



Early-Stage Investment Insights Report 2024

8th Edition



April 2024

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Survey Design

The Early-Stage Investment Insights Report provides a view on trends around **Pre-series A / Seed** stage investment activity. The report has been prepared by **InnoVen Capital** with inputs from reputed early-stage institutional investors. **Twenty-two investors** participated in this edition of the report.





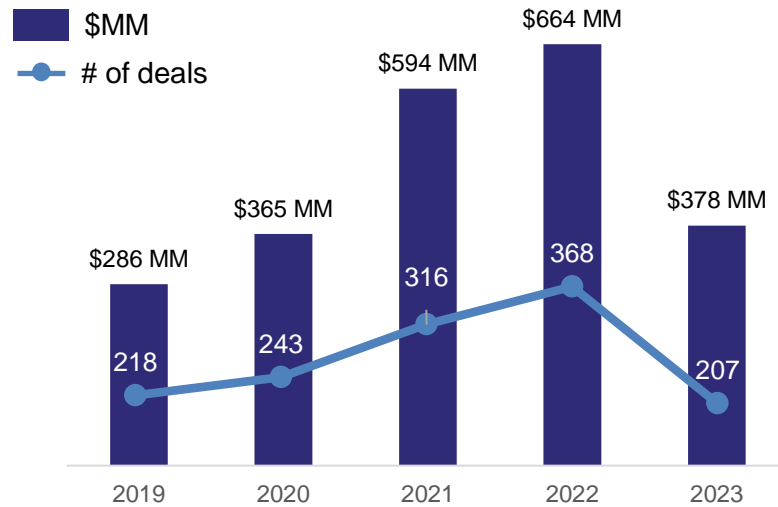
Key Highlights

- **2023** saw slower early-stage investment activity, however deal sizes were higher with higher valuations (v/s 2022)
- **64%** of investors believe that early-stage deals were fairly valued in 2023, compared to only 45% in 2022
- **Top 3** sectors in 2023 (early-stage) were B2B platforms, Consumer and Artificial Intelligence
- **77%** of investors expect higher deal flow in 2024 ... looking closely at DeepTech, Gen AI and ClimateTech
- **27%** of investors made over a third of their investments in repeat founders (vs. 20% in 2022)
- **50%** of investors believe that Tier 1 VC seed programs have blurred the lines between Seed and Series A
- **45%** of funds had 100% reliance on domestic LP capital base (vs. 20% in 2022)

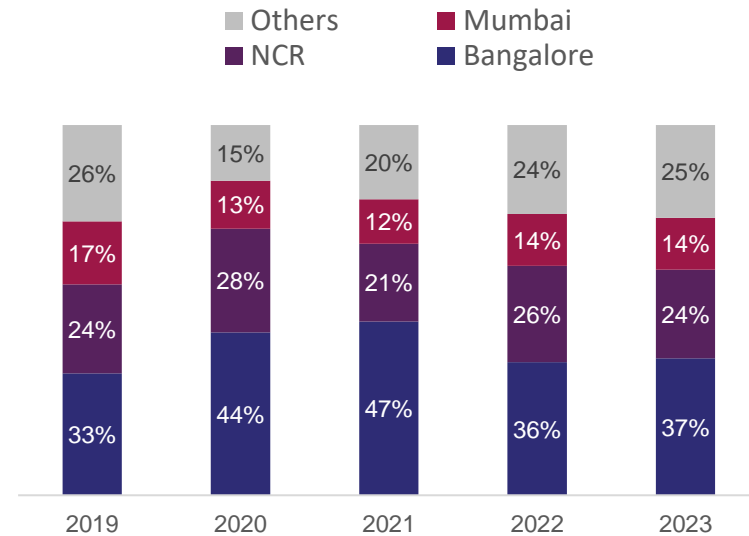


Seed Investments Activity¹ – Total Market

Total investments (\$ MM) and # of deals



Deals (#) by city



- Early-stage deal flow in 2023 lowest in last 4 years
- Investment activity was slower in the second-half of the year

