is your comment on trust and entrepreneurship in the Indian context?

For a thriving entrepreneurial ecosystem, there should be trust between as many potential counterparties as possible.

When you think about an entrepreneurial venture in the United States, my adopted home, think about all the places where trust kicks in. The investors give out money to entrepreneurs, despite the fact that the pay-out is indefinitely in the future. During the interim period, though the investors participate in Board Meetings and have copies of minutes, it’s not possible for them to get every detail of what’s happening, as they might lack detailed domain knowledge and day-to-day connectivity to the enterprise. Therefore, trust is the basis of the relationship between investors and entrepreneurs. Likewise, there is a huge amount of trust when others come forward to join the syndicate with investors, when people quit government jobs or big corporations to work with entrepreneurs and so on. Hence, if you take any entrepreneurial engagement, it is fundamentally based on trust.

I recall that around two decades ago, the political scientist Francis Fukuyama had distinguished low-trust from high-trust societies, generally saying that the latter do better economically. But he did not address the chicken-and-egg problem of which comes first, trust or economic prowess, nor did he address how a society comes to be high-trust. In any event, my book is more about the action implications for a would-be entrepreneur. I point out that an entrepreneur in a developing country situation characterized by ambient mistrust, more often than not, has to not just create, but also has to create the conditions to create, so to speak. I tell a number of stories, which in my view, show explicitly that making the fostering of trust an objective is a prerequisite to achieving impact at scale. To restate this differently, in my opinion, the primary task of an entrepreneur is to realize that in any developing country, and not just India, he will not only have to directly address the problems his venture faces, but also explicitly combat the rampant mistrust all around him — deal with missing and unreliable information, worry about imperfect enforcement of rules and laws, deal with erratic regulatory changes and instability, and so on. So, if the entrepreneur wants people to join and build the venture, the only way to do it is by fostering trust. Fostering of trust is the explicit compensating mechanism for developing countries’ institutional inadequacies.
In your previous book, “Billions of Entrepreneurs”, you have talked about how entrepreneurs in India and China are going to have a significant impact on business globally. Do you see any big difference in the contours of entrepreneurship between these two countries?

One difference has to do with awareness of the importance of science. China has started to embrace science, but India is a long way off. In India, the proportion of scientists spending time discussing their ideas or research with corporates and people outside their field is negligible. Most scientists are unaware of whom to approach or how to discuss. Likewise, when I question the heads of corporates on how much time they spend with scientists, the answer is almost unfailingly zero, unless it is something like a bio-pharma or technology-based company. I find this shocking! This probably also boils down to the absence of trust between scientists and people in industry.

He will not only have to directly address the problems his venture faces, but also explicitly combat the rampant mistrust all around him

Do you think the approach of business to science is different in America? How is it different from the approach in China?

It is extremely different in USA. When I ask a bunch of CEOs in USA about whether they’ve had a substantive discussion with a scientist in the last year, about half of them respond positively. I mean, many entrepreneurs in the US have robust discussions about the effect of science on their business. Almost every company employs dozens of scientists or at least engages science-based enterprises that are relevant to its business. Scientists across various universities are enthusiastic about working with corporations and foundations to solve real world problems. The interface between science, entrepreneurs and business is extremely strong.

I would say that China has figured this out and its government is playing an important role in triggering that connectivity by encouraging its corporates to fund scientists, help scientists to productively commence their own ventures, and so on. Also, the government is bringing Chinese-origin scientists from the US and the UK back to China, in order to help them set up their labs directly, so that they bring their experience with them.

Fostering of trust is the explicit compensating mechanism for developing countries’ institutional inadequacies

I have created an incubator and accelerator called Axilor in Bangalore that is actively working on solving this problem. At Axilor, we bring scientists from different scientific institutions and entrepreneurs together. We provide them capital and encourage them to start a venture. We are but one effort in Bangalore, trying to show how we think it should be done with a very analytic and systematic approach to developing the ecosystem for entrepreneurship. We need more efforts like this.

“This probably also boils down to the absence of trust between scientists and people in industry”

How would you view the steps taken by India in terms of developing and promoting entrepreneurship and creating a start-up policy?

Promotion of entrepreneurship, especially in India, has mostly been on paper in the past. Since the late 1990s, the government has been funding so-called incubators, but the results have not been encouraging. In India, there is a tendency to measure inputs, but not outcomes. While it is easy to say so many thousands of crores of rupees have been invested, there is no mechanism to measure the outcome. At some point, what you don’t measure, you can’t manage. So, there’s always been an intent to do it, but nobody has actually taken it seriously enough in my view.

But then, a lot of different things have happened in the past 15-20 years. One is the rise of the successful Indian entrepreneur, primarily in the IT software sector. This has been a wonderful gift in many ways, as it has helped to create a set of role models that would-be entrepreneurs from other sectors could emulate.

“There’s always been an intent to do it, but nobody has actually taken it seriously enough in my view”

Other fortuitous institutional developments took place in the 1990s and the 2000s — the evolution of laws and rules at the Securities and Exchange Board of India (SEBI), the continued professionalism of the Reserve Bank of India (RBI), the emergence of competition between the National Stock Exchange (NSE) and the older incumbent Bombay Stock Exchange (BSE). These changes helped to make the foundations for supporting entrepreneurship more robust. That’s the good side.

The concern is that these changes have only affected a very small sliver of the economy — the very urban and educated bunches. Overall, the start-up activity outside these pockets has been quite limited.
Currently, we have renewed interest in promoting start-ups and various government agencies like the Department of Science and Technology, the Department of Bio-Technology and the Department of Industrial Policy & Promotion (DIPP) under the Ministry of Commerce and Industry are all promoting start-ups. NITI Aayog has its own program. I am more familiar with the Atal Innovation Mission (AIM), which is part of NITI Aayog. The concept of housing the AIM in NITI Aayog is that it is equidistant from all ministries and is not relevant to just one of them. The principle behind this concept is that creativity should apply equally to health, transportation, industry, agriculture, fisheries, and so on.

The AIM is a robust entity meant to create the institutional infrastructure to support entrepreneurship in the country in a systematic and premeditated way. It’s not the biggest in the country; there are other units that invest money in start-ups. According to me, investing more money in start-ups is not the primary order of the day, rather the answer lies in building the so-called institutional plumbing, so that others will invest money in the start-up and it goes back to the core idea of the problem we are trying to solve. The problems that afflict India are the absence of well-functioning markets in many parts of the country, the concentration of markets largely in urban areas, and the prevalence of what we call informational problems, reassurance, contracting problems, and so on. At AIM, we try to fix the institutional infrastructure – in a way we try to fix the plumbing, rather than pursue individual ventures.

A good example of AIM’s efforts is the incredible emphasis on the so-called Atal Tinkering Labs (already approved in about 5,000 high schools across the country and operational in almost 2,000 of those schools), where kids get to practice hands-on creativity in addressing contemporary problems in their communities mostly, rather than limit their learning of science subjects purely from textbooks.

What could be the impact of start-ups from the perspective of governments? Are governments looking at start-ups to address job creation, innovation, and so on?

Well, it is a difficult problem! I mean, the problem is, if one does the basic arithmetic, the net addition to the work force is 10 million a year. So, in 10 years, we’ll have to absorb 100 million people into the work force. But we are not generating 100 million net new jobs through our economic growth. There’s a fear that with the renewed surge in automation driven by better and more decentralized devices and by better algorithms, machine learning and so on, we are going to generate even fewer jobs in the coming years. The problem is, what are we going to do with all those extra people? This is more of a universal problem and is faced across the globe. In few places like California and Europe, people are debating what they call a universal basic income policy, wherein you are paid basic income regardless of whether you are employed or not. The jury is very much out on whether this is a good idea, what its short and long-term consequences will be, etcetera. My point is just that, over and above the problem of a populous India needing to absorb youth gainfully, there is an overarching ambient global trend towards automation-related reduction in incremental new jobs.

It’s therefore doubly important that the people of India be supported in efforts at greater creativity and judicious risk-taking by making it easier for them to embrace a future as possible entrepreneurs. We have to help our youth create their own jobs, so to speak. Of course, entrepreneurship is not for everyone, but everyone should understand what it entails. While AIM has started off well, there is a long way for it to go. But I’m optimistic about it indeed. Other aspects of government policy have not had as salubrious an effect. For example, we’ve had several shots at addressing skill development in the country. To my mind, well-intentioned efforts have had minimal effect thus far. We need a fresh and system-wide look at various ways of tackling this. Not having solutions to skills deficits, from the public and private sectors, is a show-stopper for India’s growth story, if unaddressed.

Do you think it is a drawback of the Indian start-up ecosystem that it’s inspired by more copycat ventures rather than original innovations?

It’s not a bad thing to do copycat ventures. I mean, Flipkart could be considered as a copycat venture, so could Ola. I wouldn’t call these bad things! In fact, it’s a good thing that these ventures are improving the quality of services. But again, if you look at the start-up system in India, it’s extremely skewed. It’s mostly e-commerce, few websites and m-commerce.

There is very limited innovation in health, agriculture and other sectors. But even having copycat ventures is better than nothing.

I think the canvas should be a lot broader and the reason that doesn’t happen goes back to the core idea of the market, which brings buyers and sellers together. If a seller in Hubli has an idea for improving agriculture and does not know where to go, then the benefit of that idea is lost. If the seller is proactive in
reaching out to people, there is no problem. But, by and large, there is a need for good infrastructure to solve the problem of bringing potential transacting and collaborating partners together. Therefore, I think the start-up ecosystem in India is still quite limited. Ultimately, sustained effort by a combination of government policy and engaged private-sector activity will address this limitation.

Can you share some international experiences or academic insights that you think can improve the odds of success for Indian entrepreneurs?

I would like to point to one pattern in India, wherein even if you are lucky enough to find people to work with you, support you and invest in your idea on the basis of trust, very soon you’ll hit the wall, as there is a lack of supportive ecosystem to make you really push towards the limits. For instance, I co-founded a chain of tea stores in Bangalore called ‘Chai Point’ along with Amuleek Singh Bijral, a former student from HBS. We have grown the venture to make it India’s largest retail tea chain, with about 100 stores across eight cities.

Subsequently, we had plans to incorporate technology by means of automating processes and building centralised capability that enables us to use robots and machine learning to make and deliver chai, rather than having people at stores all the time. The initial capability to build these robots was very much available in India and we did find a design and manufacturing partner in the country. But by the time we got to versions 2 and 3 of the robot, we realized that we needed the support of a much more advanced ecosystem. So, we had to go to Shenzhen in China, as there are millions of people manufacturing robots. This problem again goes back to not realizing the importance of science in business. In a nutshell, if you are a would-be and aspiring entrepreneur in India, think about how to reassure folks you want to work with in building your venture – how will you inspire them to trust you – and embrace science in a hurry!
Pitching it Right: Raising Successive Funding Rounds

"If we command our wealth, we shall be rich and free. If our wealth commands us, we are poor indeed"
- EDMUND BURKE

Introduction

Funding is the ‘fuel’ for every startup ‘engine’. As long as the ‘engine’ gets the ‘fuel’, it moves forward. Similar is the case with startups. One of the primary focus of most startups in their initial years is to raise external funding. Not only this, startups need regular funding in the form of first round, second round and so on. For the founder, these multiple rounds of funding is a validation of the progress and buy-in to their idea in the marketplace. The importance of funding to startups can be seen from the fact that these magical numbers (amount of funding) often make it to headlines and grab the attention of masses. This article analyses the factors that can increase the chances of successive rounds of venture funding for start-ups.

The sample for this study was 2381 ventures incorporated during 2000 – 17, and had raised their first round of funding within first 5 years from their date of incorporation. Out of those, 570 had received the second round of funding and 189 had received third round of funding. Since the sample size reduced significantly after three rounds, we have restricted our analysis to first three rounds of funding. Our findings focus on the following:

- how companies fared across the rounds;
- speed of raising funding;
- ability of the firms to receive subsequent rounds of funding.
How have companies fared across the rounds?

Figure 1 illustrates the sector wise proportion of start-ups across the rounds. Figure 2 depicts the sector wise average amount of funding received across the rounds. Figure 3 presents the location wise proportion of companies across the rounds. The investment values across the years were converted to 2017 base year values for analysis. A two sample T-test was performed on the samples to confirm if any significant difference exists between the samples and whether, it holds true for the population. Statistical significance have been indicated appropriately in the figures.

There are several interesting trends emerging out of Figure 1. Firstly, three sectors, Software and Internet Services, Consumer Products and Services, and Health-Tech account for three fourth of the companies that received first round funding. Software and Internet Services account for more than 50 percent of the companies that received first round funding. Thus, start-ups in these sectors have a higher chance of getting funded as compared to the other sectors. Secondly, the proportion of companies that received funding in the Internet Marketplace and Ecommerce sector, Edu-Tech and Health-Tech increased in the subsequent rounds of funding.

The possible reasons for growth in the proportion of companies receiving funding in subsequent rounds in Internet Marketplace and Ecommerce are growing internet penetration & smartphones in India, rising middle class population with higher disposable income, lack of infrastructure development and mobility issues, development of payment gateways and logistics (such as fast delivery, cash on delivery, and so on) and growing user experience in the form of ease of convenience, wider choices available and of course, growing trust with ecommerce websites in India.

The vast population of the country with growing needs of quality education and healthcare seems to have been well addressed with increasing proportion of companies getting funding in Edu-Tech and Health-Tech. The rising penetration of online learning (learning anywhere, anytime and anything) has definitely gained momentum. In Health-Tech, growing concerns for well-being, lifestyle and digital solutions for healthcare needs are some of the possible answers to growing proportion of companies receiving funding in subsequent rounds. An inference from our results is that start-ups in these three sectors have a higher probability of getting subsequent rounds of funding. As far as the other sectors are concerned, the probability of getting the second or third round of funding is as good as the probability of getting the first round of funding.

An observation regarding the quantum of funding based on Figure 2 is that average investment amount received by the companies in the second round and third round is higher than the first round. This is on expected lines. The numbers in parenthesis for the different sectors indicate the sample size. For example in Consumer Products and Services, our result of an average investment of ₹58.38 million is based on 331 observations and the second round average investment of ₹201.7 million is based on 65 observations, and so on. In Internet Marketplace and Ecommerce as well as Software and Internet Services; the average funding received significantly increased as the rounds progressed. Whereas, in other sectors, neither
there was any monotonic increase in average investment amounts nor was the difference in investment amounts between rounds statistically significant.

It is often felt that start-ups in large cities like Bengaluru or Mumbai have a higher chance of getting funded. That seems to be the case as our results indicate, at least in the case of first round. Close to 70 percent of the companies that have received VCPE funding are based in the three cities – Bengaluru, Mumbai and the NCR. However, the location of the start-up does not seem to significantly influence subsequent rounds of funding in these three cities. It indicates that the chance of getting second or third round of funding neither increases nor decreases by the city in which the start-up is located. Figure 3 indicates that location does not play a statistically significant role for companies in receiving subsequent rounds of funding after the first round.

Age of the start-up at the time of funding

Most start-ups would prefer to raise funding as quickly as possible, though the age at which they get funded also depends on their sectors. In our analysis, we studied whether the age at the time of funding has any impact on the quantum of funding. The mean age at the time of funding was identified for each of the sectors and the quantum of funding that the companies received was compared for those lower and higher than the mean age.

Figure 4, 5 and 6 gives the results for the quantum of funding for those lower and higher than the mean age for the first, second, and third round of funding respectively. The numbers in brackets indicate the number of observations for each category. For example in Figure 4, in the Consumer Products and Services category, the average investment amount of ₹30.61 million for companies that raised funding earlier than the mean age was based on 190 observations whereas the average investment amount of ₹52.60 million for companies that raised funding later than the mean age was based on 141 observations. The following observations could be made for the first round of funding (Figure 4). Firstly, there are more companies that receive funding earlier than the mean age. This indicates that most of the start-ups start approaching investors and to get funded as quickly as possible. On the other hand, start-ups that get funded comparatively later are able to raise larger amounts of funding. There is clearly a trade-off emerging here – if the start-ups want to get larger amounts of funding, they would have to show more progress which could take time, or if the start-ups want to get quick funding, they would have to settle for a lower amount.

While there are sector wise variations – for example, in some sectors such as Technology, companies receive higher amounts of funding when the age at the time of funding is lower than the mean age, in general those ventures get funding later are able to raise higher amounts. Specifically, in the case of Consumer Products and Services, and Software and Internet Services, the difference in the quantum of funding is significantly different.

While 1399 of the 2381 (59 percent) companies received funding earlier than the mean age in the case of first round of funding, the percentage of companies that received funding earlier than the mean age in the second round of funding was
The start-ups are more or less equally distributed around the mean. At an overall level, the average investment amount raised by companies earlier than mean was higher than those who got funded later. This indicates that companies that are more successful after the first round of funding are able to get higher amounts of funding quicker. Since the number of observations which were shown separately in the first round of funding were lower for certain sectors in the second round of funding, they have been grouped in the “others” category.

Figure 6 gives the trends for the third round of funding. The number of observations are lower, and it becomes difficult to identify consistent trends. Except in the Software and Internet Services category, the average funding for companies who raised funding earlier than the mean age was higher. Additional studies and more observations are needed to be able to understand this further.

Figure 7 analyses the average amounts of funding received by cities. Start-ups in Chennai had raised the highest average
amounts as compared to all the cities, whereas start-ups in Hyderabad had raised the lowest average amounts. However, the number of start-ups that got funded in Chennai has been the lowest. It was also seen that the proportion of companies are more evenly distributed around the average age for Chennai. Tests for significance did not show any statistical significance between the two categories for any of the cities, i.e., companies that got funding earlier than the average mean age were as likely to get the same amount of funding as those who got funded higher than the average mean age.

### Successful rounds of funding

While some companies may not raise subsequent follow on rounds of funding after the first round, if they start generating positive cash flows, those are more of an exception. Raising subsequent rounds of funding is more often seen as a metric for market acceptance of good performance, and therefore a benchmark of success. In this section, we compare companies that have been able to raise the subsequent rounds of funding vis-à-vis those have not been able to. We have not
discounted the possibility that some of the companies in the sample, could get subsequent funding with time, but given the long duration of the sample, we consider that it would not significantly change the findings.

Figure 8 considers those companies that have received their first round of funding, which is divided into companies that were able to raise their second round of funding and those that could not raise their second round of funding. Among all the companies that received the first round of funding, only 24 percent were able to receive the second round of funding. It can be observed that start-ups belonging to Internet Marketplace and Ecommerce had a higher probability of receiving second round of funding. Whereas, the proportion of companies that received second round funding in Consumer Products and Services and Fin-tech are lower. In the remaining categories, the sector does not seem to play a major role in determining whether a company receives the second round
of funding. Companies in the remaining sectors have as much chance as those in the other sectors to get the second round of funding.

Figure 9 represents the data for second round funding in the same fashion as given in Figure 8 for the first round of funding. Out of all the companies that received second funding, only one third were able to get the third round of funding. Among those that received second round funding, Edu-Tech and Internet Marketplace and Ecommerce had a higher probability of getting third round funding. For the companies in the remaining sectors, the chances were as good or as bad as companies in any other sector. It is probably the performance after the second round that would determine whether the start-up would be able to get the third round.

Figure 10 indicates the quantum of funding received in the first round, separately for companies that received the sec-
The objective is to identify whether the quantum of first round of funding has any correlation to successfully raising the second round funding. While the start-ups that have received second round funding have on average raised higher amounts of funding in the first round, the difference was not statistically significant. Except for a few of the sectors such as Edu-Tech, Hyper local and Logistics, for all the remaining sectors, companies that have received second round funding, have on average raised higher amounts of funding in the first round. An explanation is that, this had enabled them to achieve more progress thus making them successful in getting the second round.

Figure 11 indicates the quantum of funding received in the second round, separately for companies that had received the third round funding and those that did not. The results
were very similar to those seen for the first round funding. The start-ups that have received third funding had raised higher amounts of funding in the second round, though the difference was not statistically significant. Except for Health Tech, companies that have received third round funding, had on an average raised higher amounts of funding in the second round.

Figure 12 and 13 indicates the average investment in different cities in first round and second round funding. In each of the cases, the average investment amount has been given separately for those that got the subsequent round of funding and those that did not. The results indicate that companies which got subsequent round of funding secured on an average higher amounts of funding in the previous round as compared to those that did not get subsequent round of funding.

Summary

This article analyses the trends in start-ups that have been able to raise multiple rounds of funding successfully. Since the number of observations were low for funding beyond three rounds, the analysis was restricted to the first three rounds. Our results indicated the following: Firstly, start-ups in sectors such as Software and Internet Services, Consumer Products and Services, and Health-Tech have a higher chance of getting first round funding as compared to the other sectors. Secondly, companies in the Internet Marketplace and Ecommerce sector, Edu-Tech and Health-Tech sectors had a higher chance of getting subsequent rounds of funding, if they have successfully got the first round of funding.

Thirdly, start-ups that want to get larger amounts of funding, would have to show more progress which could take time, or if the start-ups want to get quick funding, they would have to settle for a lower amount. Fourthly, except for a few of the sectors such as Edu-Tech, Hyper local and Logistics, for all the remaining sectors, companies that have received second round funding, have on an average raised higher amounts of funding in the first round. Fifthly, the city in which the start-up was located did not play a significant role either in getting successive funding or in the quantum of funding. Importantly, most of the trends are restricted in the initial rounds of funding; as the number of rounds increase, we could observe that these factors cease to influence funding track record; or as the companies mature may be the performance of the companies outweigh all other factors.
Comprehensive services for every stage of your life.

Wealth Management Services

♦ Experts for every need ♦ Exclusive Priority Services
♦ Customised Investment Planning ♦ Special Privileges, just for you

It gives us great pleasure to invite you to our branches and lounges designed to meet your banking, financial and investment needs.

ICICI Bank
Wealth Management

Where wealth plays different roles for you


Terms & Conditions of ICICI Bank and third parties apply. ICICI Bank is not responsible for goods / services provided by third parties.
- **Investment Banking**
  - ~USD 6.0 Bn - Consummated deals
  - **Key Service Offerings:**
    - Private Equity
    - Mergers and Acquisitions
    - Equity Capital Market

- **Institutional Equities**
  - #5 research house in India (2017 Institutional Investor Awards)
  - Coverage of ~240 stocks
  - BSE/NSE Membership
  - Relationships with over 350+ Institutions

- **Asset Management**
  - Key service offerings:
    - PMS
    - CAT-III AIF
    - CAT-II AIF

- **Investment Advisory**
  - ~USD 225 Mn assets under advisory
  - **Key Service offerings:**
    - Family Office Services
    - Private Wealth Management Services

- **Fixed Income**
  - ~USD 400 Mn - Consummated deals
  - Key Advisory Service Offerings:
    - Mezzanine finance
    - Structured Debt
    - Debt Capital Markets
Crossing the Finish Line: Investment to Exit

Introduction

Exit is an important barometer of success in the venture capital lifecycle. Given the closed ended nature of the venture funds, the ability of the venture to provide an exit within the fund life is critical for the investors to get a return on their invested capital. We consider two components in exit viz., (i) the duration in which the investors are able to get an exit (ii) and the returns they are able to realize in an exit. This article analyzes the various factors that impact exit duration, i.e., factors that can lead to quicker exits or those that lead to more patient capital. Exhibit 1 illustrates how the exit duration was calculated in our analysis.

Exhibit 1: Calculating the Exit Duration

Duration is the time taken for an investor to get an exit from the time of investment. In our sample, only those ventures that have been able to provide an exit has been considered. Since investment could happen over multiple rounds, the duration was calculated for all the investors who have been able to exit from the venture. Mean duration of exit for the venture was taken as the average of these durations. Out of the 1190 companies in the sample, 671 companies have given exit to only one investor. In such cases, duration is the time taken since investment for exit. An illustration of exit duration when there are multiple investments and exits is given below.

In a firm with multiple investors, investing at different times and exiting at different times, exit duration for the venture is the simple average of the duration for each investor. It is the average time the company takes to give an exit to the investor. For example, consider a start-up S with Investors X and Y investing on 29-Sep-04, and investor Z on 20-Jan-06. Suppose X exits on 29-Dec-08 while Y and Z exit on 14-Sep-11.

Exit duration for X = Difference between 29-Dec-08 and 29-Sep-04 in years = 4.17 years.
Exit duration for Y = Difference between 14-Sep-11 and 29-Sep-04 in years = 6.96 years.
Exit duration for Z = Difference between 14-Sep-11 and 20-Jan-06 in years = 5.65 years.

Therefore, for the Start-up S, exit duration is the average of the duration for all the investors X, Y and Z. Hence Duration is 5.59 years.

Simple average was preferred for mean exit duration calculation over weighted average with investment amounts as weights, since each round would have equal priority irrespective of the quantum of investment.
Data

The data for this article was obtained from exit data for 1190 ventures and PE funded firms (data sample) from VCC Edge and Venture Intelligence. Investments in the firms were made during 1990 – 2017 while exits took place during 2000 - 2018. Average exit duration for the company to provide an exit was calculated as explained in Exhibit 1. The firms were classified into two categories, those giving early exits (i.e. exit duration less than sample mean) and those giving delayed exits (i.e. exit duration greater than the sample mean). Mean exit duration for the sample was 4.55 years. 672 firms had an exit duration that was lesser than the mean of 4.55 years whereas 518 firms had an exit duration more than the mean. The frequency plot of the number of companies’ vis-à-vis exit duration, approximates to a classical bell curve seen in a normal distribution (Figure 1).

The cumulative distribution of companies based on exit duration is given in Figure 2. It can be seen that 80 percent of the companies had an exit duration that was less than 6.5 years. Twenty percent of the companies had an exit duration of around 2.5 years or less. This gives the overall landscape for ventures that provide exits in India.

Sector-wise Duration

Figure 3 provides the details of exit duration for different sectors. The numbers in brackets indicates the sample size for each sector. Start-ups in the Software and Internet services category at close to 25 percent constituted the highest percentage of the total companies that have given an exit. Fin-Tech and Payments and Consumer Products and Services stand second and third respectively. Together these three sectors contributed to more than half of the total. Edu-Tech, Hyperlocal and Logistics, Internet Marketplace and e-commerce and Media, Advertising and Gaming accounted for only around 10 percent of the sample. While Fin-Tech and Payments category had the quickest exit in 0.2 years, Hyperlocal and Logistics category had the maximum duration of 20 years to provide an exit.

On an average Internet marketplace and ecommerce companies seem to give the quickest exits while Media, Advertising and Gaming companies took the longest time for exits. This indicates that the companies in the former sector had the potential to scale up faster. Overall, companies in the Fin-Tech and Payments, Health-Tech, Technology and Other categories took more than the average duration to give exits.

Does exit duration matter?

While exit is an important milestone in the investment life-cycle, does the exit duration matter? Yes, but differently to investors and entrepreneurs. While the investors would be targeting returns by achieving exit quickly, entrepreneurs would prefer to have investors who can stay invested for a longer duration. To understand this further, we studied the correlation between exit duration and exit returns. Returns were calculated as the IRR based on the date of investments and exit along with the corresponding investment values and exit values. While investment duration could be calculated for 1190 companies, the returns could be calculated only for 472 companies as either investment or exit values or both were
not available for the others. Negative returns imply that the investor got exit only for a part of the investment. Figure 4 provides a plot between duration and returns. It can be seen that exits between 1.5 and 2 years gave the highest return of 68.99 percent. As the duration increased, the average return decreased and reached even negative values. As our results indicate, staying invested for a longer duration need not necessarily lead to better returns. On the contrary, inability to give an exit may force the investor to stay invested for a longer duration, which can ultimately lead to a “fire” sale of the asset at low values leading to reduced returns. Thus, timely exit is an important variable of interest in the venture capital industry.

Has exit duration changed over the years?

Figure 5 shows the correlation between average exit duration
and the year in which the start-up received the first investment. Only those companies for which the year of first investment was between 1998 and 2015 was considered. Except for a brief period during 2004 – 2007, the average duration showed a decreasing trend. In the last 5 years, average duration has been lesser than 5 years and decreasing substantially. This indicated that in recent years the investors have been able to get quicker exits

While Figure 5 shows the average exit duration for a start-up, Figure 6 and 7 shows the plot for year of investment and exit duration for investors. Figure 6 shows the year of investment and duration. The trend is very similar to what was seen in Figure 5, viz., average duration has steadily decreased over the years. A plot of year of exit against average duration (Figure 7), apart from a slight decrease during the period 2004 – 2010, indicates that for an investor to exit it takes on an average around 5 years.

These results indicate a contrasting pattern – viz., while the investors have been keen to accelerate their exits, the duration to realize exits have not changed much over the years. If not, it has only slightly increased in recent years. The inference therefore is that there is an increasing pressure on the entrepreneurs to provide quicker exits for the investors.

Does sector influence exit duration?

To answer this, the start-ups were classified into different sectors. In addition, each venture was classified based on the exit duration, those that had an exit duration lower or higher than the mean. The results are given in Figure 8. There were 672 companies that had an exit duration lower than the mean value and 518 companies that had an exit duration higher than the mean value. The results to be read as follows: There were 99 ventures in consumer products and services that had exit duration lower than the mean (i.e., 14.67 percent of the 672 total ventures with exit duration lower than the mean value), and 56 ventures which had exit duration higher than the mean value (i.e., 10.77 percent of 518 total ventures that had exit duration higher than the mean value).

Darker shades in Figure 8 indicate statistical significance in that sector. For example, ventures in the following categories, viz., Consumer products and services, Internet Marketplace and ecommerce, Software and Internet services the proportion of ventures that had exit duration lower than the average exit duration was significantly higher. The inference is that ventures in these sectors were able to provide quicker exits as compared to those in the other sectors. On the other hand, ventures in the technology sector had a propensity to provide delayed exits. The proportion of ventures between lower and higher than the mean in the remaining categories was not significantly different.

This showed that the influence of sectors in exit duration was seen only in 4 of the 11 sectors.

Does the location of headquarters matter?

Figure 9 gives the average exit duration of start-ups in the key cities. The size of the circle indicates the number of samples in each city. While the numbers of venture that provide exits vary by cities, the exit duration itself between cities does not vary significantly.

Additionally, to see if the location of the start-up had any relationship with the duration of exit, proportional analysis was carried out for the exit duration in the top four cities (Table 1). Due to lack of sufficient observations, other cities could not be considered in our analysis.
Interestingly, our results indicate that there has been no statistically significant impact of the location in terms of their ability to provide quicker exits. For example, ventures in Bengaluru did not have a higher probability of providing faster exits and neither do ventures in Chennai have a trend in providing delayed exits.

How do investors affect exit duration?

Figure 10 shows the trend in exit duration depending on the type of investors involved (darker colours indicate statistical significance). While it cannot be definitively said whether investors influence exit duration, our results show a possible correlation. Number of investors is significantly different between ventures with exit duration lower and higher than the mean value. Having more number of investors, more often than not, leads to quicker exits. Several explanations are possible to explain this. Firstly, new investors are providing exits to existing investors, leading to lower exit duration values. Secondly, having multiple investors could lead to potential conflicts, resulting in some of the investors pushing for an early exit. Thirdly, more investors could also indicate the strength of the venture, which can provide quicker exit. Some categories of investors such as individual angel investors, boutique investors, and domestic investors are associated with quicker exits as compared to certain other categories such as Institutional, Corporate and Foreign investors.
Table 2 indicates that individual investors had the highest percentage of early exits. But the low sample size may dent the credibility of this result. Boutique and Institutional investors got early exits on about 62% of the total investments. Corporate investors had the lowest percentage of early exits. Since corporations invest from their balance sheet, they do not have the pressure of exit like the boutique and institutional investors, and hence are able to stay invested for a longer duration. Table 2 also gives the percentage of investors in each category who got early exits on more than half their investments. The trend is very similar to that noticed in the previous column. All Individual investors got more than 50% early exits. The individual angel investors could get an earlier exit because they could sell a part of their shareholding to the next round of investors. It could also be inferred that the angel investors would prefer to get an exit from the next round of investors, instead of waiting for a final exit.
Table 1: Exit duration in top cities

<table>
<thead>
<tr>
<th>City</th>
<th>Percentage</th>
<th>Count</th>
<th>Percentage</th>
<th>Count</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mumbai</td>
<td>36.30%</td>
<td>244</td>
<td>33.9%</td>
<td>176</td>
</tr>
<tr>
<td>Bengaluru</td>
<td>23.36%</td>
<td>157</td>
<td>20.65%</td>
<td>107</td>
</tr>
<tr>
<td>Chennai</td>
<td>11.45%</td>
<td>77</td>
<td>10.42%</td>
<td>54</td>
</tr>
<tr>
<td>Hyderabad</td>
<td>8.77%</td>
<td>59</td>
<td>11.19%</td>
<td>58</td>
</tr>
</tbody>
</table>

Table 2: Investor Type and Percentage of Early Exits

<table>
<thead>
<tr>
<th>Investor Type</th>
<th>Number of Investors</th>
<th>Percentage of Early Exits</th>
<th>Percentage of investors who got early exits in more than 50% of investments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Individual</td>
<td>11</td>
<td>94.95%</td>
<td>100.00%</td>
</tr>
<tr>
<td>Boutique</td>
<td>502</td>
<td>62.77%</td>
<td>59.76%</td>
</tr>
<tr>
<td>Institutional</td>
<td>89</td>
<td>62.04%</td>
<td>61.80%</td>
</tr>
<tr>
<td>Corporate</td>
<td>82</td>
<td>50.75%</td>
<td>46.34%</td>
</tr>
<tr>
<td>Total</td>
<td>684</td>
<td>61.75%</td>
<td>59.06%</td>
</tr>
</tbody>
</table>

Figure 9: Average exit duration in key cities

Figure 10: Investors and exit duration
Do investment features correlate with exit duration?

Here we consider how the exit duration correlate with the following features of investment: staging (as measured by the number of rounds); syndication (as measured by the number of investors); and quantum of investment. Figure 11 provides an illustration of the exit duration vis-a-vis the total number of investors and quantum of funding when there has been only one round of investment. It can be seen that number of investors have a stronger influence on the exit duration as compared to the quantum of funding.

As the number of investors increase, the exit duration becomes lower, indicating that investors in the syndicate are clamoring for a quicker exit. On the other hand, having fewer investors is correlated with a higher exit duration. A corollary is that when the average investment made by an investor is higher, they have stronger conviction in the startup and are willing to stay invested for a longer duration. When an investor may not be fully convinced about the investment opportunity, there is a syndication among several investors and in such a case, the trend has been to get an exit as quickly as possible.

Quantum of investment could be seen as an indicator of investor commitment and confidence in the start-up. Therefore, to understand the influence of investor commitment and confidence on exit duration, we computed the average investment per investor and analyzed its effect on exit duration. Figure 13 gives the results when there has been only one round of investment. Exit duration is higher when the average investment commitment is higher and the number of investors are lower. Exit duration is lower when there are large number of investors and average investment is also high. This indicates that the investment round are higher, indicating late stage funding, resulting in lower exit duration.

Figure 14 shows the exit duration trends for all the rounds. Among the peaks, there is a predominant valley indicating the region where the exit duration is lower. For example, the exit duration decreases with the increase in the number of funding rounds and average investment. Exit duration is by and large higher for the initial rounds. The implication of our results indicate that entrepreneurs who do not like to be compelled to provide a quicker exit should raise capital from lesser number of rounds. However, as the rounds increase, along with average investment, the exit duration reduces.
Does maturity of the venture relate with exit duration?

We calculated the maturity of the company as the difference between the year when the startup received its first external investment and the year of incorporation. Figure 15 shows the trend for those companies that have received only one round of investment. The results show an interesting trend. As the maturity of the company increases, the exit duration increases. While it would have been expected that older companies would be able to give a quicker exit, our results indicate the contrary. Several explanations could explain this trend. Firstly, investors are more comfortable with the track record of the company and they are patient for exit. Secondly, investors may find it difficult to maneuver the investee company to give them a quicker exit given the long years of operation of the venture. In general, it could be seen that exit duration reduces as the number of investors increase. Possible explanations as to why a larger syndicate of investors are able to engineer the investee company towards a quicker exit could be: the ability of the investors to add more value, which increases the probability of an exit or the investors could be more forceful in demanding an exit when they are more in number.

Figure 16 indicates the contours for exit duration for all rounds and for different maturities. The results are on expected lines. With increasing maturity of the investee company and the number of rounds, the exit duration decreased. Companies with higher maturity and a longer track record are able to quickly attain the critical size that can provide an exit to the VCPE investors. Number of rounds is a measure of staging. As level of staging increased, exit duration also reduced indicating that incentives associated with staging helped in improving the performance of the company. Figure 17 shows the trend in exit duration for number of investors and maturity of the company. An increase in syndication along with the maturity of the company led to a decrease in exit duration. Comparison of Figure 16 and 17 indicate that staging could be a more effective strategy to reduce exit duration as compared to syndication.
Summary

Providing exit to investors is an important metric of success in the start-up lifecycle. However the metric of success for exit duration could be different between investors and venture founders. What is sauce for the goose may not be sauce for the gander. While the venture founders would prefer to have a longer duration of funding, VCPE investors could prefer to exit the venture quickly. Our results indicated an inverse relationship between returns and investment duration. Therefore, all things being equal, venture investors would prefer start-ups that provide quicker exits, or where the investment duration is lower. Over the years, the average investment duration by investors has not changed significantly, and has been more or less around 5 years.

However, there are other factors that affect investment duration. Start-up sector was an important influencer of investment duration. Start-ups in consumer products and services, internet marketplace and ecommerce, and software and internet services had a propensity to give quicker exits whereas start-ups in the technology sector had a tendency to provide delayed exits. Unless we have funds with a longer life, it is unlikely that technology start-ups would get significant venture capital. Apart from these four sectors, sector did not play a significant role in exit duration.

Location of the startup did not affect exit duration – while Bengaluru or Mumbai may have a high level of startup formation, the exit duration between the key cities did not differ significantly. The type of investors also affected exit duration. While corporate investors stay invested for longer periods, individual investors were able to get early exits in almost all their investments. Exit duration in general decreased with number of investors. An implication of this result for the entrepreneur is that if there is a need to have the investors for a longer duration, then they should raise capital from fewer investors. Between staging and syndication as a strategy, the former is more effective in improving the performance of the investee company and thereby reducing exit duration. Therefore fund managers interested in achieving quicker exits, should actively consider staging their investments.
COME, GROW WITH CHENNAI’S BEST NETWORK OF ANGELS

90+ INVESTORS
To support young startups on their journey to success

35+ STARTUPS
Raised funds of more than 50 crores

6 EXIT STORIES
Six companies have proudly graduated to the big league in under a decade

OUR LEGACY IS POISED FOR GREATNESS

Website: www.thechennaiangels.com  Email us: chennaiangels2016@gmail.com
@angelschennai  /angelschennai  /company/the-chennai-angels/
Breaking
New Ground:
Digital Cinema

A Conversation with
V. Senthil Kumar
Co-founder, Qube Cinema

Qube Cinema is an Indian Company that provides end-to-end digital cinema technology and solutions. It is a leading manufacturer of digital cinema servers, digital cinema distribution and mastering software and services. Also, Qube Cinema has pioneered several technology revolutions over the last three decades.

Mr. V. Senthil Kumar, Co-founder of Qube Cinema, is widely acknowledged as one of the India’s foremost experts in media technology. His keen interest in technology combined with his passion for the film industry, has been instrumental in bringing about major transformations in the industry. In 1986, he set up the Media Artists Film and Video Post-production Centre in Chennai, shortly after he graduated from NIT Trichy. Media Artists rapidly grew to become the country’s best sound recording studio. In 1992, Senthil set up Real Image (now Qube Cinema) along with two colleagues, to bring Avid digital nonlinear editing systems to India and later DTS digital cinema sound. Senthil’s expertise has had a far-reaching influence on the industry at large and he currently works on strategy and product development for Qube Cinema.
In your perspective, what do you think has been the lasting impact that Qube Cinema has been able to create in the Indian movie display and distribution?

We brought about three complete transformations in the movie industry. First, we brought in the concept of computer-based editing, in a time, where almost every editor in the Indian movie industry was editing using scissors and glue, and almost everyone trained only through apprenticeship with a senior editor in the field, before becoming a full editor. They were not computer literate and had never touched a computer before. It was certainly an uphill task. So, when we had started, almost everybody believed it was impossible to change the industry practice and we were greeted with great scepticism.

In 1992, we brought in a computer-based editing system from Avid, an US-based company, which still remains a world leader in providing editing and broadcast news solutions. At the start, we worked with the editors and encouraged them to shift to computer-based editing. This meant substantial changes were to be made in the pre and post-editing processes. For instance, the audio post-production, which comes after, changed completely and the processes before, such as preparing the material, feeding it to the computer required the film negative to be digitized. While we taught everybody how to do each of these steps, we also learnt along the way. It was a very successful transformation and till today, virtually 80 percent of the country uses the same Avid system that we had brought in. Within 7-8 years after we introduced computer-based editing, the entire industry in this country moved to editing on computers.

In 1995, when Avid was becoming fairly successful, we started on the next transformation, which was to convert Indian theatres from plain mono sound into digital surround sound. That again was a massive transformation because nobody had worked in regular stereo sound before. While the rest of the world had worked with analogue stereo for 15 years before moving to digital sound, Indian cinema made a huge leap from mono sound directly into digital surround sound. It involved a lot of training as we had to teach people how to mix creatively. Though mixing is a technology-intensive space, it is ultimately a creative process. In other words, we use technology to achieve the creative vision. This was quite a challenge as nobody in the world had worked with music in surround sound at that point. The Hollywood movies didn’t have much music apart from the background score. However, songs were the soul of Indian movies. So, we had to learn how to mix music in surround sound, experiment, teach every other editor in the country to do the same thing and then install digital audio processors in theatres. Also, this was more of ‘Chicken and Egg’ problem, as technicians refused to mix movies in digital sound as they were no theatres which could play digital sound and theatres would demand for movies in digital sound before spending money on the new equipment needed. So, we had to solve the problem on both ends. We were able to sell the equipment to the theatres, licensing the technology from DTS in the US, and began implementing the technology in both the recording studios and the theatres. Since DTS was a small company then and did not have the resources to service an emerging market like India, they were willing to grant the license to us, if we could manage everything entirely on our own. With the introduction of Avid in 1992 and DTS in 1995, we had carried out two successful transformations and had plans to bring in Digital Cinema by the end of the 20th Century.