- Bangalore & NCR continue to lead in early-stage deal flow
- Others include Chennai (~8%), Pune & Hyderabad (4% each)

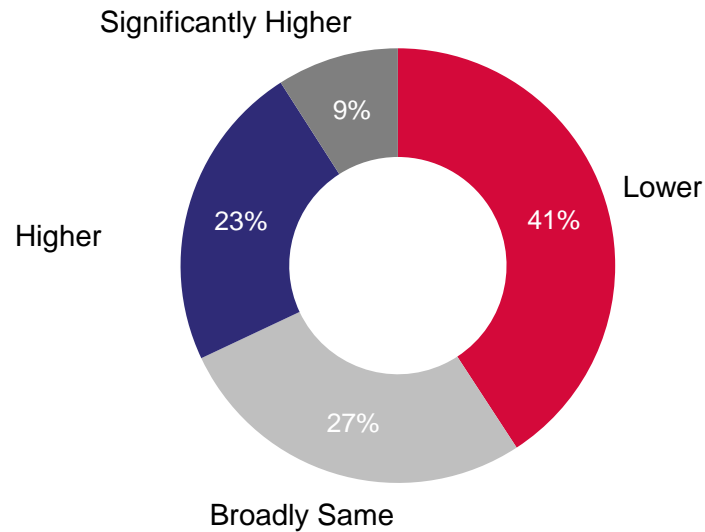
1) Deals < \$5 Mn in primary
Source: Venture Intelligence





Investment Trends – 2023 (1/2)

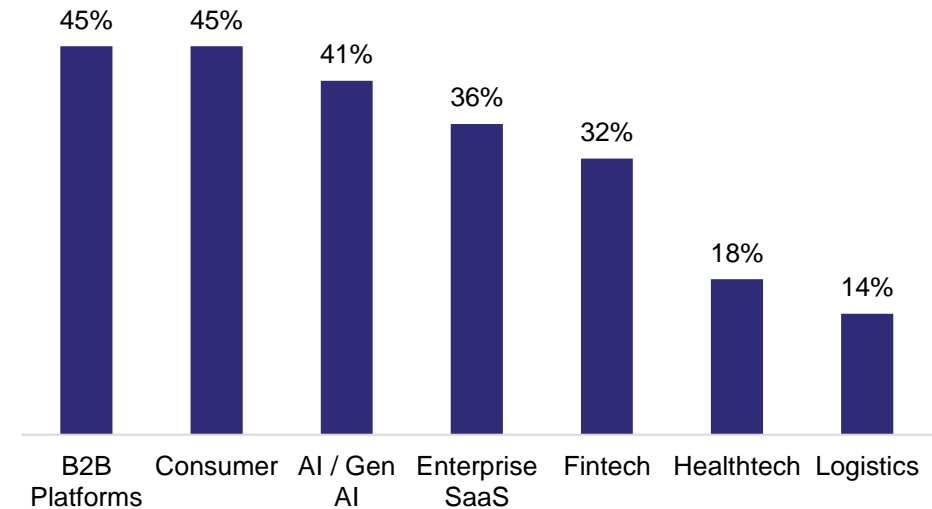
How was the investment activity in 2023 v/s 2022?



- Only 32% of investors made more investments in 2023 v/s 2022
- 41% of investors had lower deal activity in 2023 v/s 2022

Top sectors invested in 2023

Respondents picked up to 3 choices (total won't add to 100%)