So, we partnered with Barco, a digital projector manufacturer, and brought in equipment to organise a major demo for the industry in Mumbai. The demo helped us convince everyone in the industry that digital looked as good as film in theatres. But, back then, the equipment was very expensive. So, we decided to start working on a format, especially for India, that was mostly software-based, leveraging just CPU Power rather than any specialized hardware. We were ready with the format sometime in 2004. At about the same time, the industry came up with global standards for digital cinema. Fortunately, our format was very similar and therefore, we quickly could adapt to the Digital Cinema Initiatives (DCI) standard in no time. Our equipment was launched in 2005, along with the rest of the world. The product was our very own and not licensed from any other company. The product was a major hit and last year, we chose to rename our company to QUBE Cinema Technologies. The product turned out to be more popular than the name of our company!

How have you been able to acquire such a dominant position in the market?

In India, we estimate the market share of our equipment to be about 55-60 percent. Based on the initial feedback from the market, we realized that it was impossible to sell the system, as it was simply too expensive for the theatres to buy. Additionally, the theatres had no advantage in installing this new equipment, as they were anyway getting film prints. While digital cinema had the advantages of lesser cost, easier distribution, and higher security, only the producers could benefit from these advantages, as they are the ones worrying about piracy, convenience in distribution and so on. Since the technology did not offer any particular advantage to the theatres, they were indifferent towards adopting the digital cinema technology at that time.

So, we tried to use a services approach. The projection system would be provided as a service, and we would charge every time a movie was played. On our part, we would fund the equipment, upgrade it, and provide repair and maintenance services, so as to ensure that the standards will be sustained in theatres.

“When we had started, almost everybody believed it was impossible to change the industry practice and we were greeted with great scepticism”
Historically, film equipment used to last for 30-40 years and it used to cost as low as ₹150,000. In fact, the technology was only as complex as the technology of a geared bicycle! There were many cottage industry manufacturers and couple of professional manufacturers, making this film equipment. These projectors were inexpensive. Even the best Indian manufacturer, a company called Cinerama, used to sell projectors for around ₹300,000. On the other hand, our base model digital equipment was about ₹2-2.5 million and our top end DCI digital format was around ₹6-7 million. Therefore, we decided to install the equipment at our expense and using the funding from PE investors, we installed our equipment in about 100 screens.

We could only break-even, if we limited ourselves to charging every time a movie runs. So, we decided to enhance the upside by doing advertising in the theatre. Theatres were more than happy to contract out advertising to us, as the theatre advertising had touched zero, with the advent of TV advertisements and satellite channels. We thought digital cinema could help revive theatre advertising. But we discovered that corporate advertisers did not really commit, until we had one-third of the market in each state. That did take a very long time. Meanwhile, another round of PE funding helped us to scale further.

**How easy or difficult was the transition to digital cinema?**

During the early days, theatres did not trust the equipment or consider it reliable. So, they would ask for a film print, but would not use it. It served only as a backup. After the first 6-7 months, they slowly developed confidence in the reliability of the digital equipment.

Later, a single film print was kept in each city, to tackle any last minute malfunctions. This mode of operation went on for 2 years.

We also had a deal, wherein if a movie was played only on digital version and did not have a film print, the producer should pay us the Virtual Print Fee, as he is not paying for the print. This model started to work and slowly everybody gained confidence in the equipment.

Conceptually, there are three phases in the journey, the initial phase where you try to bring about the change, followed by the stability phase and the third phase, where you face the challenges of being a market leader. How do you handle these challenges?

Both in DTS Surround Sound and in Digital Cinema, there was the 'Chicken and Egg' pattern. While we needed theatres, we also needed content. For DTS, we addressed this problem by installing the equipment in the theatre at our cost and asked them to pay us only when they played the third movie with DTS sound. We also assured them we’d take the equipment back if they didn’t like it!

So, whatever we earned by selling Avid in the course of 2-3 years, we invested in installing DTS equipment. We installed the equipment in about 20 theatres. Fortunately, three movies in the DTS format were released back-to-back and one of them was Kamal Hassan’s ‘Indian’, which was a super hit. ‘Indian’ was one of the first movies released in the DTS format. Soon, DTS became popular and Dolby didn’t compete at all. Especially in South India, we had 100% market share and there was virtually no Dolby at all. In Bollywood, we had 50% market share and Dolby held the other 50%.

In South India, we faced a lot of negativity with respect to DTS, as businesses felt that they were left with no choice but to come to us. True, we did hold a monopoly position at that time for digital sound in South India. With regard to Digital Cinema, we weren’t at all a monopoly, as there were 7-8 Companies that were doing business, though at a smaller scale. I think one has got to be extra nice, especially when one holds a dominant position, as customers can get irked by the smallest issue. I can very well understand, why a customer feels so. But, we have always tried our hardest to be nice and understanding.

Broadly speaking, until last year, the industry has really appreciated the developments we have been able to bring to the industry. Even today when I meet any of the Directors or Editors, they enjoy all of these changes and love the fact that all this has happened. It has really revived the industry. The number of movies in each language has grown by 2-3 times in the 10 years since digital cinema was introduced. There is no doubt that digital cinema has helped the film industry boom. Also, digital cinema has enabled releases across the world, which in turn has enabled the producers to recover their investment faster. The theatres benefit by running more movies in a single day. It was impossible to get large theatres filled up, as there were only so much audience. However, the theatres have now introduced multiple shows and have a pattern for the weekend planned, to suit the convenience of the audience. There is no cost of print involved in the digital version and that has provided the theatres this flexibility. The security of the content has made it possible for tracing piracy and in preventing it to a large extent.

> **“Within 7-8 years after we introduced computer based editing, the entire industry in this country moved to editing on computers”**

> **“Our competitors are incredibly large brand names like Sony and Dolby. We are proud of the fact that we were able to compete head-to-head with these companies”**
Do you think internet based entertainment like Netflix, Amazon Prime and so on would have an impact on the Theatre goers?

There’s certainly a place for both! Watching movies at theatre is a premium experience. One needs the premium experience to appreciate movies as a whole. And then being able to watch at home whenever one wants is another matter.

So, the two alternatives need to co-exist. At a theatre, you can enjoy the finest version of a movie, with a large crowd that ultimately influences your opinion of the movie and makes you feel connected. Also, there are no distractions in a theatre. Whereas, when you watch a movie at home, no matter how hard you try, you are tempted to answer the phone, need something to eat or it could be a baby crying… There are a hundred such distractions while watching at home.

The fact that you can enjoy movies in the theatre and also watch them at home, makes it all the more attractive!

What did you set out as a measure of your success for Qube Cinema? Was it in terms of returns to investors, growth, and so on?

I think returns to investors is a moral obligation and we, my co-founder Jayendra and I, like to keep our word. That’s one side of it. However, it was much more about how we first experienced Avid editing as users. I used to help my dad in editing some TV series, movies, and so on. Jayendra had worked on hundreds of ad films. Therefore, both of us have had the experience of conventional editing. The Avid way of editing was completely different. To quote an example, it is like the difference between working on a typewriter and a word processor. On a word processor, you can refine and get your words to be absolutely perfect, which is not the case with a typewriter because it is too much trouble to change things around. This difference is what drove us to make Avid available for the rest of the creative community. That was our push!

In the case of DTS, we had a mixing theatre, where we used to do mixing for movies. After a lot of trouble, we brought in digital for the first time, even in post-production work. But, we couldn’t attain perfection, as there was only an analogue sound track on the film. Film sound tracks are very complex. You make a sound track, you expose it on a piece of negative film using a pair of mechanical ribbons that modulate the light and the chemical process creates distortion during development. Then, you compensate for the distortions without using advanced technology as it was all primitive circuitry then. And finally, this sound track would get printed on piece of positive film, which would reverse the process. And here again, chemicals made a big difference. If you did the development process perfectly, it would generate great sound. But, people in India took the standard procedures too lightly and invariably did not follow processes too closely. The end result would thus be sub-optimal.

During the analogue days, we spent most of our time in aligning the equipment to make sure the end result was really, really perfect! Analogue equipment can be fantastic if aligned properly. However, the equipment was made of mechanical parts that would drift in calibration after a week. Even 1 mm or a micron shift in alignment made a big difference to the sound quality. So, the processes, the amount of fine tuning we did to achieve perfection during the mix, helped us in taking the Director’s vision to the audience in theatres. This served as a major drive for us in DTS.

In the case of digital cinema, we were driven by the desire to develop the technology, instead of bringing or licensing technology from outside. This helped us learn about security. The security requirements of digital cinema are incredibly hard and people don’t often realise what it takes to implement security right. It was an amazing challenge to get it right. So, it turned out, we are one of the handful of companies in the world, to have done this whole thing. Our competitors are incredibly large brand names like Sony and Dolby. We are proud of the fact that we were able to compete head-to-head with these companies.

It sounds like a deep technology. Is it so?

Yes! It is a deep technology indeed!

The good thing was that the whole world was still in the learning phase. In the early days, one can afford to make mistakes and then rectify it later, as everyone is in the learning process. Fortunately, we were there in the early days, wherein we could afford to make mistakes and learn from them. Fortunately, other big players like Sony and Dolby were also in the learning phase. It wasn’t like they already had the knowledge and knew how to make these things.

We reached out to different people, did a lot of reading and research! It was more of self-learning!

How is a start-up able to create an impact in the established industry, while big organisations find it difficult to do the same?

I think start-ups can take risks that big companies are often afraid to do! Our case is one of the classic examples for this. We were still a start-up in this industry, while we were trying to do digital cinema. In fact, we did not approach Intel for funding. Intel had approached us because they wanted to demonstrate that their CPUs were being used to play digital cinema. Initially, when we required money we had approached the ex-

“I think start-ups can take risks that big companies are often afraid to do!”
isting large film labs in India, as we were good friends with the owners of the lab. However, they weren’t quite comfortable with the idea.

I think the people who have existing business, generally, do not like to risk their primary revenue to do something which might kill their own business; whereas a start-up can take the risk, as they have nothing to lose. All you need is an idea. Ten start-ups may work on the idea, at least one will definitely succeed and that’s what keep us going.

At what point of time did the Industry wake up to realise that this could be a profitable business?

During the initial days, the industry thought this was nothing. When it finally started to work little by little, the distributors began appreciating it, as they are the ones who pay for the cost of the print. When they realised that they were paying only one-fourth of the cost in digital version, they began promoting digital cinema.

Even theatres preferred digital cinema, as it enabled shuffling of multiple movies in the same theatre, which meant that they could bring in more audiences. Producers were the last to realize the impact and the labs were just silent throughout, as they thought it could take a very long time. They did foresee a change but never thought it would be this soon. By the time the labs realised and tried to get in, it was way too late! The older film labs are no longer required anymore and they are completely redundant.

Your company has had a phenomenal growth and holds the dominant position in the Indian market. What has been the impact on the global film industry?

I think as a company, we have been quite subdued. But, within the movie industry, we are quite a famous name across the world and they treat us with respect. So, if anybody wants something innovative done and are not sure how it is to be done, they immediately call us.

When the movie Lord of the Rings was being made, they required 3D projection using dual projectors in 48 frames. Nobody else could do it then. So, they approached us. Within a week, we found a way to do this and we played the premieres in New Zealand and London.

Mr. Jonathan Erland, a well-known cinematographer and image researcher had reached out to my colleague Rajesh Ra- machandran in LA and sought his help in researching frame rates. He wanted to perceive the difference in frame rates on various aspects such as aesthetics, technology and so on. We made modifications in our software to assist his research. Mr. Jonathan Erland, recently won the Gordon E. Sawyer Oscar award in recognition of his technical contributions to the industry and his first thanks was to Rajesh and Qube in his speech at the ceremony.

People relate Qube to more of a service rather than a product. We are widely known as digital cinema distributors. People don’t actually realize that the technology originated here in India. They assume we licensed the technology from elsewhere. Moreover, the phenomenon of worldwide release that we see today is possible only because of digital cinema. Otherwise, it is impossible to make that many prints. The cost of the print was too high, that even Hollywood used to release the movie in the USA for two weeks and then circulate used prints to the next set of countries, in order to save money. Now, since it is digital, there is no need for all that. One can instantly get any number of prints.

What is the cost of a print in digital version?

The true cost of a digital print is close to zero as it is just an electronic transfer. However, the cost of equipment needs to be recouped. The cost of the equipment is far higher than the old film projectors. The rate of obsolescence and the maintenance cost is higher too. Unlike in old projectors, the maintenance cost increases year-after-year because of electronics. However, we do manage all of this and take care of running the whole network or satellite based distribution system.

Having become a large company, how do you intend to retain your position amidst the other new entrants in the field?

I think we are not really driven towards retaining the market or other parameters like that. Our prime focus is on finding the next product and opening up another new idea. We have recently developed a service called ‘Qube Wire’ where you can upload your movie to the cloud and have it distributed across the world. The mechanism behind this is, a movie can be distributed electronically, wherever they have bandwidth or it is done through an automated appliance placed around the world, wherein the movie will get duplicated to hard drive and the hard drive will be shipped within the same country, thereby enabling end-to-end tracking. We also built a way for the digital rights to be managed within the system, in a secure manner. This enables sharing the rights in different countries and also serves as the chain of evidence of how the rights were distributed. So, our product has expanded the scope of movie distribution across the world.

Indian movies are our primary market, as they are distributed across certain countries and there is certainly scope for increasing the overseas market of Indian movies by 50 percent. Also, there are other language movies, which are not played
in many countries. For instance, not many Filipino movies are played in the Gulf and they are missing out on this audience. Our product will help different kinds of ethnic movies reach across the various countries in the world. And of course, Hollywood can also use our product to go across the world.

We have also been working on a product that will simplify the theatre advertising. It is more like Google AdWords of theatre advertising. Like in web advertising, the theatre advertising has the ability to reach a larger audience. Using our product, one can reach all screens in a state or country, at the same time and gain the same kind of reach like television advertising. It is basically a web-based product that enables people to directly use advertising in an automated way.

**What are the challenges you face while you try to retain your share? How is it different from the challenges you faced initially?**

I think good service and having a really strong field service team make it very easy for us to retain market share. Since our volumes have grown tremendously, we are able to buy more projectors and other equipment that we don’t make. Further, we also do advertising in a lot of theatres, which generates a lot of revenue for us. We have an advertising sales team of 100 people, managing clients across the country. I think it is economically difficult to compete with this and hence I am not worried about direct competitors as such.

Whether it is a new company or any of the already existing 7-8 Companies, I am sure it is hard for them to get the kind of advertising revenue that we are getting, as you need a large team and 100 odd screens in order to get decent advertising revenue. If a company intends to venture into theatre advertising, they’ll have to start small and work hard for 5-6 years, only then they can become our direct competitors. We did not make profits for 7-8 years in the initial phase. Today, it still takes about 5 years to reach profitability for a new company in this field. Additionally, it is a technology intensive industry, wherein one needs both technical knowledge and operational excellence. Now, it is all about saving money while delivering good customer service. It is definitely going to be very tough for a new entrant to replicate this, maintain customer service, quality and security. We are also constantly trying to improve our way of doing things. So, it is quite a challenge for new entrants to come to this level.

I mean it is not impossible to be slightly above break-even and continue in this business. It is just tough to make enough money to spend on R&D and do the next thing.

We hold about 70 percent market share in Tamil Nadu. Overall, in India, we hold about 50 percent of the market share. We have about 1100 employees spread across the country. We have mastering units in Chennai, Mumbai, Hyderabad and Cochin. In fact, we are one of the largest mastering facilities in the world, doing approximately 40 movies per week, making on an average about 2000 movies in a year. Each of these movies would have 5-10 versions such as the US version, Malaysia version, subtitled version, versions with different language tracks, and so on.

**Did you face any issues while venturing into Bollywood market? How were you able to get a buy in from different segments?**

Not really! During the Avid days, we got acquainted with many of the top directors, cinematographers and editors in Bollywood. These acquaintances helped us a lot while we did DTS. Further, a lot of theatres knew about us because of DTS. All these relationships helped us a lot.

Along with Avid, we also introduced a set of broadcasting equipment for news channels. Outside of USA, India was among the first few countries in the world to have this kind of a setup. NDTV started first and was soon followed by many other news channels. Today, about 70 percent of the news channels use the Avid broadcast equipment. This taught us the value of 24/7 support, as news channels cannot ever afford to go off-air. It is an extremely complex set-up, needs sound technical knowledge, and the ability to quickly solve the problems, as the smallest malfunctioning piece can bring the channel to halt. We have successfully supported all of these channels from 1999 until now, keeping them from going off-air even for a minute. This kind of service has enormously helped in digital cinema. It is almost the same with the cinema industry, theatres hate losing even one show, as it results in huge losses.

**Do you think all this would have been possible, if your family didn’t have a cinema background?**

I have tried my best to keep my family separate from this work. In fact, a lot of people are unaware of my cinema background. Mostly, people look at us as a corporate that came in and did this. They don’t think that we had a background in the movie industry.

Having said that, I think without the background, I might not have entered this space at all nor would have had the deep insight on how things were done in good old days. The cinema background has been super important to do this and I think my love for cinema stems out of that background. However, people outside do not recognize or relate my background to my work.
EASY AND SECURE ONLINE INVESTING SINCE THE YEAR 2000

Acquired 4.6 million customers since inception*

ICICIdirect.com, one of the pioneers in e-brokerage business since 2000 and having a strong online presence in India, offers access to a wide range of products and services in equities, derivatives, IPOs, mutual funds, insurance products, fixed deposits, tax services and pension products. It also offers a wide variety of advisory services including financial planning and equity portfolio advisory services.

Our strengths:
- Award-winning proprietary electronic brokerage platform
- Integrated online brokerage, savings bank and demat account (3-in-1 account)
- Superior customer experience through product innovations

* As of March 31, 2018, where 4.0 million had operational accounts.  "Won 'Best e-Brokerage Award' from Outlook Money for the years 2004-2005, 2007-2014
An Article on

Beyond the Finish Line: Exit Returns

“The man who removes a mountain begins by carrying away small stones.”
- CHINESE PROVERB

“The proper man understands equity, the small man profits.”
- CONFUCIUS

Introduction

The ultimate success of VCPE investments (not only from the perspective of the investor but in general that is commonly agreed by all stakeholders in the VCPE industry) is the magnitude of returns realized from the investment. Venture firms need to maintain a history of high returns from their portfolio investments to be able to use to raise future capital. Entrepreneurs need to give the investors the confidence or signal their intent of providing returns to be able to get investment. Returns can be realized only when there is an exit whereas notional returns could arise when there is subsequent round of investment at a higher valuation. In this article, we analyze the patterns in realized returns and identify factors seen in those exits that have given higher than average returns. The hope is that entrepreneurs and investors would benefit from these findings and be able to fine tune their investment strategies. Exhibit 1 shows how the exit returns were calculated.
Exhibit 1: Calculating Exit Returns

The Internal Rate of Return (IRR) method was used to calculate the returns generated by the venture. The IRR has been traditionally used as the benchmark to study the success of the venture investments.

Investments are the cash inflows along with the date on which the investment was made and exit amounts are the cash outflows, along with the date of exit.

XIRR was used to estimate the returns from the above data.

The returns were calculated for a company and not for individual investors, since in many instances the split up of investment or exit amounts was not easily available for different investors who invested in the same round.

In addition, investors who had invested in the same round did not always exit at the same time.

Therefore in the absence of investor wise investment or exit details, it was not possible to calculate exit returns for each investor. When there was only one round of investment, calculating XIRR was straightforward. But often, companies had multiple investment and exit rounds.

In a firm with multiple investments and exits at different times, XIRR was calculated after considering all the investments and exits. For example, there is a start-up C with following transactions:

1) First round investment of ₹100,000 on 20-Jan-16 and 1st round partial exit on 29-Dec-16 with an exit value of ₹200,000

2) Second round investment of ₹200,000 on 20-Jan-17 and 2nd round exit on 20-Dec-17 with an exit value ₹350,000 that also included full exit to the first round investor along with the second round investor

Using XIRR function for all investments and exits the calculated return for Company ‘C’ was 96.5%.

In cases, there were only partial exits, only the available exits were considered, though all the investment inflows were used in our calculations.

Data

The data for this article was obtained from exit data for 1190 ventures and PE funded firms (data sample) from VCC Edge. We were challenged with either missing exit deal or investment values for many companies. After removing deals with incomplete information, we had a sample of 472 companies with exit returns. The ventures had received VCPE investments between 1995 and 2015 and had exits between 2002 to June 2018. These investments also include overseas VCs who had invested in Indian ventures. The sample were classified into two categories, viz., those that gave lower returns (i.e. returns less than the sample mean), and those that gave higher returns (i.e. returns greater than the sample mean). Mean returns for the sample was 13.25 per cent. 40.5 per cent of the firms (191 ventures) delivered returns higher than the mean of 13.25 whereas 281 firms delivered returns lower than the mean. Figure 1a and Figure 1b gives the frequency distribution of exit returns.

Figure 2 gives the cumulative distribution of exit returns. It can be seen that more than 30 percent of the companies have given negative returns. More than 80 percent of the companies in the sample have given returns of 40 percent or lower. Thus there are very few ventures that have given supernormal returns. While individual investors might have better returns, as an industry there is significant scope for improvement in returns.

Does return vary between sectors?

The start-ups were classified into 12 categories. The average, minimum, and maximum returns for each sector is given in Figure 3. The spread between minimum and maximum values indicate that there is significant variability in the returns. The top three sectors in the sample are FinTech and Payments, Consumer Products and Services, and Software and Internet Services. While FinTech and Payments accounts for the largest category in the sample, the average returns are the highest.
for the Software and Internet Services category. The second highest average returns are seen for the HealthTech sector. However, the variability of returns in the HealthTech sector is considerably lower as compared to that of FinTech or Software and Internet Services categories. Though the sample sizes were low for some of the categories, interestingly, statistical tests did not indicate any significant difference in returns between the different sectors.

To further analyse this, we divided the sample into two categories: (1) those that gave returns above the overall average of 13.25 percent; and (2) those that gave returns lower than the overall average. The proportion of companies in each sector in the two categories is given in Figure 4. Darker shades indicate statistical significance. Except in the case of FinTech and Payments and Technology sectors, the proportion of ventures that have returns lower and higher than the mean was not significantly different. In the case of FinTech category, the proportion of ventures that had returns higher than the mean was significantly lower. However, in the Technology sector, it was the reverse. Thus we infer that apart from these two sectors, none of the other sectors had the proclivity to consistently provide returns higher than the overall average.

**Does the city matter in returns?**

Figure 5 presents the average exit returns for some of the key cities. Mumbai, Bengaluru, Chennai, and Hyderabad are the top four cities in that order in terms of the number of companies that have provided exits. While the average returns do vary between the cities, the difference was not statistically significant between the cities. This indicated that being locat-
ed in a particular city did not systematically affect the magnitude of returns. Each and every city offers its own ecosystem for start-ups to thrive. The start-ups tend to migrate or get established in those cities that offer an ecosystem most suited for their needs. However, the city in itself does not significantly affect the exit duration or returns though the ecosystem could influence the quantum of start-up activity.

Does the type of investor have any correlation to returns?

Reinvestment by incumbent investors is a common occurrence in VCPE investments. In our sample of 472, reinvestments by existing investors were noted in 253 (about 54 percent). We did a cross tabulation of exit returns and reinvestment by existing investors. The results are given in Figure 6. When there was no reinvestment by existing investors, it was seen that the
proportion of firms having returns higher than the mean was higher. However, when there was reinvestment by the existing investors, the results were contradictory – i.e., the proportion of firms having returns lower than the mean was higher.

A possible explanation to the result is that the ability to receive investment from new investors is an indication of the performance of the venture. In a majority of the cases, only those start-ups that are unsuccessful in raising capital from the market approach the existing investors for additional capital. In essence, while reinvestment is seen as an act of faith from the existing investors, it bypasses the discipline that new capital providers would expect from start-ups. However, the difference in the proportion with and without re-investment was not statistically significant.

Figure 5: Exit returns for different sectors

Figure 6: Returns with and without reinvestment
Figure 7 highlights the trends in returns by investor category. Each VCPE investor was classified not only on the basis of their domicile but also by type. On the basis of domicile, the investors were classified into domestic or foreign. On the basis of type, the investors were classified into boutique and institutional investors. A start-up could have received investments exclusively from domestic or foreign investors or from both. Similarly, a start-up could have received investments either from boutique or institutional investors or from both. A domestic or foreign investor can be either a boutique or institutional investor.

Figure 7 provides an illustration of the results from cross tabulation of investor category and returns. The proportion of start-ups with returns lower than the mean was marginally higher as compared to that of the proportion of start-ups with returns higher than the mean when the investment was made only by boutique investors or by a combination of both institutional and boutique investors. On the other hand, the proportion of start-ups with returns higher than the mean was higher for institutional investors. While institutional investors do not account for a large number of exits, their performance in terms of returns have been better. However, the difference was marginal for both types of investors and was not statistically significant.

In terms of investor domicile, domestic VCPE investors account for the most number of exits, followed by foreign investors. Exits that had both domestic and foreign investors accounted just above one fifth of the sample. An interesting trend observed was that domestic VCPE investors had a higher proportion of ventures with returns lower than the mean whereas it was the converse for foreign investors. However, there was no significant difference in the proportions, indicating that the domicile of the investors does not significantly influence exit returns.

**Investment features and returns**

In this article, we consider the impact on returns from the following investment features: quantum of funding, extent of staging (as measured by the rounds of funding), and extent of syndication (as measured by the number of investors). Three dimensional plots (after excluding outliers) were prepared to simultaneously capture the influence of two of the three investment features on returns. Such contour plots helped to understand the complexity a lot more effectively as compared to that of two dimensional analysis.
Figure 8 illustrates the exit returns with respect to quantum of funding and number of rounds of funding for the entire sample. Returns are higher when neither the quantum of funding nor the rounds of funding is very high. However, when the quantum of funding increases, returns reduce irrespective of the number of rounds of funding indicating that excess investment or easy availability of capital does not benefit the investors. All things being the same, increasing the number of rounds of funding has a positive impact on returns. A possible explanation is that only when the start-ups are able to demonstrate performance, they can successfully raise the next round of funding. Thus staggering of funding in various rounds acts as an incentive for better performance.

Figure 9, 10 and 11 illustrate the effect of quantum of funding and staging on exit returns for FinTech and Payments, Consumer Products and Services, and Software and Internet Services respectively. These three sectors were chosen because of the availability of adequate number of observations in the sample. While there are many variations, several common features could be noted among the three sectors. Firstly, excess funding has a negative impact on returns. Secondly, number of rounds of funding has a positive impact, to a certain degree. Among the three sectors, the variations in returns has been the least for Software and Internet Services. The area of negative returns has been the lowest for FinTech and Payments and Software and Internet Services.

Figure 12 shows the impact of returns vis-à-vis quantum of funding and number of investors. The results on quantum of funding is consistent with those seen in Figures 8 – 11. Quantum of funding has an inverse relationship with returns. Too many cooks spoil the broth is a common saying. VCPE investments is no exception. The highest returns are seen when the number of investors are not very high. The negative relationship between returns and number of investors could be due to the heterogeneous expectations between different investors, which can lead to potential conflicts affecting returns. While the number of investors increase return to a point, the transaction costs of managing multiple investors overshadows the value addition that could accrue from having more number of investors. Our sample suggests that the start-ups between four to six investors generated higher returns as compared to the other syndication combinations.
Figure 13 shows the trends for the age of the start-up at the time of funding and number of rounds of funding vis-à-vis exit returns. Figure 13a is for a subset of the sample, where the average age at the time of funding is less than 8 years and Figure 13b is for the entire sample. Since start-ups receive multiple rounds of funding at different times, the age of the start-up was calculated as a weighted average age of the start-up for various funding rounds. It can be seen that start-ups that receive investments early in their life generate higher returns. The pioneers in any sector get reasonable attention from the investors; these are the start-ups that receive funding in their early years of life. Early investments provide the vital capacity to the start-ups for scale up and market penetration, which allows ventures to perform well in comparison to their competitors.

The other possibility for lower returns for aged companies could be the inability to generate the higher returns in the latter years. As the early investor’s exit from the start-up, they take away the most of the surplus from the company. The subsequent investors may struggle to get an exit as they are left holding the crying baby with nobody to pass it on. For mature companies, the returns was found to increase when there is an increase in the number of rounds of funding.

Summary

Returns to VCPE investors have been analyzed as a parameter of success in this article. Dataset for this study comprised of 472 companies that provided exits to its investors between 2002 and June 2018 and where information was available to calculate exit returns. Mean returns for the sample was 13.25 per cent. 40.5 per cent of the firms (191 ventures) delivered returns higher than the mean of 13.25 whereas 281 firms delivered returns lower than the mean.

The objective of this article has been to identify factors that consistently leads to delivering returns higher than the mean. The sector in which the start-up belonged to was not seen as a major factor in influencing returns, except in the case of FinTech and Payments and Technology sectors. In the case of the former, a higher proportion of the exits provided returns lower than the mean, whereas in the case of the latter, it was the reverse. Next we looked at the cities. The results confirmed that the city itself did not significantly affect the exit returns though the ecosystem could influence the quantum of start-up activity.

Later, we also analyzed the returns by type of investors. The differences in return between various categories of investors was marginal at best and was not significant. What differentiated companies that provided returns higher than the mean were four factors, namely, quantum of investment, staging, syndication, and maturity of the venture. Up to a point, returns increased with the number of rounds, indicating that staging of investments acted as an effective incentive for performance. However, quantum of funding had an inverse relationship with returns. Excessive funding led to wasteful expenditure and more often than not, led to reduced returns. Large amounts of funding might cause envy among the peers, sneer among the competition, but leads to complacency among founders affecting performance.

Neither too less, nor too many seem to be the dictum as far as the number of investors and returns are concerned. While the number of investors increases exit returns to a point, the transaction costs of managing multiple investors overshadows the value addition that could accrue from having more number of investors beyond a point. Start-ups between four to six investors generate higher returns as compared to the other syndication combinations. The early bird catches the worm. Ventures that receive investment early provide better returns to the investors.
TVS Capital Funds
Empowering NextGen Entrepreneurs

| A decade of building lasting partnerships and sustainable businesses |

With investments of ₹1200 crore across financial services, food and lifestyle, we are one of India’s largest ‘₹’ capital private equity funds. We are catalysts and mentors to the businesses we partner with.

We curate opportunities to forge your growth stories!
Incubators: How can we unleash their potential?

By Invitation

B. Mahesh Sarma

“The future belongs to those who believe in the beauty of their dreams”
- Attributed to ELEANOR ROOSEVELT

“Change is inevitable but growth is optional”
- JOHN MAXWELL

With over 250+ incubators and over 3000 entrepreneurship development cells in higher educational institutions, entrepreneurship is an in thing in many Indian institutions. Entrepreneurship is increasingly seen as an important and integral strand of educational institutions in addition to teaching, research, and industry collaboration. But the question is has it made any dent in the way we view education?

Anshuman wrote with confidence “Give us space. Give us time and give us some seed money. We will create wonders.” He was a graduate from SRM University, Kattankulathur and was the founder of NxtechLab at the University. This grand statement was a part of the proposal he gave to the management of the University for setting up a similar centre at its new venture SRM University, Amravati. Anshuman and Next-tech-lab (nextech.io) idea communicates all that is great as well as troublesome with the Indian initiatives at fostering entrepreneurship.
Entrepreneurship in India

Entrepreneurship as an academic discipline is quite a recent import. The first known full course in entrepreneurship was titled as “small business management” and offered by Michigan State University in 1920 or whereabouts. About 12 years earlier, Harvard had begun its MBA (1908) and around the same time in 1919 Babson began educating the sons of business men, to run their father’s business. (Gender equality was not quite popular at that time).

Indian initiatives in entrepreneurship were of much later origin. The first organised attempt at teaching entrepreneurship began with EDII, the Entrepreneurship Development Institute of India which came into being in 1983. And coincidentally the National Science and Technology Entrepreneurship Development Board (NSTEDB) was ushered in under the aegis of the Ministry of Science and Technology, GOI in 1982. It is as if theory and practise emerged side by side in the country.

What did the NSTEDB do?

The credit for being the biggest contributor to promotion of entrepreneurship must go to NSTEDB. In the last 35 years of its existence the board has directly and indirectly impacted over 150+ Science and Technology Entrepreneurship Parks (STEPs), Technology Business Incubators (TBIs) and 1000s of entrepreneurship development Cells (EDCs) mostly in universities and engineering colleges. As the years progressed, other ministries and autonomous bodies, and non-governmental entities too started to get involved in promoting entrepreneurship. The Department of Biotechnology, the Ministry for Small and Medium Scale Enterprises, the All India Council of Technical Education all made attempts to promote the idea of entrepreneurship. The recent efforts by NITI Aayog (the erstwhile Planning Commission) too began to support incubation and new enterprise creation. Table 1 gives an indicative count of incubators in the country.

<table>
<thead>
<tr>
<th>Incubators (TBI/STEP/Others)</th>
<th>No.</th>
</tr>
</thead>
<tbody>
<tr>
<td>DST (NSTEDB)</td>
<td>68</td>
</tr>
<tr>
<td>DEITY</td>
<td>29</td>
</tr>
<tr>
<td>Privately funded (NSTEDB Approved)</td>
<td>47</td>
</tr>
<tr>
<td>DBT</td>
<td>9</td>
</tr>
<tr>
<td>Others (Including setting up Atal Incubation Centres)</td>
<td>61</td>
</tr>
<tr>
<td>Total</td>
<td>214</td>
</tr>
</tbody>
</table>

Source: Various Reports

Effective February 2016, when the Govt. announced “Startup India” the focus primarily shifted to the creation of an ecosystem that will promote job creation by the youth rather than they being just job seekers. This also complemented the SETU (Self Employment and Technology Utilization) program which was launched a year earlier in 2015. A hall mark of the “Startup India’ Program was the “Atal Innovation Mission”. The Mission program sought to seed innovative mindsets from the school level and have schemes across the education spectrum to promote and actively encourage entrepreneurship. But all these mechanisms were envisaged as a reaction to the inability of the existing economic actors to create adequate jobs especially in the formal sector. The recent media spat between the NITI Aayog and the left leaning economists about the fudging of employment data is a pointer to the malice.

It is this that is tragic about the entrepreneurship initiatives in the country. It is conceptualized as an alternative to formal job creation. It is not and it will never be. Before we examine the initial results of Atal Mission it would be educative to see the impact of the existing entrepreneurship initiatives.

What have we achieved so far?

Amongst the 214 incubators surveyed not more than 40 percent have a running website with adequate information. Amongst the top 10 most productive incubators (counted by the cumulative number of startups they have nurtured) 4 of them are from Tamil Nadu. Ironically, this is a state which still has no active startup policy. The leading institutional incubators include some of the top notch colleges such as IIT Madras, IIM Ahmedabad, IIIT Hyderabad and IIT Kanpur. FITT, IIT Delhi’s incubator, is the incubator in the top 10 which has the highest number of patents filed amongst all the institutions and the 6th highest number of cumulatively incubated startups. Of course the fact that these incubators where set up about three decades ago did come in their favor.

IIIT Hyderabad’s ‘T-hub’ leads in incubation and number of incubated startups by a long shot and one of the major reasons could be traced to Telangana government’s active start-up policy which features the collaboration of IIIT Hyderabad, ISB Hyderabad and NALSAR University of Law. Apart from this, T-hub also has global support from MIT with 200 incubatees in the pipeline; it will probably remain the leading institutional nurturer for quite some years to come.

Many private institutions also offer top notch incubation services and can be categorized amongst the top 50 national lev-
el institutional incubators. PSG TBI in Coimbatore, Amrita TBI in Bengaluru, KIIT in Bhubaneswar, and Amity Innovation Incubator in Noida are some such examples. Taking into consideration, all the incubators associated with private colleges and universities, it can be seen that those recognized by NSTEDB are definitively more successful.

Amidst the incubators in the private sector, Technopark TBI established by the Government of Kerala under the Kerala Startup Mission and CIBA (Center for Incubation and Business Acceleration) which is at 2 locations – one in Goa and one in Mumbai, are doing exceptionally well. Both of these incubators provide support to startups associated with products or ventures in the IT domain thereby reinforcing our talent pool concentration especially in the Software sector. It can even be inferred that it is only in the software domain that we have realized greater scope for innovation and the probability and extent for business success is also greater here though honorable exceptions do remain.

One would assume that at least in case of IITs, IIMs, IIITs and NITs the case for entrepreneurship would be more since the possibility of their alumni getting back to the job market in case of the failure of their venture is quite high. But even in such elite institutions only a few incubators have done exceptionally well. Amongst the IIMs, IIMA and IIMB are worth mentioning. Among the NITs, the efforts of NIT Tiruchirapalli and NIT Calicut does stand out. Many of the IIITs have succeeded to an extent in promoting entrepreneurial culture in their campuses. Most IITs do have a thriving entrepreneurial sub-culture.

The case of Atal Innovation Mission

The Atal Innovation Mission exemplifies the challenges that India would encounter when it attempts to set up an innovation and entrepreneurial culture. Launched with much fanfare the missions seek to establish at least one incubator in each of the 110 smart cities to promote and actively encourage entrepreneurship. The results of the first phase are quite instructive.

In the first call there were 3658 applications (from 1719 academic and 1939 non-academic institutions). Out of them just 10 institutions became eligible for setting up of Atal Incubation Centers. The numbers were slightly better in the second round. But this data indicates the long way we have to go before innovation and incubation could lead to entrepreneurship. The reasons for rejection are instructive. Of the 1719 academic applicants, 308 institutions did not even have the required space. And the number came down to 794 when the completeness of documentation was assessed. Of which institutions with a sizeable Ph.D. faculty was only 256. This subsequently came down to 164 when their research projects were counted. Just about 99 made the cut for a visit by the committee. And 10 out of the 99 made it.

Where does the problem lie?

The fact is entrepreneurship still has not taken off in a big way in most colleges. Of the 2 lakh plus schools in the country 2441 schools alone have been selected to set up a tinkering lab, and the NITI Aayog hopes to setup 5000 such labs by 2020. That would be 2.5% of the schools in the country. Entrepreneurship has a long way to go in this country. What could be the reasons?

Problem 1: No bread, eat cake syndrome
Entrepreneurship has been treated as an alternative to formal employment. If you cannot get a job, be an entrepreneur. Not all of us can be even a ‘Chai-wala’ or a ‘pakoda’ maker. It requires skill, patience and enormous hard work to become even a good ‘pakoda-wala’. Most of us are educated to become job seekers rather than creators. And that is a good thing. As Schumpeter argued Creative destruction is at the core of wealth creation. And the process inflicts enormous pain before the gains become visible. The nation needs to accept entrepreneurship is not for every one. The venerable EDII, has programmes which also have placements. So we need to appreciate entrepreneurship is not meant for everyone. But each one of us could do with some of the qualities that an entrepreneur possesses like risk taking, sense of ownership, problem solving, leadership, and so on. But it is not a panacea for unemployable educated masses.

Problem 2: Carpet bombing (no milieu, no ambience)
Entrepreneurship needs an ecosystem to survive. The reason why Koramangala in Bengaluru, or Gachibowli in Hyderabad, or Gurugram in NCR thrive as innovation hubs is due to this ecosystem advantage. They all can be recreated but at enormous cost and effort. The route is not to set up 300 to 3000 hubs. That would dissipate energies and waste resources. The route is to identify clusters which have diverse institutions, nurture small institutional level hubs, allow external ideators to move in and create companies and slowly inculcate entrepreneurial attitude amongst the students by osmosis. Flipkart alone would have contributed much more to the Indian entrepreneurial system than all the Central and State Governments ever could.

“Each one of us could do with some of the qualities that an entrepreneur possesses like risk taking, sense of ownership, problem solving, leadership, and so on. But it is not a panacea for unemployable educated masses”
Problem 3: We will reinvent the wheel
Every new government has to come with a new named scheme. Every department must have its own incubator scheme. Our research threw up nearly 31 active incubator assistance schemes. Let 100 flowers bloom might be a great idea, but for a resource starved nation, that may only result in shut incubators like the ones we identified in some NITs and Colleges previously. Atal Incubator Centre must have first studied why a PSG Tech worked or a Research Park at IIT Madras worked. These lessons need to be applied to any new schemes. The knowledge of N. S. Raghavan centre at IIMB must be available to an engineering college in Davangere. Until then the problem of entrepreneurship being at the margin will remain “Atal.”

Problem 4: Ayn Rand still rules entrepreneurship
The case of Anushman and Next-tech-lab indicates that entrepreneurship is still very personal and driven by ambitious individuals. Though the idea has germinated and established itself at SRM Kattankulathur, its recreation at SRM Amarawathi still needed the drive and initiative of the founders. So any attempt at socialising entrepreneurial tendencies might not work. Not all students and institutions have the capability or even the aptitude to undertake the entrepreneurial journey. But the idea’s propagation and provision of an enabling space does help.