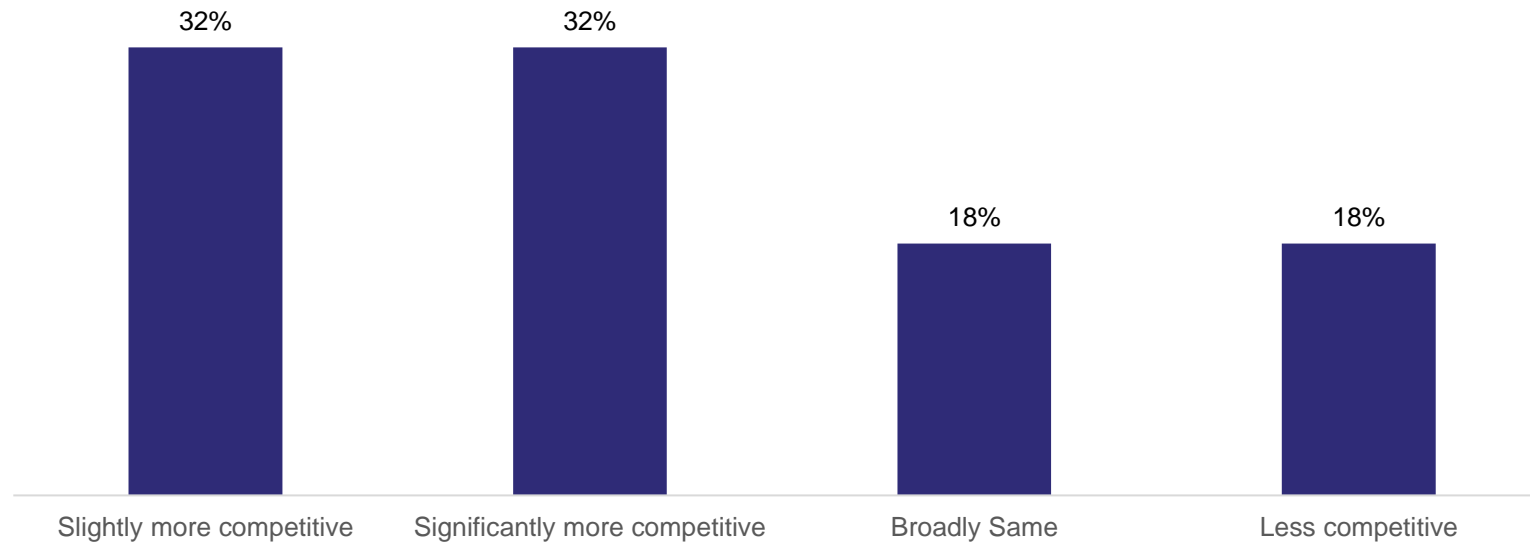


- B2B platforms, Consumer, Gen Ai among top 3 sectors
- Slow deal flow across Agritech, E-commerce, Gaming



Investment Trends – 2023 (2/2)

How would you describe the competitive dynamics in early-stage investing in 2023 v/s 2022?



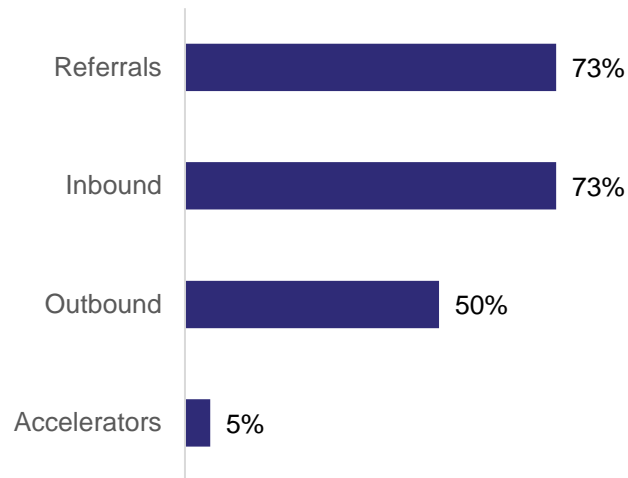
- Majority of investors (64%) felt the investment environment in 2023 was more competitive than 2022
- Significant change from 2022 when the funding environment got impacted by Fed rate hike, SVB issue and global macro



Deal Flow and Investment Criteria (1/2)