“Not all students and institutions have the capability or even the aptitude to undertake the entrepreneurial journey”

Problem 5: Education is still very utilitarian and consequential
Over 150 years of Macaulayian education, we still produce clerks and subordinate staff. Now these staff go by the name managers and engineers. “Settled” is a term that dominates an Indian parent’s vocabulary. Will the course lead to a job? Will it make my child settle in life? These are very important questions. And until the economy reaches a certain level of prosperity or undergoes a drastic change where welfare takes precedence over growth, these issues will remain at the core of education. And such an education programme cannot create or nurture creators. Because entrepreneurship at the end will destruct and disrupt before it creates and constructs. And that is reality we need to accept and appreciate.

“Entrepreneurship at the end will destruct and disrupt before it creates and constructs. And that is reality we need to accept and appreciate”

(With research assistance from Shraya Singh, Careers360)
Mahesh is the Editor-in-Chief of Careers360, an Ed-tech platform operating across counselling, test prep, advisory and policy spaces in higher education. He can be reached at msarma@careers360.com
Founded in 2002, Venture Intelligence is the leading source of information and analysis on private company financials, transactions (Private Equity, Venture Capital and M&A) and their valuations in India. Our research and analysis is used extensively by transaction industry practitioners, media, entrepreneurial companies and educational institutions.

**Private Equity & Venture Capital Deals Database:** Investments and Exits since 1998 with data on private company financials and deal valuation multiples

**Private Company Financials Database:** Database of P&L and Balance Sheets of over 37,000+ private limited companies

**M&A Deals Database:** Database of all Inbound, Outbound & Domestic deals involving India based companies since 2004.

**Private Equity & Venture Capital Investor Directories**

TSJ Media Pvt. Ltd., TF-1, 3rd Floor, Gokul Towers, 7, C.P.Ramaswami Road, Alwarpet, Chennai - 18
Contact: Ashok - 91 44 4218 5180 / 82 Email: bizdev@ventureintelligence.com
An Article on

The End Game: Type of Exit

“After a bad opening, there is hope for the middle game. After a bad middle game, there is hope for the endgame. But once you are in the endgame, the moment of truth has arrived.”
- EDMAR MEDNIS

“Avoid the crowd. Do your own thinking independently. Be the Chess player, not the Chess piece.”
- RALPH CHARELL

“In order to improve your game you must study the endgame before everything else; for, whereas the endings can be studied and mastered by themselves, the middle-game and the opening must be studied in relation to the endgame.”
- JOSE RAUL CAPABLANCA

Introduction

Exit is an important part of the venture investment lifecycle. The reason it is important is that it is the only way the venture investors would recover and realize a return on their investment. Investors therefore would like to understand the possible exit routes that the entrepreneur has thought of even before investing. The question of exit involves the following: timeframe to exit, returns at the time of exit, and type of exit. In a way, all these are inter-related: For example, exiting by an IPO would take more time, by might give a higher return. While this article looks at the type of exit, the timeframe to exit (duration) and exit returns have been discussed earlier in this report.
Data

Exit data was obtained from VCC Edge and Venture Intelligence. Investments in the firms were made during 1990 – 2017 while exits took place during 2000 - 2018. Our analysis was based on 1190 observations available for exit duration and exit type and 472 observations available for exit returns and exit type. The calculation of exit duration and returns have been explained previously in this report. Broadly, the type of exits were divided into 5 categories: (i) Buyback, where the investors sell their shareholding back to the promoters or founders; (ii) Initial Public Offering (IPO), where the ventures list their stocks in the stock exchange following a public offering of sale of stock; (iii) Mergers and Acquisitions (M&A), where the company merges or gets acquired by another company; (iv) Open Market, where the investor does not sell their share at the time of IPO, but gradually sells the shares in the open market after it is listed; and (v) Secondary sale, where the investors sell their stake to a second venture or private equity investor.

Exit type and duration

Figure 1 provides the pattern in exit type for different sectors. The number of circles indicate the number of observations in each type and sector. The area of the circles indicate the duration – the higher the duration, the larger the circle. Several observations could be made from the trends. Firstly, the majority of the exits have been through M&A. Secondly, buyback emerges to be one of the key exit types. Thirdly, while most of the ventures provide exits through a public listing, it is more common for the investors to exit in the open market after the stocks have been listed rather than at the time of IPO.

Though the number of exits would depend on the number of ventures receiving investments, a quick visual examination of Figure 1 indicate that Edu-Tech and Industrial Products have had the lowest exits. It can also been that some sectors have a predisposition to certain type of exits. For example, the number of exits in the form of a buyback is higher for the Fin-Tech and Payments sector as compared to that of Software and Internet Services category. However, M&A has been the common exit route for Software and Internet Services as compared to that of other exit types. In the Health Tech sector secondary sale route has provided more exits than any other exit type.

The dynamics of the sector favors certain forms of exit. It is important for the entrepreneur and the founders to recognize this aspect and prepare the venture accordingly to be able to provide a successful exit.

In an investment round, there are several investors who may be investing together. Similarly, in an exit round there could be one or more investors exiting. Not all investors need to have made the investment in the same round – they could have invested in different rounds also. Figure 2 indicates the number of investors exiting a round for different exit types. The number of circles indicate the number of observations and the size of the circle indicates the number of investors. While there is a big variation in the number of investors in an investment round, we do not see a similar variation in the exit round. In general, a buyback provides exit to fewer number of investors as compared to that of other exit routes. The open market sale provides exit to more number of investors. This is as expected since in an open market sale, the investors could directly sell in the market after the listing and need not be dependent on the founders to give an exit.

Figure 3 identifies the correlation between exit type and number of investors in the venture. The objective of this representation is to identify whether the number of investors play a role in influencing the type of exit. Among the different types of exit, buyback could be considered the most simplest, since it is primarily a transaction between the investor and founder, both of whom have previously been partners in the venture. However, buyback has been seen only there are fewer number of investors in the venture. This can be readily explained as well. If there are more number of investors, then the venture would have received higher amounts of funding. It is very unlikely that the promoters would have the capacity to buyback significant amounts of capital. On the other hand, public offering, M&A, or secondary sale is a lot more complex and need to comply with various regulations. More number of investors would be able to bring in the expertise and assist the company to successfully execute the exit. Moreover, the depth of the public or secondaries market is more and they would be able to provide exits to larger amounts of capital. Thus, the choice of exit strategy for the start-up is also influenced by the number of investors and their reach in the capital markets.
Exit type and returns

Figure 4 gives the number of companies for various exit types for which return information was available. Figure 5 gives the number of companies for the three sectors that account for the highest number of observations.

Rather than exiting at the time of IPO, majority of the companies are exiting through open market sale subsequently. This could be attributed to several reasons. Firstly, returns in the open market sale could be attractive as compared to that of exiting at the time of IPO. Secondly, there could be regulatory restrictions in downloading the shares at the time of IPO, forcing the company to wait before they can exit. Thirdly, exiting by the existing investors may not be perceived positively by the investors in the IPO, and could have a negative effect on the issue price. The number of exits through the other means such as buyback, M&A, or secondary sale seem more or less the same. Figure 5 shows that the trends in overall sectors reflect in the top three sectors as well. The largest number of exits are through the open market. While FinTech and Payments may not have the largest number of investments, they have the most number of exits.

The returns for various types of exit was analyzed after considering different moderators. Figure 6 shows the returns by the round of exit. Similar to multiple investment rounds, start-ups also could potentially have multiple exit rounds. The number of circles reflect the number of observations for each exit type, the size reflects the magnitude of returns, and the colour indicates the round of exit as given in the scale.

Several interesting inferences could be made from Figure 6. Firstly, buybacks occur only in the initial rounds of exit. The size of the circles indicate that the returns from buyback are fairly homogeneous and may not result in very high returns to the investor. Similarly, exit through M&A’s also occur during the early rounds of exit, and there are no significant variation in the returns. Secondly, there are several instances where exit through an IPO or Open Market sale is preceded by exit through other modes. This indicates that companies have to reach a certain size or have a consistent track record to be able to provide exit through such modes. Thirdly, while open market sales, secondary sales and IPO offer higher returns, these modes of exit happen in later rounds of exit and not companies in all sectors may easily be able come out with an IPO.

Figure 7 gives the exit returns by sector for different exit routes. Consistent with the previous results, the returns in buyback and M&A do not vary significantly. While they are not very high, they are not very low either as seen in some cases for open market exits. Since the price is known beforehand in a buyback or M&A and the transaction is completed only when there is an agreement in price, there is very little uncertainty on the magnitude of returns and in most cases the buyer and seller are able to negotiate terms that gives decent returns.
On the other hand in the open market, the seller may find it difficult to predict the market movements of the stock. If it is positive, the investor could realize super normal returns, or it is not as expected, the returns could be lower. That could be the reason behind the presence of several small size circles when the exit is through open market sale.

Figure 8 gives the exit returns for three sectors, viz., Consumer Products and Services, Fin Tech and Payments, and Software and Internet Services, that account for the largest number of observations in the dataset. The most common sector in buyback is FinTech and Payments, whereas in the IPO, FinTech and Payments has not been so dominant. FinTech and Payments has been dominant in M&A as well. As far as Consumer Products and Services are concerned, open market sale has been the most common exit strategy.
Figure 6: Exit returns for different exit rounds

Figure 7: Exit returns by sector

Figure 8: Exit returns for select sectors
Summary

Two important factors that concern venture exits are the time taken to achieve an exit and the returns realized during the exit process. This article shows that exit type influences both the factors. The simplest of the exits are the buyback. While it can be completed in the early exit rounds, the returns are not significantly higher. Research has shown that exit via the public markets gives the highest returns for the venture investors. Despite the fact that on an average it takes longer for a public market exit, not all types of ventures might be suitable for a public market exit. The industry structure may favour certain types of exit over others. Further, exits such as public offering demands access and expertise in fund raising in the capital markets. If the investors in the company have this expertise, then they could help the company to realize such exits. The number of investors or the background of the investors can also play a role in influencing the type of exit. It is highly unlikely the founders would be able to buyback a large number of VCPE investors. Public markets or the secondary market has more depth in providing exit to large amounts of capital.
Match the following

Find ○ Companies
Study ○ Vendors
Analyze ○ Investors
Meet ○ Lenders

On PrivateCircle you can find, study, analyze and meet with companies, vendors, funds, HNIs, Banks & NBFCs.

Use our data driven research engine to find the best counterparties for your transactions.

Research
- Comprehensive company profiles with financials, cap tables, valuation, transaction multiples
- Detailed investor profiles with portfolio & fund wise performance analysis
- Filterable index of all 1.1M+ corporate charges in India
- Deal details of 10,000+ transactions in the unlisted space

Transact
- Search & Filter companies by their products or financial performance
- Match with investors based on sector, round type and size
- Connect directly with Funds, HNIs, Banks, Customers or Suppliers
- Send confidential messages, schedule meetings or share documents

To view your own profile, sign-up at www.privatecircle.co or contact us at krishna@privatecircle.co
+91 9008529110
Creating a Business Model Disruption

A Conversation with

Girish Mathrubootham
Founder and CEO, Freshworks

Freshworks, is a Chennai and San Bruno, California-based software products company. Earlier called Freshdesk, the company’s portfolio of products include Freshservice, Freshsales, Freshchat, Freshmarketer, Freshteam and Freshcaller. The flagship product, Freshdesk, is a customer support helpdesk that helps firms collate and direct customer complaints to the concerned departments and provide solutions. Freshworks products have been acclaimed in the industry for its ease of use and the features offered. The company is backed by Accel, Tiger Global, CapitalG (formerly Google Capital), and Sequoia Capital India, and as of August 2018 has been the only Unicorn from Chennai and the state of Tamilnadu.

Girish Mathrubootham is the founder and CEO of Freshworks. He founded the company in 2010, and as the CEO, he has been setting the vision and direction for the company since inception. Prior to founding Freshdesk, Girish was the VP of Product Management at ManageEngine, a division of Zoho Corporation, where he was responsible for setting worldwide product strategy, overseeing product marketing, product management, and customer support. Apart from being the Product Manager with the happiest customers in the world, he is also the reigning in-house Foosball champion.
As an entrepreneur, how do you define success? Does it change with time?

I think success is a very subjective concept and the perception varies from person to person. For a financial investor making money is success, whereas for a product manager increasing the number of happy customers is success. As a CEO of a start-up, I would like to define success as creation of an enterprise that delivers wealth creation and value for employees, founders, and shareholders. We started off at zero value, grew to a level where we could get VC Funding and now I perceive success as creating wealth for my employees, who have been an essential part of this successful journey, co-founders and investors. We want to achieve this by delivering value to customers.

Entrepreneurs tend to pursue different paths. While some pursue profits, others pursue growth. Could you share your thoughts about this?

At the end of the day, it is profit that determines the business. In my opinion, growth is a means to attain a bigger market cap, which hopefully will bring in the desired profitability. For example, if I have a SAAS business with 80% gross margin and there is expansion revenue every year, wherein my existing customers are bringing in more users, then it makes sense to pursue growth at the expense of profitability, as I am grabbing more market share. Since my gross margin is already 80%, on a later date, I can bring down the sales and marketing expenses and increase the profitability. Even otherwise, people chase growth only from a ‘How do I get scale, before I can get profitable’ perspective.

The exception would be when I focus on growth and exit the company by selling to another player. In that context, growth generates revenue that somebody else wants to acquire. As a seller, value creation happens for the start-up founders and investors, though it is going to be at the expense of the buyer. Again, the buyer is going to use this as an asset to build profits. So, I think generating profits, is the underlying motive, in any case.

I think there are two frames of thinking, an Entrepreneurs’ frame of thinking and an Investors’ frame of thinking. As an entrepreneur, if I invest ₹100, I would look for ways to generate ₹150 or ₹200. The idea is to make a profit. As an Investor, I would look for the potential value of the business that is likely to increase returns. So, if I see a potential to turn ₹100 into ₹800, then I would invest ₹1000 today and earn ₹8,000 down the line. An investor will ride on capital growth gains. However, it doesn’t take away the fact that business has to be built on solid fundamentals. The person providing the capital will walk away with capital gains, but the unit economics of the business will have to deliver the profits for whoever is coming next!

Is there any particular reason you chose to approach external funding?

Yes! In SAAS (Software as a Service) business, the marketing costs are frontloaded. During the days of software, one could invest on sales and marketing, as the customer used to make an upfront payment. For example, if the customer was buying something like SAP, he would make a large upfront one-time payment. Thereafter, he may pay 20% of the price as maintenance fee every year. In this case, it made sense if I spent a significant amount to acquire a customer, as I was going to receive a large lump sum payment.

However, in the case of a SAAS business, the customer makes payment on a monthly basis. Let’s assume a customer is going to pay me ₹100 a month and if I have to spend ₹1000 to acquire a new customer, I won’t be able to grow the business without capital funding. In other words, let’s assume I start a company with ₹20,000. I am spending ₹1000 dollars to acquire a customer. I will have 20 customers paying ₹100 a month. So, my revenue is going to be ₹2000 per month, marketing costs will be ₹2000, my fixed cost would roughly be around ₹5000. At this rate, I would run out of capital, before the customers bring in money. So, I have to get to scale, make it profitable and eventually make these customers cover my fixed costs! Therefore, VC funding is very essential.

A caveat is that, if the venture is really in the new category where there is little or no competition, and the product has the potential to travel through word of mouth, then there would not be any need for venture funding. Companies like BrowserStack, Visual Website Optimizer (VMO) are good examples of this concept. They created their own category, customers started talking about them, they also had few enterprise customers and therefore they could ramp up without VC funding. However, if ventures like us dealing in helpdesk software or CRM (Customer Relationship Management), where there is heavy competition, refuse to take VC funding, some other Company would take it. Especially, in a competitive market, customers make a well-informed choice. For instance, when one goes to buy a television, the choices are largely restricted to the 3-4 top brands, even though there are thousands of other TV manufacturers. Only the best brands earn the trust of a customer. Therefore, one of the ways to survive in a competitive category like this, is to get VC funding and invest the same in building a superlative product. Otherwise, somebody else is going to do it.

“I would like to define success as creation of an enterprise that delivers wealth creation and value for employees, founders, and shareholders”

“Only the best brands earn the trust of a customer”
From your perspective, what is the impact you have been able to create in the Indian and global market?

Firstly, I would like to say, what we have created is a business model disruption. Traditionally, software used to be sold on premise. Slowly, the Silicon Valley model started going up market, which means immaterial of where they start, they start selling to large enterprises, as that’s the only way to scale revenue and build successful company. So, everyone goes after the Fortune 2000 Companies.

On the other hand, Freshworks have been able to crack and profitably serve the long tail of Global SMB (Small and Medium Business). We have been successful in servicing SMB customers across the world by providing a world class product that was very much developed in India, at a lower cost structure. We don’t use it as cost arbitrage, we use it as a value arbitrage. That’s the kind of business model disruption we have done.

With regard to employment, I feel the consumer-internet start-ups in India generate more employment. For example, OLA generates employment to lakhs of drivers, and likewise, Swiggy generates employment to lot of delivery executives. But, a company like Freshworks, which is purely engaged as software vendor, may not be able to create a big impact on direct labour. Our impact is much smaller and is restricted to 1500 odd employees working with us. But, I feel we have inspired a lot of other start-ups to believe, if Freshworks can do it from Chennai, so can we!

"Providing a world class product that was very much developed in India, at a lower cost structure. We don’t use it as cost arbitrage, we use it as a value arbitrage"

Of late, customers are being very price sensitive in the SMB segment. How do you make this segment commercially viable in the given scenario?

It’s all about the value you deliver. There is always a category of people who want things for free. But then, there are also people who want good product at a good price! For example, not everybody buys a BMW or a Mercedes Benz. There are lot of people who buy Maruti Suzuki or Hyundai, as they are good products, which offers value for money and helps in serving the purpose.

Likewise, the software we develop, help our customers in running their businesses. We are not talking about end customers here. By customers, we mean SMB companies who employ about 50-500 employees. These companies need to get work done, they have to service their customers, they need a CRM for their sales team, they need a help desk software for their support teams, they need a marketing software for the marketing teams and so on. The software empowers them to be more productive in their business and earn more money. So, I am sure our customers understand and appreciate the value they are getting.

Our own growth is proof of this. We recently made an announcement that we have crossed 100 million dollars of annual recurring revenue. In the SMB segment, not many companies have accomplished scale. I am sure we’ll continue to have more milestones like this. After all, we are still a start-up that is 7.5 years old!

What has been the role of VC investors in this journey?

In my opinion, VC’s are like rocket fuel. I feel we have been a good example in exhibiting how successful companies can be created using VC funding!

The investors have been essential part of our journey and have helped us along the way. For instance, investors have access to multiple companies and they are well aware of what models work and what don’t. So, they have been our guiding force since early days. They have also helped us in accessing top tier talent, getting us customers, and in providing introduction to bigger brands and so on. In fact, Google, which is one of our investors have got their security team to conduct vulnerability tests, their channel team to review our channel partner program, their apps team in rebranding the website design, and so on. Therefore, our investors have been a constant source of support.

"In my opinion, VC’s are like rocket fuel"

Did you face issues of non-alignment with your Investors? What do you think are the reasons for the non-alignment?

Fortunately, we have not had issues of non-alignment with our investors. But, in general, I feel non-alignment is a very pervasive problem in Start-ups. I mean, non-alignment need not necessarily be between founders and investors, there could issues between two founders as well. Quite often, there is a misconception that once the investors come in, they will take control of the venture, they will be in-charge of decision making, and there won’t be much freedom for founders to operate and so on. Amidst all these misconceptions, we miss a vital point. We forget that investors don’t get anything by damaging the venture. When an investor invests in the Company, the first fundamental rule they understand is, there is no need to disrupt something if it is working well. Similarly, entrepreneurs should also understand that the day you take VC funding, you are selling shares in the company and it is not exclusively your company anymore.

In fact, this is something that I learnt very early in life. In 1996-1997, while I was pursuing MBA at Madras University, I
came across an article in a business magazine or newspaper, which spelt out that it is the responsibility of the CEO to deliver growth and value to shareholders. So, if I am delivering growth both in top and bottom line of the Company, I am doing a good job as CEO. However, when I fail to do so, I am failing as CEO.

A CEO is considered as the leader or face of the company and is answerable to the Board. So, if in any year, if the CEO is unable to deliver growth, they must give suitable explanations to the Board and must find ways to deliver growth. The CEO must also be ready to step down, when he/she is unable to deliver growth in the long run. For instance, in the case of a public company, when a CEO does not perform well, they always look for another good CEO. So, I don’t think it should be any different in a private company. That’s a fair way of doing it.

According to you, what have been the essential ingredients of success for Freshworks?

I think our phenomenal team and product has been the reason for our success. Our core strength has been our product. We build products of very high quality that delivers value to our customers.

Another big strength of our company is our people and our work culture. When we hire, we don’t just look for college degrees or academic qualifications. We essentially look for cultural fit, core talent and strength. Also, we focus on empowering our people. We trust them and encourage them to go experiment and fail. Therefore, we set a high bar on craftsmanship. I feel when you hire smart people, they will want to work with other smart people. Once you provide a good environment, they will create a great product.