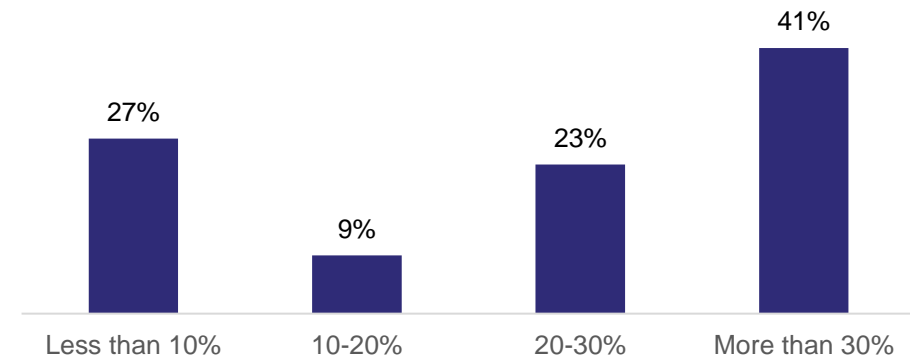
Sources of deal flow

Respondents picked up to 2 choices (total won't add to 100%)



- Referrals / inbound continue to be the top 2 sources of deal flow
- More outbound deal flow in 2023 (50% vs. 30% in 2022)

% Startups funded in 2023 at pre-revenue stage

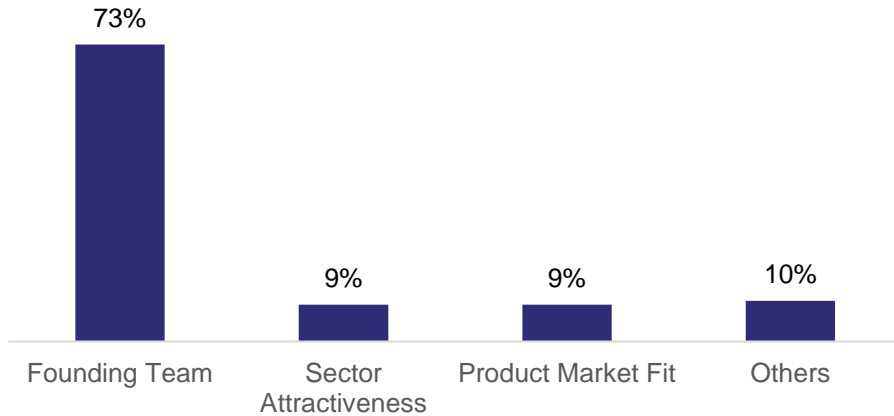


- 41% had over 30% deals in pre-revenue cos (v/s. 60% in 2022)
- Investors making less pre-revenue bets

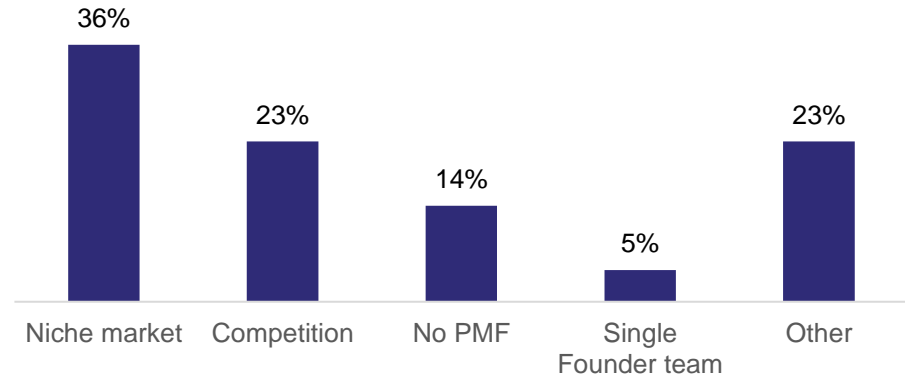


Deal Flow and Investment Criteria (2/2)

Top attributes of investible startups



Most frequent factor to pass on a deal

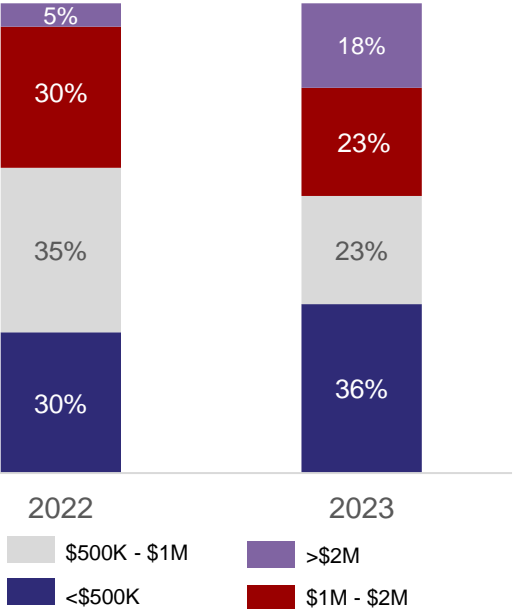


- Strong founding team continues to be the #1 factor for early-stage investors when deciding to invest
- Top 2 reasons to pass on deals are niche addressable market and a highly competitive space

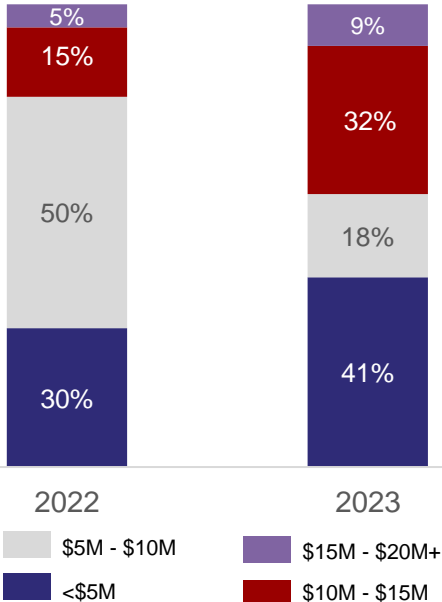


Deal Size and Valuations

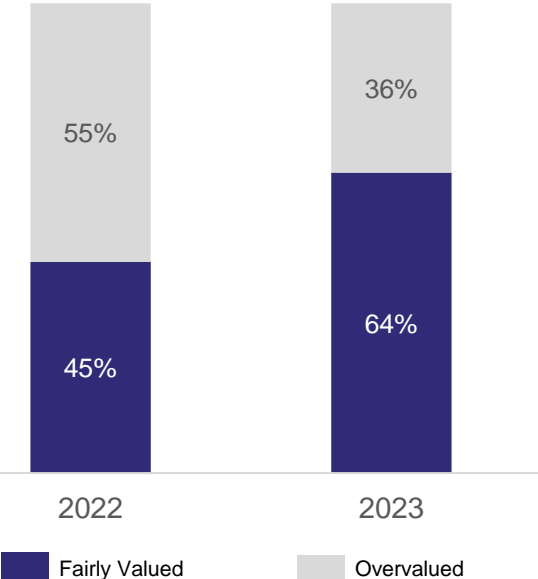
Investment amount per deal



Seed round valuations



Outlook on valuations



- 2023 saw higher ticket sizes as well as higher valuations compared to 2022
- Investors felt that valuations were more reasonable in 2023 (64%) v/s 2022 (45%)