I think we are bunch of people having fun, enjoying the culture, as we work to deliver world class product. I feel that’s the secret and at the end of the day, that is all matters!

Getting good talent is quite a challenge. Being a start-up, how did you manage to get good talent?

We hired a lot of freshers. We also have experienced people on our team! I worked in Chennai for 10 years. So, when I was starting out, a lot of my former colleagues had come to join our company. They became anchor leaders. But basically, we hire a lot of freshers every year and groom them to fit in our team!

Your alma-mater being a product based Company, took a different path in terms of not taking external funding. Whereas, you starting a company in similar line had approached VC funding. What is the fundamental difference in the approaches?

The fundamental difference between bootstrapping and VC funding is simple. In 1996, when Zoho started as Advent-Net, they were into OEM Telecom products with big deal sizes. Each customer order would easily be 100K or more. The ManageEngine division that I was working on was also selling on-premise network management software. The business was already very profitable by the time they started Zoho, the SaaS division.

However, there are companies like BrowserStack or VWO, engaged in pure SaaS business, which were bootstrapped, essentially by the revenue generated from customers of that product. When we started out as pure play SaaS Company, we took VC funding to handle the front loading costs.

Conceptually, there are three phases in the journey, the initial phase where you try to bring about the change, followed by the stability phase and the third phase, where you face the challenges of being a market leader. How do you handle these challenges?

It’s quite similar to handling problems in personal life. We face different kinds of challenges as Kids, as College Students and as adults. You try and fix these problems as they come.

So, when you start-up you don’t have much resources. You may face challenges in hiring talent, fund-raising, getting customers, and so on. So, your focus will primarily be towards sorting out these issues, bringing in more revenue and thinking about scaling.

For instance, initially when we started out, I used to conduct interviews and hire people. There were hardly 100 odd people and I kind of knew each person, their capabilities, and so on. It
was easier for me to allot work or fix salary accordingly. Today, we have grown to a size of 1500 employees where at least 150 people are involved in hiring process. Therefore, we have designed a system, which will help the HR in understanding our requirements or what to look for while recruiting. Likewise, with regard to engineering releases, back then, when we were just handful of people we could just turn around and finalize the plan. There will be a code release every week or sometime even every 20 minutes. Today, there are about 600 engineers placed across various teams. Therefore, we will have to ensure that there is predictable delivery.

As the Company grows, we have to ensure that we move from a start-up style of working, which is largely based on gut instinct, and adapt a more systemic approach. We still want to have the flexibility of a start-up and nimbleness but we also want predictability and ensure that the system functions like a well-oiled machine.

**How is a start-up able to create an impact in the established industry, while big organisations find it difficult to do the same?**

Though, your statement is predominantly true, I personally feel it is more to do with the DNA of the Company. For example, Amazon is an example of a company that can think long term and bring new innovation. But there are very few large companies that can afford to take a long term view. Basically, once a company goes public, it is required to present its results before the investors every quarter. The company is required to provide explanations for its growth or lack of growth, profitability or lack of it. So, there is not much bandwidth to invest in new things.

However, there are also companies like Amazon who are able to take a long term view. For example, AWS is a phenomenal innovation coming out of large company. It is today a multibillion dollar business. On the other hand, there are a number of start-ups who cannot expand their thinking beyond their first product. So, this problem is prevalent, irrespective of whether it is a big or a small company.

Sometimes, the large companies are lost within the rhythm of protecting their large base and growing incrementally. Also, I think it is difficult to execute such innovations in large companies, as you require approval, you need budgets and so on. Whereas that’s not the case in start-ups. For example, Slack, the chatting software was developed by a gaming start-up, to enable communication between the developers. Slack went on to become a multibillion dollar business, while the game never took off.

**As an Angel Investor, what do you look for in entrepreneurs?**

I look for a great product and great founder. Basically, I am very passionate about products. For me, great products is like good food at restaurant. Any restaurant that serves great food, never goes out of business. So, I will invest if I find great products.

I strongly believe that, people who have the vision and the ability to inspire others, can work wonders. I am not really a financial investor. I am doing it more to help entrepreneurs because you never know who is going to make it big. But, you always know who will not make it big. I read this somewhere - when you watch a 16 year old or 15 year old sport person you cannot predict for sure if they are going to be a world class player, but, you can easily tell if they won’t be a world class player.

So, when I find good founders, who are passionately building a product that looks good, I definitely will want to invest my money and time. Occasionally, I also guide and help them scale!
An Article on

The Home Run: From Venture Launch to Exit

“Pitching keeps you in the game. Home runs win the game.”
- EARL WEAVER

“You don’t have to swing hard to hit a home run. If you got the timing, it’ll go.”
- YOGI BERRA

Introduction

Each and every step in the formation of a company is a journey in itself. Receiving the incorporation certificate after incorporation, getting the first major external investment, either selling the business or listing in the stock exchanges are momentous milestones in the journey of the entrepreneur. Among the thousands of companies that get formed every year, only very few are able to go through the full cycle. The final stage, which is the listing process, is so complex and demanding that Vasudevan, Founder and MD of the Chennai based Equitas Bank, described it as akin to being reborn. Despite the challenges, several entrepreneurs have successfully managed each of these steps. And some, many times over, that they are celebrated as serial entrepreneurs. In this article, we study and analyze the end to end process, starting from forming the venture to achieving an exit.
Data

The data for this article has been put together from multiple sources. The data on number of companies incorporated were obtained from Private Circle. The total number of companies incorporated from 2000 to 2017 was 1,259,992. Venture funding data for the same period was obtained for 6216 companies from sources such as Venture Intelligence, VCC edge, and other sources. Exit data, available for 1624 companies was obtained from VCC edge.

Companies founded

The number of companies registered in different years during 2000 to 2017 was obtained from Private Circle. The total number of companies registered during the 18 year period was about 1.26 million. From 32,089 registrations in 2000, the number of companies formed in 2017 has increased to 141,703, indicating an annual growth rate of close to 9 percent.

Of the 1.26 million companies registered, 380,527 companies were in the top 8 cities, comprising Ahmedabad, Chennai, Mumbai, Bengaluru, Hyderabad, Kolkata, Delhi, and Pune. The remaining were registered in other cities and towns in India. Thus, about 30 percent of the companies were in the large cities. Based on the city given, they were categorized in to two: those registered in Tier 1 cities and those from other cities. The proportion of companies registered in each of the categories are given in Figure 1. An unmistakable and encouraging trend seen is that in recent years, the proportion of companies registered in Tier 1 cities have been reducing, whereas those getting registered in other cities has been increasing. This indicates the increasing levels of company formation in smaller towns in recent years.

Among the several sector categories, we identified those sectors that normally attracts venture capital and private equity investment. The total companies registered in these sectors were 274,571. Thus of the 1.26 million companies, only about 22 percent of the companies are in domains that would interest venture investors. Thus venture capital would be a target capital source for only a portion of the total companies that are being formed.

![Figure 1: Companies registered in Tier 1 and other cities](image)

Figure 2 gives a perspective of the number of companies that have been formed in different sectors, and the number of companies that have received venture funding. If we take parallels to the universe, the number of companies formed is like the size of the sun, the venture funded companies are like the size of planets, and those that achieved exits are like the size of moons. Such is the difference in magnitude across the different stages, which indicates the scope for growth in venture capital funding in the country. It also indicates the need to provide more exits to attract more venture capital in the economy. The ratio of number of companies venture funded to number of companies formed is the highest for Software and Internet Services sector, and is the lowest for the Industrial Products category. Given the low odds of getting venture funding, if an entrepreneur is interested to attract venture capital, then he should form and develop the business in such a fashion so that it can attract such risk capital.

Figure 3 provides a proportional representation of the companies formed, funded by venture capital, and those that gave exits. The outer circle indicates the proportion of companies formed, the intermediate circle indicates the proportion of companies venture funded, and the inner most circle gives the proportion of exits in different sectors. While agriculture sector accounts for a large proportion of the companies formed, the proportion of them receiving venture funding or providing an exit is very low. On the other hand, while only a small proportion of companies formed are in Consumer Products and Services category, a significant proportion of those getting venture funded belong to this sector. Similar is the case with Health Tech sector. Thus it can be seen that while venture funds flows to some sectors, its availability is limited to many of the sectors for a variety of reasons. Thus entrepreneurs would do well to remember that if the sector in which they found a venture falls in the rain shadow region of venture funding, they should actively look at other sources of funding.

Figure 4 gives a perspective of the number of companies that have been formed in the top cities, and the number of companies that have received venture funding. The trend is very similar to what was seen in Figure 2. The percentage of companies that have received venture funding as a proportion of total companies formed in each of the cities are as follows: Ahmedabad: 2.93 percent; Bengaluru: 21.68 percent; Chennai: 1.22 percent; Hyderabad: 4.67 percent; Kolkata: 0.14 percent; Mumbai: 1.87 percent; New Delhi: 0.83 percent; and Pune: 0.82 percent. The data clearly indicates why Bengaluru is considered as the “startup and venture capital” capital of India. Additional studies need to be done to understand how a large proportion of companies in Bengaluru are able to attract venture capital.

Figure 5 gives the proportional representation of the companies formed, funded by venture capital, and those that gave exits for the large cities. Similar to that of Figure 3, the outer
Figure 2: Sector wise illustration of companies formed, funded and exits

circle indicates the proportion of companies formed, the intermediate circle indicates the proportion of companies venture funded, and the inner most circle gives the proportion of exits in different cities. While the highest proportion of companies are formed in New Delhi, the proportion of those getting funded there are lower. However, when we compare the proportion of companies funded and exited in New Delhi, it can be seen that they are not different. Similarly, the proportion of companies funded in Kolkata is a very very small proportion of the companies that have been founded in the city. The ratio of companies formed : funded : exited is more or less same for Mumbai. A significant difference is Bengaluru, where the proportion of companies getting venture funded is far higher than the proportion of companies that are formed. However, as a percentage of companies providing exit, Bengaluru does not rank favorably, indicating that for investors the exit barriers of investing in Bengaluru is high. For the remaining cities, the proportion of getting funded and the proportion providing exits is not very different. This indicates that while the ecosystem of the city plays a role in getting funded, subsequent achievement of milestones depends on the performance of the venture. Just because the company has been incorporated in a particular city does not give it any special advantage.

Figure 6 gives the proportional representation of the companies formed, funded by venture capital, and those that gave exits cumulatively for large and other cities. Similar to that of Figure 3, the outer circle indicates the proportion of companies formed, the intermediate circle indicates the proportion of companies venture funded, and the inner most circle gives the proportion of exits. The findings are extremely interesting. Though more than two-thirds of the companies incorporated are from the other cities, the proportion of those getting venture funded is very less. The proportion of companies providing an exit is not very different from those getting venture funding. Despite a thriving economic environment throughout the country, access to venture funding is still very limited to large cities.

Funded and exits: Key differences

Figure 7 and 8 provide two representations of companies that have given an exit and those that have not. We study the differences in terms of the age of the venture, average rounds of investment received by the firms, and the average number of investors in the company. The number in brackets indicate the number of observations.

Statistical tests showed that the difference between the two samples are significant on all three parameters. Companies that provided an exit, on an average, had higher age as compared to those that had not provided an exit. This indicates that companies need to mature for the investors to get an exit. This is as expected.

Comparing the average age shows that it takes approximately 3 years to exit from a venture. Next we compare the extent of staging between the two groups. Ventures that provided an exit had more rounds of funding as compared to those that have not or yet to give an exit. A possible explanation to this result is that staging increases the efficiency and thereby has a positive impact on performance, which results in exit. Number of investors is an indication of the level of syndication in the venture. The mean number of investors for companies that have provided an exit is significantly higher than the mean of the companies where there has been no exit.
Figure 4: City wise illustration of companies formed, funded and exits

Figure 5: City wise proportion of companies formed, funded and exits

Figure 6: Proportion of formed, funded, and exit start-ups in large and other cities

Figure 7: Difference between firms that gave exit and those did not (Representation 1)
Summary

This article tracks the contours of company formation, followed by venture funding, and finally exit to investors. Because of data limitations, we could not trace the path of the individual companies. However, the macro aggregators give a good indication of the underlying trends. Trends in company formation indicate that the proportion of companies in smaller cities and towns have gradually increased in recent years. Companies that could be a potential investment opportunity for venture investors form only about 22 percent of the companies that are founded. Within that segment, companies that get venture funding is only about 2.3 percent. This indicates that there is significant scope in the economy for expanding the footprint of venture investors. Sectors such as Software and Internet Services, FinTech and Payments, and Consumer Products and Services have features that would interest venture investors. Similarly, some cities like Bengaluru and Mumbai have a better ecosystem for venture funding.

However, once the company gets venture funding, the sector or location advantages tend to disappear. The proportion of companies that get funded and those that provide an exit is not significantly different between sectors or cities. The performance of the venture largely determines whether they are able to reach the next milestone of exit. To an extent, this indicates the screening and selection efficiency of the venture investors. Differences could be noted between companies that have been able to provide an exit vis-à-vis those that have not. Staging and syndication seems to have a positive impact on exit. Funding the venture by multiple tranches instead of a single round and having an optimum number of investors can enhance the probability of achieving an exit.
YOU WANT TO DISRUPT THE WORLD...

You need capital but you see capital as your primary competitive advantage.
You want partners, but you want them to be supportive of all your ideas.

THEN, VENTUREAST IS NOT THE RIGHT PARTNER.

JUST GIVE ME A PLACE TO STAND AND WITH A LEVER I WILL MOVE THE WHOLE WORLD, SAID ARCHIMEDES.
NO MORE, NO LESS.
VENTUREAST WILL GIVE YOU THAT PLACE TO STAND.

WE ARE...

one of the longest standing Venture Capital fund managers in India. We have built market leaders and iconoclasts since 1997. We accomplish this by building competitive advantages that are sustained with our capital, and not with ephemeral qualities like ‘unlimited capital raising’. We push you to question every idea so that the best can surface, all along building undying support as your Partner.
IITM INCUBATION CELL
India’s leading deep-tech startup hub

Empowering Innovation & Deep Tech driven Entrepreneurship to address national challenges through successful, self-sustaining companies that are redefining markets

office@incubation.iitm.ac.in  /IITMadrasIncubation  @IITMIC
www.incubation.iitm.ac.in
Benefiting from Start-ups: The case of FinTech Partnership Program at ICICI Bank

By Invitation

Madhivanan Balakrishnan

The increasing trend of start-up creation has been a global phenomenon and India is no exception. Over the last decade, India has witnessed a steady rise in the number of start-ups across various sectors. FinTech start-ups account for about 18 – 20 percent of total venture capital investment that happens in India. India recorded the second largest investment in FinTech start-ups in APAC, after China. The growth opportunity for FinTech in India can be traced down to three factors: the low penetration of formal financial services in the country, the increase in access to smartphones, and the push by the government towards financial inclusion. Thus, a significant pool of business and individuals which only had access to informal channels - were targeted by FinTech solution providers. Using technology and data science, the FinTech start-ups have been able to drive efficiencies in the financial services value chain.

In recent years, the government has been doing its best to promote start-ups in the Indian economy, by introducing start-up friendly policies, tax exemptions and various other reliefs. Complementing the efforts of the government, educational institutions, corporations and other industry bodies have also set up incubators and various special programs to encourage, develop and train entrepreneurs to help them launch their ventures. The FinTech Partnership Program is one such special program of ICICI Bank for start-ups rendering financial services.
About ICICI Bank

ICICI Bank Ltd (NYSE:IBN) is a leading private sector bank in India. The Bank’s consolidated total assets stood at US$160.5 billion at June 30, 2018. ICICI Bank’s subsidiaries include India’s leading private sector insurance, asset management and securities brokerage companies, and among the country’s largest private equity firms. It is present across 17 countries, including India.

The FinTech Partnership Program

As a dynamic and leading financial institution, ICICI Bank has always been at the forefront in engaging with the new generation. Looking at the horizon, the Bank clearly realised that FinTech is a young, but rapidly growing sector in the Indian economy, which can significantly benefit the large customer base of the Bank. The Bank decided to launch the FinTech Partnership Program in 2016, wherein ICICI Bank would partner with start-ups which are largely focussed on the BFSI (Banking, Financial Services and Insurance) domain.

Table 1: Start-ups under the FinTech Partnership program of ICICI Bank

<table>
<thead>
<tr>
<th>Start-up</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Signzy</td>
<td>Digital KYC, on boarding for individuals and institutions for Current Accounts</td>
</tr>
<tr>
<td>FingPay</td>
<td>Payment collection via AEPS, BC &amp; Master merchant aggregator for ICICI. ICICI Bank has made investment into FingPay</td>
</tr>
<tr>
<td>Senseforth</td>
<td>Chat bot, SWIFT &amp; Email management, POR tagging</td>
</tr>
<tr>
<td>Niki.ai</td>
<td>Enabling m-commerce services on iMobile &amp; FB messenger via chat bot</td>
</tr>
<tr>
<td>ePayLater</td>
<td>Real time ‘Buy Now Pay Later’ offering on e-commerce ICICI Bank has made investment into ePayLater</td>
</tr>
<tr>
<td>Arteria</td>
<td>Supply chain solution and payment integration services to OEMs and their supply chain network ICICI Bank has made investment into Arteria</td>
</tr>
<tr>
<td>RemitGuru</td>
<td>Real-time remittance services to retail users &amp; white-labelled remittance platform to partner enterprises ICICI Bank has made investment into RemitGuru</td>
</tr>
</tbody>
</table>

Support to Start-ups

Financial support or investment in the start-up could range anything between ₹1 crore to ₹15 crores. The fundamental idea of the program is to work along with start-ups and help them to create value. The Bank’s huge network, domain expertise and resources help in attaining the same.

All the start-ups enjoy various other kinds of non-monetary support such as inputs on product requirements which reduces the uncertainty in the marketability of their products. The Bank also uses its network to involve the large tech players to mentor these entrepreneurs.

Selecting the Start-ups

While the objective is to encourage and work with start-ups, the Bank is also extremely selective in the kinds of start-ups it would engage with under this program. Table 1 gives the list of selected start-ups under this program (as of September 2018). The selection criteria is based on the understanding & technical knowledge of the founding team, innovative thinking, utility of their products & services and so on. The start-up could be at different stages, ranging from newly incorporated to matured and established ones, provided the Bank sees the potential to scale up and its synergy with the Bank’s Digital Strategy.
Funding to the start-ups under the FinTech program is even more selective. Of the many start-ups under this program (Table 1), only a selected few have received investment from the Bank.

Sourcing of start-ups for the program are done through the following means. Firstly, the Bank conducts a ‘Demo-Day’, where the start-ups are invited to come and present their products. Various stakeholders are invited to provide inputs on the presentations. Based on the feedback, and the focus areas of the Bank, the start-ups are selected on the same day. The senior officials spend a good amount of time with the selected start-ups to understand and formulate a working plan. Secondly, the Bank conducts hackathons, where the start-ups are provided with challenges and those which come up with impressive solutions are then selected for the program. Thirdly, angel investors, incubators and venture investors also refer potential start-ups for the program. In addition to the above, the Bank also participates in numerous conferences and trade shows and through that network reaches out to the larger FinTech segment.

Impact and Benefits from the program

The FinTech Partnership program has resulted in several benefits to the bank. The Bank has been able to increase its efficiency leading to significant savings in cost and time. For instance, with the help of a start-up, the time taken to open a current account has been reduced to less than 48 hours as compared to a few days earlier. As a result of this, the number of current accounts being opened have increased significantly. Another start-up, has been onboarded as a Business Correspondent & Master merchant to the Bank. It is helping merchants collect payments via various payment modes including Aadhaar based transactions. It also extends cash withdrawal & other banking services through bank’s AEPS platform.

Summary

India, as the fastest growing economy has many challenges it needs to overcome if it is to reach its potential, which presents great opportunities to FinTech start-ups in the country. We are certainly thrilled to be part of this journey by means of offering support to growing FinTech start-ups.

ICICI Bank has always been a pioneer in offering innovative services by implementing new technologies in every spectrum of the banking arena. The legacy of innovation is deeply manifested into the Bank’s quest for constant innovation. Challenging the status quo has been the defining aspect of the Bank’s culture and also has been one of the Bank’s key differentiating factors. Ideas that bring about disruptive change in order to continually improve, adapt and create competitive advantage are encouraged. We see our collaborations with the FinTech start-ups as a fresh opportunity of reinventing the banking ecosystem.

Madhivanan Balakrishnan is the Chief Technology & Digital Officer at ICICI Bank.

EndNotes

Working age population in India is expected to rise by 250,000 each month till 2025. To keep the employment rates constant, it is estimated that we have to create 82 lakh jobs annually between 2015 and 2025. Addressing employment has been one of India’s biggest challenges as the rate of increase in working population has been faster than the employment rate through the years, with some of the years facing a decrease in employment rate as well. While a recent report had claimed that 55 lakh new jobs were created in the previous financial year 2017, most of them were GST and demonetisation induced formalisation of labour, which necessarily didn’t lead to new job creation. While the above report addresses new registrations under Employees’ Provident Fund Organisation; this does not capture the joblessness as the registration stays even if an employee is currently jobless.

“Jobless Growth” had conducted a primary survey on job creation and its relationship with GDP growth with the regional economists of South Asian region. Around 65 per cent responded that if GDP increased by 1 per cent, employment growth was less 0.3 per cent or negligible indicating that the impact of GDP growth on employment creation has been negligible. The report also stated that since structural transformation amongst different sectors like agriculture, manufacturing, construction and services was slow, new avenues for job creation have to be created as the existing sources are not able to meet rising demand.

“The challenge we face is in talent – it takes bandwidth and time to get talent and build a team.”

- BHAVISH AGGARWAL, OLA
Unemployment rate in India in 2017 has increased to 3.52 percent from a level of 3.41 percent in 2014. While there hasn’t been a dramatic increase in the rate, the rising rate has been a matter of concern. Various government schemes have prioritised the impending crisis to ensure that it doesn’t tip over. Start-up India launched in 2016 is one such scheme where government has focused on addressing the unemployment rate through the rising number of start-ups in the nation. For example, a company is considered as a start-up “...if it is working towards innovation, development or improvement of products or processes or services, or if it is a scalable business model with a high potential of employment generation or wealth creation.” The start-up policies of different states like Karnataka focuses on job creators than job seekers. Till June 2018, there have been over ten thousand start-ups recognised under the definition of ‘start-up’. This Chapter analyses how start-ups have contributed to this policy imperative.

**Formalising the informal labour segment**

More than two-thirds of those employed in Asia Pacific are in the informal segment. Some of the neighbouring countries like Sri Lanka (60.6 percent) and Pakistan (77.6 percent) have lesser share of informal labour in comparison to that of India (81 percent). When more than three fourths of the employed population are engaged in the informal economy, it is primal to understand the impact of growth in start-ups to those employed in the informal sector.

To begin with, informal sector has more often than not left people vulnerable and susceptible to risks. While formalising the informal sector completely is a long way ahead, quite a lot of start-ups have implemented ideas that have taken the first step in this lead. Usually, the informal sector workers were overworked - shifting between jobs through the day with little or no job security and meagre pay. For those who want to engage with the service providers in the informal market, the experience has been equally arduous, with very little predictability on service delivery time and quality. Under the circumstances, both the service providers as well as the users were dissatisfied.

Bengaluru based start-up, Babajob, is one of the biggest job portal for blue and grey collared workers that includes carpenters, maids, drivers, plumbers, and so on. As of March, 2018 about 6.9 million people had registered with the organisation as job seekers and there are about 0.45 million registered as employers across India. While the ‘job seekers’ have seen an increase in their average monthly income by taking up lesser number of jobs, ‘job givers’ are more satisfied in terms of the regularity of work and simpler ways of reaching out to them. Started in 2007, Babajob was one of the earliest such start-ups that focused on providing an aggregation platform or a marketplace for the informal sector.

Finding local services and servicemen is still through known contacts largely due to uncertainties in terms of reliability and quality of service offered. To bridge this gap and to ease the process, UrbanClap started their service in 2014. Police verification and screening of candidates before registering them on the app raised the reliability of the service providers along with an assured quality of services. The service providers were trained on not just hard skills, but also on soft skills on a regular basis. The app standardized the rates, products used, services offered, and so on. While the service providers were provided with standardised products by UrbanClap, they are also given flexibility in their payment of such equipment and products to lessen the financial pressure. Over time, the venture also widened its range of services from odd jobs like cleaning, plumbing to parlour services, wedding photography, and so on. While it gives the consumers a wider range of reliable choices, it has also helped these service providers to gain flexibility in their work.

Similar start-ups such as MyDidi, Housejoy have also helped change the dynamics of the informal labour market. Housejoy has also provided a sense of job security amongst some of the top ranked service providers registered on their app by paying them a minimum guarantee in a month and hiring using referrals. While their skills are honed by these organisations, the consumers are willing to pay more for better quality of services provided with timely completion of the tasks.

**Market Value and Employment**

By 2027, the market capitalisation in Indian stock markets is expected to reach $6.1 trillion, a growth of 165 percent from the 2017 market capitalisation of $2.3 trillion. While the Asian equity market is expected to grow the fastest, amongst the Asian countries, India is expected to grow at 10.1 per cent CAGR, closely followed by China at 7.9 per cent CAGR. What is the contribution of Start-ups to new job creation? Does job creation grow in line with the growth in market capitalisation?

While start-ups have resulted in job creation, our analysis shows that the efficiency of jobs creation is significantly higher. We analysed the number of employees per hundred crore of market value in both large publicly listed companies and established start-ups. The difference is start (Figure 1). While the average number of employees in large listed companies is about 35 per ₹100 crore of market value, in the case of established start-ups, it is only 0.04, which is a ratio of 875:1. Our inference is that start-ups operate lot more efficiently in terms of manpower, and thus should not be seen as a major engine for job creation. While the employee to market value ratio would definitely increase as the start-ups become mature and increase in size, start-ups are more an engine for innovation and growth rather than job creation.

However, they contribute in many other says, such as being able to provide a new flavour in the job market that is difficult to replicate in the existing organizations. While established organizations offer a relatively stable career path, structured learning through institutionalisation of systems and process-
es, start-ups are able to provide a more unstructured and flexible work environment that meets the aspirations of those who seek such work environments. While they may be considered misfits in a formal structured work environment, they are able to flourish in a start-up work environment that encourages innovation and thus perform to their maximum potential. Thus by drawing a certain section of the employees to perform to their maximum potential, start-ups are able to contribute significantly to creation of social good.

Creating new types of jobs

Start-ups have been able to create jobs that address the needs of the modern society (Table 1). One example is food delivery. While food delivery was previously done by the restaurants to the nearby localities, with orders taken by phone, the food delivery companies and apps have nothing short of revolutionized the sector. They are able to provide part time employment in significant numbers to cater to the growing demand of food delivery. Catching up fast have been the hyperlocal and logistics companies that provide delivery of vegetables and groceries. It is needless to mention the large number of delivery jobs created by the large ecommerce companies like FlipKart, SnapDeal, and so on.

Using technology, start-ups have been able to bring in significant efficiencies in the job market, both for the seekers and employees. Employing data sciences and machine learning algorithms, the start-ups have been able to assist companies in shortlisting the right candidates for a job or help candidates find a suitable job for their profile. Such job portals has both recruiters and job seekers and helps matching the gap between the two.

Job creation in Non-Tier 1 cities

While most of the start-ups are created in Tier 1 cities, there has been an increasing focus on creating start-ups in smaller cities as well. Policies initiated by various governments have emphasized this by focusing on creating incubation capacity in smaller towns. While accessing top tier talent in smaller towns could be difficult, start-ups are able to hire employees at lower salaries, while increasing scope for local employment. Venture Capitalists also point out that growth of an industry or a sector lies in building up of ideas in smaller cities and scaling them.

Table 1: New types of jobs that can be attributed to Start-ups

<table>
<thead>
<tr>
<th>Category</th>
<th>Illustrative Start-ups</th>
</tr>
</thead>
<tbody>
<tr>
<td>Food delivery and logistics</td>
<td>Zomato, Swiggy, UberEats</td>
</tr>
<tr>
<td>Groceries and Farm Produce</td>
<td>BigBasket, Grofers, LocalBanya</td>
</tr>
<tr>
<td>Recruitment start-ups</td>
<td>GrownOut, Zlemma, Recruito, HackerEarth</td>
</tr>
<tr>
<td>Organic/Health Conscious Food Start-Ups</td>
<td>Salad Days, Healthie.in</td>
</tr>
</tbody>
</table>

Competition in smaller cities is relatively lower and companies have an edge in terms of low operational costs. Anecdotal evidence indicates that employee turnover is smaller cities is lower as compared to that seen in start-ups in Tier 1 cities. A start-up conventionally needs lesser space but, setting them up in smaller cities has enabled them to move into a bigger setup and they have been able to establish their presence.
Start-ups have improved the informal sector employment better than formal sector employment in terms of sustainability of jobs and providing job security. Start-ups have contributed significantly in formalising the informal sector. Formal sector employment however, has faced hurdles in the lack of labour laws that exempts start-ups to come under the purview for inspection in the first three years, which has furthered the unemployment in the nation. Increase in the number of start-ups may indicate a correlation in jobs creation, but not necessarily a causation factor. Forthcoming Census Report in 2021 is expected to have 64 per cent of the population in the working age category, reminding us of India’s demographic dividend and the need to create more sustainable jobs for the formal sector.21

Summary

The United Nations World Employment and Social Outlook Report (2017) stated that India had to be given due credit for accounting for major proportion of the job creation in Asia Pacific region in 2016.16 Yet, unemployment has been on the rise in the country. One cannot deny job creation in India. However, it did not scale up to the jobs needed to match up to the rising unemployment.

Start-ups had created about 80,000 jobs in the year 2016 and is expected to rise to 250,000 jobs by 2020.27 Indian start-up ecosystem is not just the fastest growing but, also it is the youngest. The growing number of start-ups registration over the last four years is indicative of the number of jobs created. While the numbers may seem insignificant when compared to the large demand for jobs, it is important to look at the underlying benefits of promoting entrepreneurship in the nation. Government initiatives and increase in funds by venture capitalists have made India conducive to create more start-ups, which in turn has nurtured and glorified entrepreneurship. Rather than seeking jobs, building a start-up creates jobs. By creating entrepreneurial courses in about 500 to 5000 institutions of different Tier II cities. Going by the example of cities such as Jaipur, Ahmedabad, Kochi and so on, start-ups in Tier 2 and 3 cities are largely driven by incubators and tech parks.

While start-ups have been lauded for job creation, they have also been under scrutiny for lack of sustainability in job creation. Tracxn, had reported that there has been a downfall from more than 6000 start-ups in the technology sector in 2016 to about 800 start-ups in the initial months of 2017.19 The largest failure of start-ups were from sectors like e-commerce, logistics, and food technology. In 2014, there were about 125 people employed with each organisation which came down to merely 21 people per each organisation the following year.20 Higher funding doesn’t necessarily reflect an increase in employment as there is an increased pressure to generate returns. Aggressive hiring in the initial stages of setting up an organisation also leads to harsh consequences once the start-up begins to fail.

Endnotes

1 News in Numbers: 8.2 million jobs needed annually in India to keep employment rates constant. Retrieved from https://www.livemint.com/Politics/Zo7TysdEEtp4PdDv7rV8BK/News-in-Numbers-82-million-jobs-needed-annually-in-India-t.html; April 17, 2018
5 https://www.ceicdata.com/en/indicator/india/unemployment-rate
6 Startup means an entity, incorporated or registered in India; up to a period of seven years from the date of incorporation/registration or up to ten years in case of start-ups in the Biotechnology sector; as a private limited company or registered as a partnership firm or a limited liability partnership; with an annual turnover not exceeding ₹25 crores for any of the financial years since incorporation/registration; working towards innovation, development or improvement of products or processes or services, or if it is a scalable business model with a high potential of employment generation or wealth creation; defined by Startup India, Govt. of India
8 http://babajob.com/
9 https://www.urbanclap.com/
10 https://mydidi.in/
11 https://www.housejoy.in/

Nine small town start-ups that may inspire many more to take the big leap & start out on their own. The Economic Times, June 01, 2015. https://economictimes.indiatimes.com/small-biz/startups/nine-small-town-startups-that-may-inspire-many-more-to-take-the-big-leap-start-out-on-their-own/articleshow/47484591.cms


Indian Start-Up Ecosystem Maturing. (2016). NASSCOM

“25 million jobs is an incredibly difficult target. To help achieve that, the foundation plans to take its existing entrepreneurship courses (offered today at some community colleges in the U.S., and some 500 colleges in India) to over 5,000 institutes across India. If even 10 students from each course are inspired to set up their own ventures, that will create half a million startups. And if each startup employs 10 people (which, roughly, is the number a startup employs), it means five million new jobs created that year.” Romesh Wadhwani, Founder & Chairman, Wadhwani Foundation


OFFICE OF ALUMNI RELATIONS - IIT MADRAS
CONGRATULATES THE TEAM
ON BRINGING OUT THE 10th EDITION OF
THE INDIA VENTURE CAPITAL & PRIVATE EQUITY REPORT

WE THANK OUR ALUMNI AND WELL-WISHERS
FOR THEIR GENEROUS SUPPORT
Springboard for your Startups

ynos.in
an IIT Madras incubated startup
Success in the Mid-Market Segment

A Conversation with

Venkat Subramanyam
Co-founder and Director, Veda Corporate Advisors

Venkat Subramanyam is a co-founder and Director at Veda Corporate Advisors Private Limited. He has over 25 years of experience in investment banking. As a pioneer in the investment banking industry in India, he has been closely associated with the growth of the Indian VCPE industry since the mid-90s. He has an impressive track record of transaction closures in Private Equity as well as M&A, having completed several defining transactions across domains such as Services, Infrastructure, ITeS, and so on.

Previously, he co-founded Mantra Consultants in 1998, a boutique investment bank, based in South India, which was subsequently acquired by Ernst & Young in 2001. He was an Associate Director at Ernst & Young before co-founding Veda in late 2003. Venkat is also an Associate Member of the Institute of Company Secretaries of India. He is a regular speaker at industry forums and his views are often quoted in the business media.
Among those ventures who raise the initial round of funding, only a small proportion are able to attract subsequent rounds of funding. What factors enable companies to attract the subsequent rounds of funding?

Most importantly, prospective investors would assess whether the company has delivered reasonably towards the business plan provided to the existing investors. The targets could be either in the form of revenues, profitability, cash flow, market share or a combination of these. When the company is in the process of next round of funding, the prospective investors would be interested to know the performance of the company after the previous fund raise!

Quite often, the business plans made by entrepreneurs are invariably aggressive and extremely optimistic. It is in the DNA of most entrepreneurs and investment bankers. Most of the first round investors could get carried away by this optimism. However, the next round of investors are much more practical. They look at it in the context of environment and see how well has the company delivered. In case, the venture has managed to deliver close to the commitments, they stand a very good chance of raising next round of capital.

“The ability to raise next round of capital is constrained primarily by the track record on business plan deliverables, followed by the sector and the market”

However, there are exceptions as always. If a company falls in an industry segment that has suddenly gone out of favour because of market fatigue or if some of the industry leaders have struggled or if the industry faces market or regulatory challenges, getting subsequent round of funding could be difficult. For example, a few years ago, the microfinance industry faced a crisis because of regulatory changes. Similarly, demonetisation had a severe impact on certain sectors. The recent price control regulations in the cardiac and orthopaedic implants has affected the pricing and profitability of the healthcare industry. Any of these factors or a combination of it, can affect the segment and adversely impact company’s growth prospects. In such situations, even if the company performs well, getting subsequent rounds of funding becomes difficult as the industry as a whole would become unattractive for the investors. Likewise, there is a good chance for a company to get additional round of funding, if the industry is thriving, even though the performance of the company could be mediocre! Therefore, the ability to raise next round of capital is constrained primarily by the track record on business plan deliverables, followed by the sector and the market.

If the over-riding market sentiments are not great, either because of economic, political, or international developments and there is a lull in deal-making, there is a trickle-down effect, even if the performance of the company has been reasonably good. Companies would struggle to raise capital as the overall benchmark has been raised. When both the market and sector are in favour, the benchmark is lower. When either of the two are not in favour, the benchmark is slightly higher and when both are not in favour, the benchmark is very high.

“Few factors like market, regulations are not in the control of entrepreneurs. Do you think an entrepreneur can prepare for or influence factors like these?”

Basically, there are two parts to this. There are businesses which badly need capital to survive and there are businesses which can do without external capital but growth will get constrained.

Usually, the former category of companies, which cannot survive without the external capital, are not profitable during the growth phase. They need capital to achieve growth. So, when the capital is switched off, these companies tend to struggle. In my opinion, such companies have very little choice! All they can do is to anticipate fund-raising requirement and advance the fund raising or raise more capital when the going is good without worrying too much on dilution. It is here the inputs of existing investors, board members, and professionals become vital to the entrepreneurs. They help the entrepreneurs to decide on the quantum of funds to be raised and when. Some of the entrepreneurs are really smart and are able to get it right. But, there are many entrepreneurs, who depend on prudent or solid advice and therefore the professionals have an important role to play.

Companies that can survive without external capital make use of alternate sources of capital such as debt or seek additional investments from promoters. Such businesses are much better placed by waiting out and ensuring that they are able to tide over the interim phase when fund-raising becomes quite difficult.

“What happens to ventures that are unable to attract funding at later stages?”

That’s a very relevant question, as everyone assumes that when a company has been able to raise the first round of capital, they will keep continuing to raise more rounds of capital. However, that’s really not the case. As you had mentioned in the beginning, a majority of the companies struggle to raise capital in the subsequent rounds.
There are few lucky ones that don’t need more capital, as they can accomplish their goals with just one round of funding. They are able to generate the cash to sustain and fund growth. Obviously, I am not talking about a typical consumer internet company, since they need more rounds of capital. However, there are few mid-sized, family businesses that would raise capital only once before they either get listed or find a strategic investor.

Companies which necessarily have to raise the next round of capital, invariably approach the PE investors. In case of early stage companies, that are not profitable, the investors tend to push them towards a liquidity event, depending on the segment and the urgency. Typically they get acquired as that’s the only way out for them, since they won’t be able to survive on their own.

Then again, there are companies which are not completely dependent on the next round of capital. They can still survive and grow, but they may not be able to raise capital. For instance, there was a phase between 2004-2009, when several companies in infrastructure and textiles got funded by Private Equity and these two sectors suddenly went out of favour. They have not made a comeback since then. While these businesses continue to exist and grow, they may not be able to raise PE funding. In such cases, the promoters usually find other avenues of funding.

Does the factors causing mortality change with kind of business? What are the causes of mid-sized businesses failing and shutting down?

Mid-size businesses that we handle, typically do not have the risk of mortality that start-ups have. They may not be very profitable, but they still survive. Some of these get acquired and in some cases the promoters are able to buy-back at decent prices. Then there are other cases where the private equity investors, out of desperation and after many years of waiting to get an exit, hand over the businesses back to promoters at a discounted price and walk out.

In my opinion, if there is a collapse in mid-size segment, it is purely because of poor governance and extraordinary financial discipline, where the promoters have been absolutely reckless with finance. Apart from these two, I don’t see any other reason for the collapse of businesses in mid-sized segment.

Is it fair to state that once the company get through the initial stages of uncertainty or infancy, then the probability of failure dramatically reduces?

Once the company attains a certain degree of maturity in terms of profitability and cash flow generation, they are reasonably disciplined. Unless there are some really untoward incidents, such as a new development in the market or regulatory changes that can have transformational impact, negative adverse impact on the business or the probability of failure is quite low.

Having said that, the level at which companies become immune to such risks varies from segment to segment. The benchmark is different in case of an auto ancillary light engineering from that of a BPO or an engineering services segment. I don’t think we can put a number here. For instance, a technology company even with revenues of ₹200 Crores, could still face market risk.

What is the success rate of your ability to close a deal? What are the factors you consider while selecting deals? In case you haven’t been able to close a deal, what are the prominent reasons?

When you ask about success in investment, it is quite similar to asking a film director, on what basis does he or she chose a script. So, in a way, an investment banker is like a film director, as both these categories deal with several imponderables. While the film director has the box office in mind, in the case of investment banking, it’s the PE/VC/Strategic Investors who are relevant. We all assume that the consumers like something, but by the time the product is finished and brought to the market, their preferences could have changed. To explain in simple terms, a director might have an interesting script. But, if he delays the release of the film, and, if in the intervening period there have been 4-5 films in the same genre that haven’t done well, then the film is sure to fail despite the interesting script. The same applies in investment banking when there are a spate of deals in the same segment and there is overkill in the market.

We consider multiple factors before selecting a deal such as promoters, business, industry, market, regulatory environment and so on. The first and foremost factor we consider while selecting a deal is the promoter, his or her track record, integrity, value system, appetite for growth, willingness to partner with existing investor, ability to convince the investor and so on. The second factor to be considered is the business. We assess the viability of the business, its prospects, risk involved, opportunity for growth, and so on. The third factor is
the Industry. A deal can fail despite having good promoters or business prospects, if it happens to be in the wrong industry. For instance, not many private equity investors are ready to invest in the commodity business anymore. Therefore, the industry also plays a major role in making the deal successful. If the business is part of a thriving sector, there are good chances of successful closing of deal. However, if it is part of a volatile industry or in the negative list, the deal is unlikely to be successful.

The fourth factor influencing the success of a deal, is the market outlook for the particular business or industry. We don’t consider industries that are highly sensitive to changing market conditions. For instance, in an election year we are careful while selecting mandates of companies that are highly dependent on government contracts, potential due diligence issues, and so on.