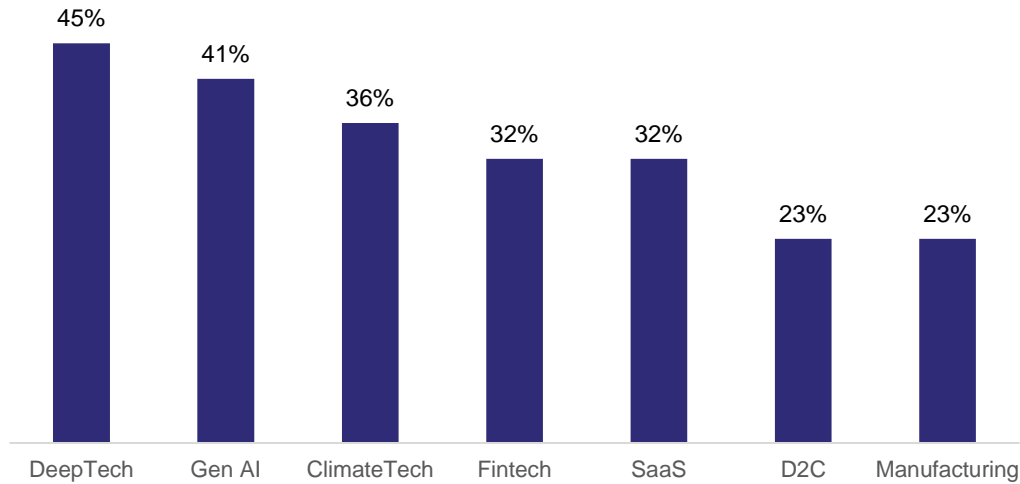




Investment Outlook for 2024

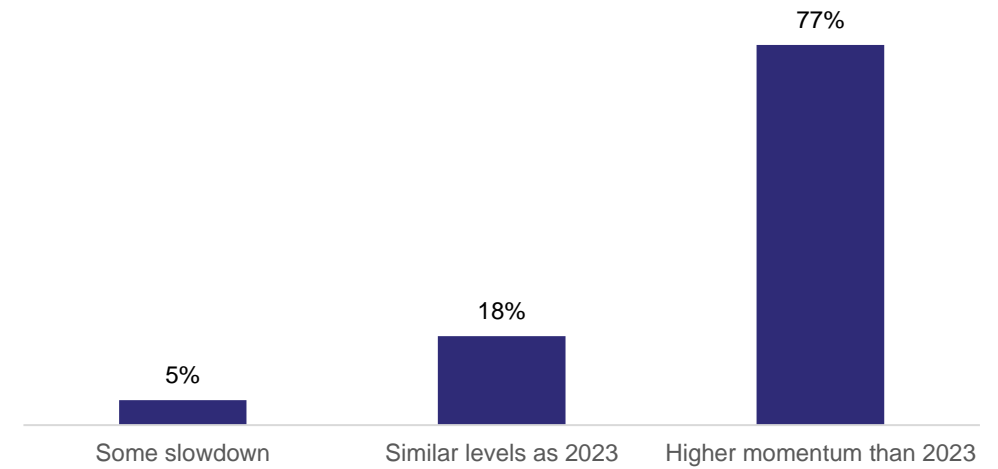
Investor focus - top 3 sectors of 2024

Respondents picked up to 3 choices (total won't add to 100%)



- DeepTech, Gen AI and ClimateTech sees high investor interest
- FinTech and SaaS drop from 55% (2023) to 32% (2024)

How will the funding environment be in 2024?