The last comes the expectations. Even if every other factor falls in place, the deal may not be viable if there is a significant disconnect in the valuation expectations. At the end of the day, we are still dealing with imponderables and there is a good chance for the deal to become unsuccessful, despite all these considerations. There is no 100% strike rate in this industry. The way it works is, there are years when there are good deals and the strike rate is high, and there could be years when the market is down and the strike rate is poor. There is also a need for teeny-weeny bit of luck, while selecting the deals.

There is also a need for teeny-weeny bit of luck, while selecting the deals

According to you, what are the common reasons for a fund raising process to go unsuccessful?

In a mid-market segment, most of the cases go unsuccessful due to either a valuation mismatch or a terms mismatch.

Valuation mismatch is one of the biggest reason for the process to fail. The valuation mismatch invariably happens because of a performance mismatch. For instance, in the last two to three years, almost every company is behind by a quarter. What a Company expects to achieve in Q1, happens only in Q3 or Q4. By terms mismatch I mean, the terms of exit are not in alignment with the expectations of promoters or the private equity investors. These are the reasons for the failure of a deal!

Post investment conflicts between the founders and investors can have a damaging effect on the venture. How can such conflicts between entrepreneurs and investors be minimized?

While the entrepreneur thinks the partnership is going to be long term, the investors are clear about their exit in 4 to 5 years’ time. This difference in time horizon could give rise to conflicts, which is common in most private equity investor and entrepreneur relationship.

There are couple of things to be done, in order to minimize these conflicts. As a first step, both parties must ensure to understand each other and their respective expectations, even before signing the deal. Most of the times, the investors are clear that they are going to remain for a limited period. However, the entrepreneurs get confused and assume that the PE investors are going to remain long term. In reality, very few investors fall in that category. So, the promoter needs to understand that the PE investor is going to be with him, only for a limited period. The promoter must realise that he is just managing the investor’s capital and there is a fiduciary responsibility of returning that capital. So, he must learn to work within the time frame and be committed to provide an exit to the investor. This is fundamental to the success of a PE transaction and the promoter must go that extra mile to make it happen.

Second, the promoter must realise that once there is a PE investor in the company, there could be a need for lot of operational changes in the way the business is managed. It is very important to understand these nuances. He will have to ensure that he manages business with accountability, transparency, develop willingness to share information and responsibilities, and so on. Investors prefer companies with good governance and board structure. Therefore the promoters will have to be ready, to incorporate these changes.

Third important factor is that the investors will have to be patient and cannot expect changes overnight. Especially, in the case of mid-size family run businesses, the promoter is not going to change the style of governance or management overnight and it involves a lot of persuasion and patience. The investor cannot expect things to fall in place immediately, just because he has signed an agreement.

So, if one get these things right, it is possible to minimize the conflicts between investors and entrepreneurs.

What happens when there are conflict of interests between multiple investors?

Multiple investors come in at different point of times, have different timelines, different commercial terms, different objectives and therefore it gets very complicated. Good thing is over a period of time, we have seen multiple transactions like these. Usually, we find multiple investors in the technology
segment. But in technology segment, even the promoters are very clear and there is a reasonable alignment between the promoter and the investors with regard to conduct of business. It’s only when we have multiple investors in mid-size family run businesses, things get complicated.

The entrepreneurial driven companies, first generation companies, where the people have worked in professional environment, are able to handle these multiple relationships professionally.

Do you also work on exits?

Yes! Especially in the mid-market segment, most of the transactions today are either those involving PE exits or those that involve PE exit to another PE fund or buy back by the promoters. Almost, 50% of our deals fall in the above categories. As of today, there are lot of mature businesses in this segment that have already been funded. Therefore, one will not find many ‘Series A’ opportunities in the mid-market segment. There are lot of opportunities for ‘Series B’ or exit.

But, by and large, I think this segment will not find any wholesale radical transformation changes happening. These are more stable businesses, which require focus on a particular element. There will be minor changes from year to year to reflect the changing market sentiments, mind set of investors, change in technology landscape, and so on.

You have experience in working with both early stage companies and now in mid-market segments. Could you tell us the difference in the kind of challenges that you face, while dealing with these two markets?

The presence of a large number of angel investors ensures that capital requirement of about ₹5 – 10 crores can be comfortably addressed. Secondly, most of the entrepreneurs who are raising early stage funding today are reasonably well versed with fund raising. They have good exposure. Apart from a few exceptions, the level of intermediation in angel or ‘Series A’ funding is largely minimal because they are not commercially viable. The investors are also beginning to engage with the entrepreneurs directly and there is limited scope for negotiation and valuation.

Typically, the investment bankers come in mid-market segment or in the slightly more mature ‘Series B’ funding, in technology. The scope for value addition makes it commercially viable for the investment bankers. This is just a function of market evolution. However, I think there are ample opportunities in the case of Series A or angel round as well. If market characteristics change, it may become viable and more bankers may start offering services for early stage fund raising.

Do you also work on exits?

Yes! Especially in the mid-market segment, most of the transactions today are either those involving PE exits or those that involve PE exit to another PE fund or buy back by the promoters. Almost, 50% of our deals fall in the above categories. As of today, there are lot of mature businesses in this segment that have already been funded. Therefore, one will not find many ‘Series A’ opportunities in the mid-market segment. There are lot of opportunities for ‘Series B’ or exit.

“Basiclly, there are two things an entrepreneur is required to focus on, in order to sustain his business. One is to understand the problem of customers and solve the same and other is with regard changing the business model with time. Could you share your thoughts on these approaches? Which of these approaches should the entrepreneur focus on?"

In the mid-market segment, as compared to the early stage space, the uncertainties are much less. There will be changes in terms of product, pricing, market approach and so on.

“The investors will have to be patient and cannot expect changes overnight”

“The level of intermediation in angel or ‘Series A’ funding is largely minimal because they are not commercially viable”

But, by and large, I think this segment will not find any wholesale radical transformation changes happening. These are more stable businesses, which require focus on a particular element. There will be minor changes from year to year to reflect the changing market sentiments, mind set of investors, change in technology landscape, and so on.
Where Change Gets Called by Tradition: The Case Study of SportsMechanics

By Invitation

Hari, Varun, Shrey, Kumar and Arjun

“Every battle is won before it is fought.”
- SUN TZU

“If opportunity doesn’t knock, build a door.”
- MILTON BERLE

Sports and the Modern Society

Sports has been an intrinsic part of human society dating back to eras sans records. Every nation, or culture points towards one sport or the other which is native and unique to its own roots. Being a source of unity, a mode to achieve physical and mental fitness and a teacher of fundamental human life skills, sports has shaped societies and communities dating back to the Roman Empire where Olympics was brought to existence to bring forward sports as a multidimensional influencer. Today, sports has become a strong institution which plays a dominant role in our lives as never before. With the prevalence of internet and television, sports is being consumed as not only an activity by those playing but also those viewing as an entertainment. Eminent sportspersons both amateur and professionals are looked upon as major cultural and political influencers.
Sports in society plays such a pivotal role that UN calls it a ‘human right’. It is recognized as a source of humanitarianism, development and peace-building. As rightly quoted by Billie Jean King “Sports are a microcosm of society”.

“Today, sports has become a strong institution which plays a dominant role in our lives as never before”

About SportsMechanics

SportsMechanics, a Chennai based firm was founded in 2006 by the Indian Cricket team’s video analyst S. Ramakrishnan. He had previously played for the Tamil Nadu Junior Cricket Team and had captained the Cricket Team of Indian Bank for 13 years. The 60 strong company comprises a good mix of young employees, sportspersons, experienced business professionals and technologists. SportsMechanics is a privately held organization funded by its promoters. From a turnover of ₹30 million in 2011, the company aimed to be a ₹1 billion company in a few years. Over the years, the company has diversified from performance enhancement solutions to various requirements of the sports industry such as content delivery, digital assets handling, and analytical solutions. Since its incorporation, the company has achieved a strong track record, and has several high profile clients such as the BCCI (Board of Control for Cricket in India), Hockey India, and the Sports Authority of India.

Pre-Inception

“Data is the new Oil”. This is not just a quote in today’s era, it is the face of the world. Whichever industry one looks at or a hobby one chooses, data would have touched it all. Whether it is improving one’s efficiency in a daily workout or to help cure a disease, data provides important inputs to answer some of the vexing questions.

“The results that followed made the sporting world realize that data can enter areas where it was least expected, which can result in fascinating outcomes”

The sports industry is one of the first to experience the Midas touch of numbers. The journey to the use of analytical tools and mathematics in a field that was traditionally influenced by adrenalin flow and complemented by guts, experience, and intuition was not a bed of roses to say the least. The origin of scientifically analyzing the results by numbers can be traced back to the 1940s, when Allan Rooth became the first statistician to be hired by a sports team. The results that followed made the sporting world realize that data can enter areas where it was least expected, which can result in fascinating outcomes. Since then, data and analytics have made consistent inroads in different fields of sport. For example, baseball (Sabermetrics) and many other sports have relied on data analysis to improve their performance. Today, data collection and analysis are simply a part of the game and a bare minimum requisite to remain competitive. Leading professional sports teams not only run after on-field talent but also off-field analytical minds.

Athletes and trainers are not the only ones that make the most of data and statistics. Sports businesses are making extensive use of data to gain competitive advantage and complement their decision making. From aiding marketing theories, consumer understanding, realizing the target audience or business operations, data presents solutions to many day to day problems faced by sports organizations. The importance of data-driven approach becomes even more compelling when it is associated with, not only solving today’s problems (diagnostics analytics), but also foresee future patterns (predictive analytics). What the athletes or customers did in the past is no longer considered enough. One needs to understand what their future actions would be and their likely responses to certain strategies (prescriptive analytics – the new frontier).

In the 21st century, the problem is not how to get data, but how to analyze it. The study of datum is the field where businesses are looking to invest and sports is among the forefront. In the sporting arena, new approaches constantly evolve to measure and leverage information from big data. Realizing the potential that lies within, while also working within the boundaries of the traditional sporting federations so as to not start a turf war between the athletes and the federations is a big challenge. SportsMechanics was the first sporting organization to bring data-driven analytics to sports in India.

“SportsMechanics was the first sporting organization to bring data-driven analytics to sports in India”

Inception of SportsMechanics

The idea of SportsMechanics originated when Ramakrishnan’s dad had bought him a video camera. He took the camera to his own net sessions, filmed his batting as well as that of his teammates. The footage was later analyzed to see where one went wrong and identify scope for improvement. Ramakrishnan subsequently became the country’s first video analyst in the field of cricket. He has the unique distinction of going to toss with Sachin Tendulkar as a player, and then later on working with him and other leading cricketers as an analyst.

SportsMechanics was conceptualized post the dot com bubble burst in 2000. Ramakrishnan began by starting a consulting
firm offering sports technology services with Venky, who later became the operations head at SportsMechanics. He had always wanted to break the stereotype of ‘naked eye analysis’ as it had a lot of limitations which could be avoided by video analysis. He took the initial step by signing with the “Silicon Coach” software team in 2001-02 to distribute their software in India. However, experience held a strong foot in the game in the country, and coaches perceived a threat to their job, and didn’t readily agree to incorporate technology into the game.

Their first step was to bring a change in their home state of Tamil Nadu. They automated the registration process for Tamil Nadu Cricket Association (TNCA) in 2002-03 and provided many eye-opening insights that could not have been realized by mere observation such as the average age of the first division league players being 29 and the challenges in getting the Return on Investment. Subsequently, to evangelize their ideas, both the founders travelled across stadiums with a computer in hand to showcase the power of data analysis. However, the results weren’t as expected. So, they took the help of media and conferences to bring forward the idea of visual analysis and presented it at the International Cricket Coaches conference in Sri Lanka in 2002-03. With the techniques conceptualized getting gradual acceptance, they started to provide services to many sports academies globally - providing end to end solutions, right from shooting the video, its analysis, and providing it in DVDs for future reference.

The first big break for SportsMechanics came in 2003 when they were working with the fast bowlers at the MRF Pace Academy, Chennai. It was there that they could get the attention of John Wright, the then coach of the Indian cricket team. John Wright had called Ramakrishnan for a discussion after the induction of Ramakrishnan fundamentally changed the way nation’s favorite sport was looked at. Every move had a statistical reason, every action was backed by numbers, and technical adjustments were no longer based on intuition. Realizing the potential of big data and analytics, Ramakrishnan along with two other co-founders started SportsMechanics to contribute to the sporting industry. Though predominantly focused on cricket, Ramakrishnan along with his colleagues made sure that the transformation he brought from naked eye analysis to visual data analysis in a short span of time to a century old sport can be sustained and improvised on. To make the impact more permanent, SportsMechanics partnered with BCCI, so that the changes are institutionalized in the sports body.

This was the birth of sports analytics in India and being a niche industry, opportunities were initially limited. The major change in the way talent acquisition and performance improvement was managed by the coaches captivated the BCCI. The BCCI then awarded a contract to SportsMechanics for performance enhancement services for the Indian cricket team. The immediate mandate was the Cricket World Cup 2007.

The 2007 Cricket World Cup

The International Cricket Council (ICC) World Cup 2007 was the biggest stage till then for SportsMechanics with the Indian Cricket Team. SportsMechanics leveraged the Indian Cricket Team with statistical, analytical and strategic content that involved technology enabled coaching enhancement tools. Despite tremendous efforts, unfortunately the tournament didn’t go as expected and the Indian team exited in the group stage itself.

But, this was a massive learning platform for the year-old firm. Understanding its shortcomings and realizing better strategies to serve the team, SportsMechanics took the learnings from the tournament and continued to feed the Indian Cricket Team with their insights and strategies such as visual based data translation and translation of key performance indicators as the team came back stronger to win the first ever ICC World T20 Cup in 2007 under the then skipper M.S. Dhoni.

“Coaches perceived a threat to their job, and didn’t readily agree to incorporate technology into the game”

“Every move had a statistical reason, every action was backed by numbers, and technical adjustments were no longer based on intuition”

“The first big break for SportsMechanics came in 2003 when they were working with the fast bowlers at the MRF Pace Academy, Chennai. It was there that they could get the attention of John Wright, the then coach of the Indian cricket team. John Wright had called Ramakrishnan for a discussion after he had heard about the video analysis. What was supposed to be a 45 minutes meeting extended to the entire day since the coaches liked the concept. Completely mesmerized with the potential, John Wright offered an option for Ramakrishnan to join the Indian team, with a cautionary note however, that monetary benefits may not be very attractive. Stating that this was an offer that an Indian can’t refuse, Ramakrishnan straight away agreed to be part a of John Wright’s team. Soon, Ramakrishnan became a ubiquitous part of the team, that members started calling him as John Left.”

“Provided many eye-opening insights that could not have been realized by mere observation”

“As the Indian sports industry grew, the demand for the technological support grew as well”
The 2011 Cricket World Cup

SportsMechanics introduced Silicon Coach, one of the best video analysis application, to the Indian sports industry. Several overseas teams had already started using this application. In Indian cricket, analysis prior to this was naked eye based. It had several limitations, which were addressed by the new technology solution. SportsMechanics brought in additional dimensions covering various aspects on the technical analysis of a player. SportsMechanics started to provide strategic and analytical content for its high-performance clients such as performance enhancement by discrete ball by ball events and molding techniques according to the venue conditions, based on the combination of numbers, videos and insights from years of experience of working with the top players.

The Indian Cricket Team has been one of the admired clients of SportsMechanics ever since its inception. SportsMechanics offered analytical, strategic, and technological support to the Indian Cricket Team from 2003. Being a part of the team in the ICC World T20 2007, ICC World Cup 2011 and ICC Champions Trophy 2013 will go down as the company’s significant achievements in its 12-year period. The venture has also been successful in breaking the jinx of overseas inefficiency of the team by beating England in 2007 and Australia in 2008.

Indian Premier League (IPL) has been the biggest hit in the history of the Indian Sports industry and it has supported BCCI, one of the powerful sports bodies globally. SportsMechanics have been an integral part of the IPL ever since its commencement. Having played a role in ICC World T20 2007, SportsMechanics had the opportunity to work with seven IPL teams in the first edition of the league. The company had a healthy success rate with all their clients in IPL, being a part of 9 finals and winning it on 6 occasions. It worked under proper protocols and ethical obligations while dealing with sensitive databases and also translating numbers to insights, thereby maintaining the sanctity of the game and the sport.

The company also played a significant role in the IPL auctions by suggesting the auction strategy for their clients based on a player’s performance in the international and domestic level. The scouting and tracking down the performance of a player at various levels is carried out by the company’s dedicated back end team. Mumbai Indians, with whom SportsMechanics has been partnering for the last 11 years, has been recognized to have a strong track record for unearthing the best domestic Indian talent.

Since 2007, BCCI and SportsMechanics have worked together starting with evaluation of domestic umpires based on hard data. The umpire’s evaluation project was carried out for 3 years, and as an outcome of the project, BCCI introduced the concept of having video analysts for all board matches who would assist the match referee in reviewing and evaluating decision making. This expanded the role of SportsMechanics from being just a performance analysis company to a business operations consultant.

Reaching the Cricketing Roots (2012-2017)

As the Indian sports industry grew, the demand for the technological support grew as well. SportsMechanics expanded its footprint to other functional domains such as Sponsorships, Activations, Sports Technology, Talent Management, and so on. The company strengthened its relationship with BCCI further when the company came up with a live scoring engine for all their domestic matches and provided technological solutions to handle the domestic player registrations. SportsMechanics has also offered the scheduling and match officials posting solutions to BCCI.

With the advent of the internet and mobile devices, SportsMechanics’ started to develop and provide enterprise governance platform for competition management system, fan and brand management for various organizations and associations such as the West Indies Cricket Board (WICB), IPL, Karnataka State Cricket Association (KSCA), Tamil Nadu Cricket Association (TNCA), Karnataka Premier League (KPL), Tamil Nadu Premier League (TNPL), Hyderabad Cricket Association (HCA), Yes Bank, Associated Cement Companies (ACC), Caribbean Premier League (CPL), International Premier Tennis League (IPTL), and Murugappa Group. Given the rich domain experience in the game, the company could also contribute in the brand and fan engagement. For example, handling of the digital assets for the Asian Cup and the TNPL, helped to transform the platform with engaging posts and aesthetic infographics, which were powered by eye- analytics.

The company also partnered with the WICB and enjoyed being a part of their ICC World T20 Cup win in 2016. Leading domestic cricket associations such as TNCA, KSCA and HCA have also been benefitted by the performance management solutions. SportsMechanics’ started expanding its footprint in performance analysis to first class cricket when TNCA won the Vijay Hazare and Deodhar Trophy in 2016-17 season and when KSCA won the Vijay Hazare Trophy in 2017-18 season.

Going Beyond Cricket

“Sports Mechanics has steered the sporting ecosystem in the country by initiating a transition in the decision making process of team management from a gut based model to data driven model”
Having established a strong brand presence in Cricket, the company also sought to expand its solution offerings in other sports like Hockey, Soccer, Boxing, and so on. Replicating the model in other sporting domains also started to show results. SportsMechanics became the first Indian association to work with more than five sports federations in the Indian contingent for two Olympics. The firm provided its services for weight-lifting and boxing that gave remarkable results. By winning the Men’s Asian Champions Trophy in 2016 and participating in the Four Nations tournament in 2016 in Valencia, the firm brought a significant change in hockey within a short time. The company has also contributed to the Women’s Asian Champions Trophy in 2016 and a bronze in the Men’s Hockey at the recently concluded 2018 Asian Games.

The Impact

Sports Mechanics has steered the sporting ecosystem in the country by initiating a transition in the decision making process of team management from a gut based model to data driven model. Being actively involved in the auction process of the world famous Indian Premier League, the company has been providing insights and solutions to its clients in the efficient and effective management of its resources with respect to team building, performance development, and planning and balancing workloads, and providing post session or match feedback. As a result, the competitiveness of the teams have drastically improved with more closely fought encounters occurring, thereby leading to a higher viewership and increased TRP for the sporting event. This can be validated by the fact that IPL rights was sold to Star India for a record $2.55 billion. With various sporting bodies including fitness as a mandatory requirement for selection, the athlete management system maintained by the company has been able to constantly monitor the fitness levels of the players and provide them with insights which enable them to perform better. Reduced injuries and faster recoveries have been a byproduct of the same.

Moving Ahead

The aim of the company is to become the nation’s leading sports technology, analytics and content service provider by expanding its services into many sport-related services and provide solutions needed for different stakeholders in the sporting ecosystem. The vision of the company is to make India a sports analytics powerhouse of the world and elevate the awareness and quality of various sports, apart from cricket. Its objective has been to meet the requirements of the entire sports community, starting from the grassroots to the national team. With an enormous youth population and increasing awareness about the use of technology in sports, the objective of SportsMechanics has been to significantly transform the way sports is perceived in India.

Hari, Varun, Shrey, Kumar, and Arjun are members of Team SportsMechanics – Content Team. They work on understanding the global market consumption and how to cater to the demand with latest technological solutions and analytical insights, thereby providing a new dimension to viewing and experiencing sports.
UK India
Innovation Fund

#FinTech #SmartCitiesTech #EmergingTech

www.pontaq.vc | @pontaq_vc