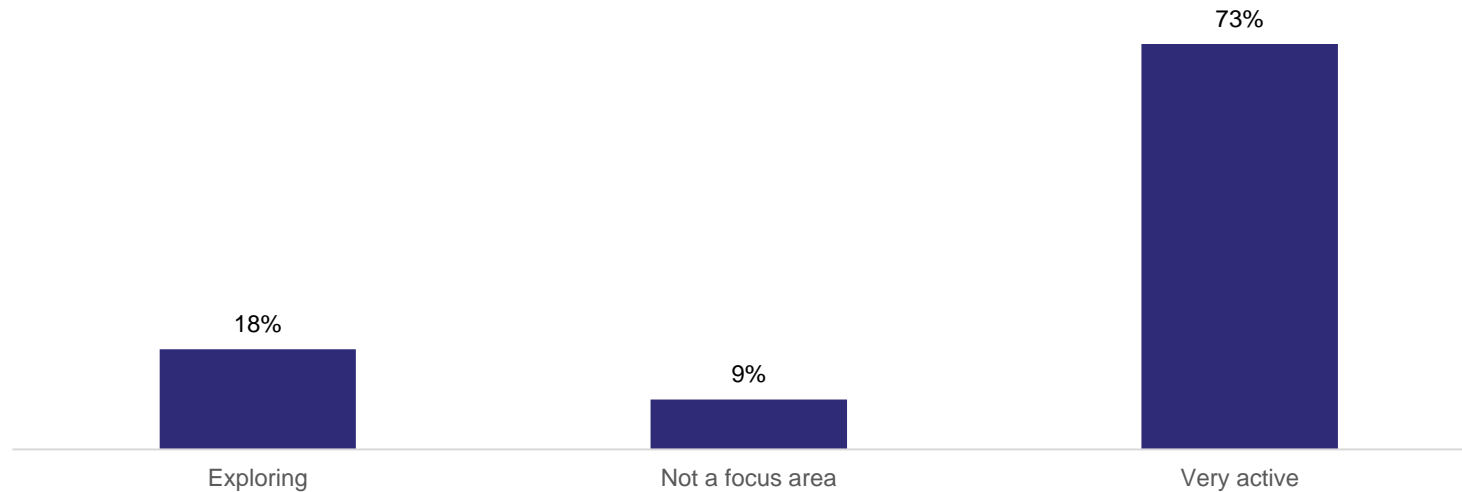


- Over two thirds of investors expect higher funding activity in 2024
- Only 5% of investors expect a slowdown in 2024 (50% last year)



Investment Outlook - Emerging Sectors

Interest in emerging sectors – DeepTech, Artificial Intelligence, Machine Learning

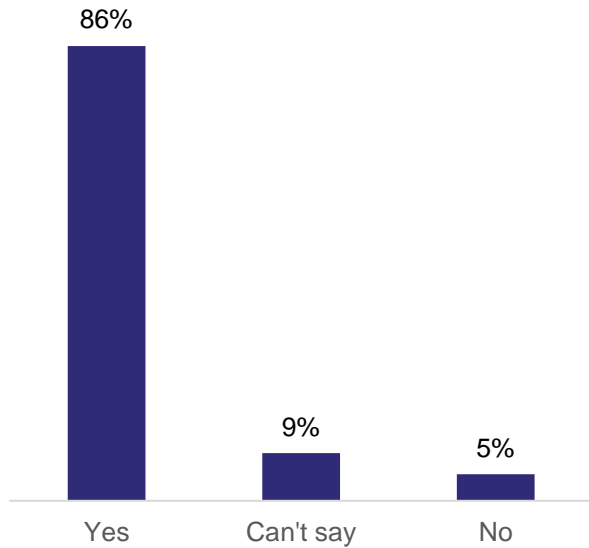


- Most investors (73%) are now actively scouting such sectors, compared to only 20% last year
- 18% of investors are still exploring and learning about emerging sectors and not yet a core area of investment



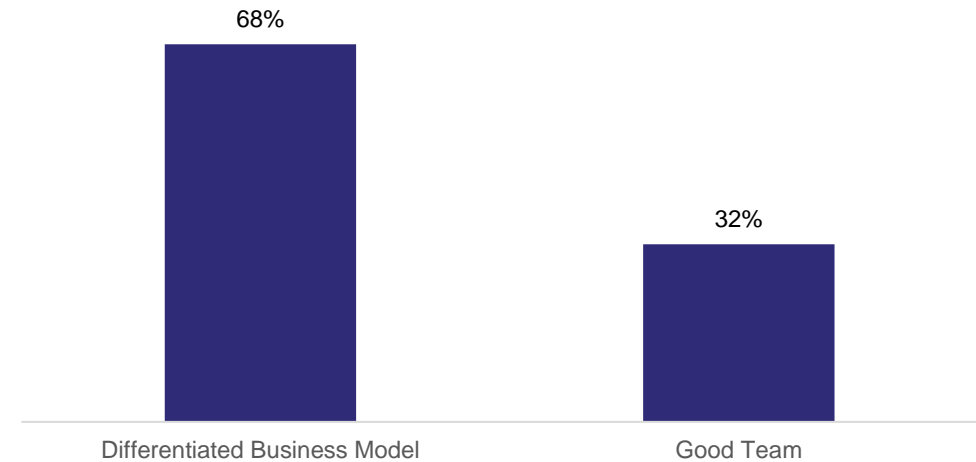
Investment Outlook

Do you feel there is excess dry powder in the market?



- Majority of investors (86%) believe that there is excess dry powder

Challenges in finding investable opportunities



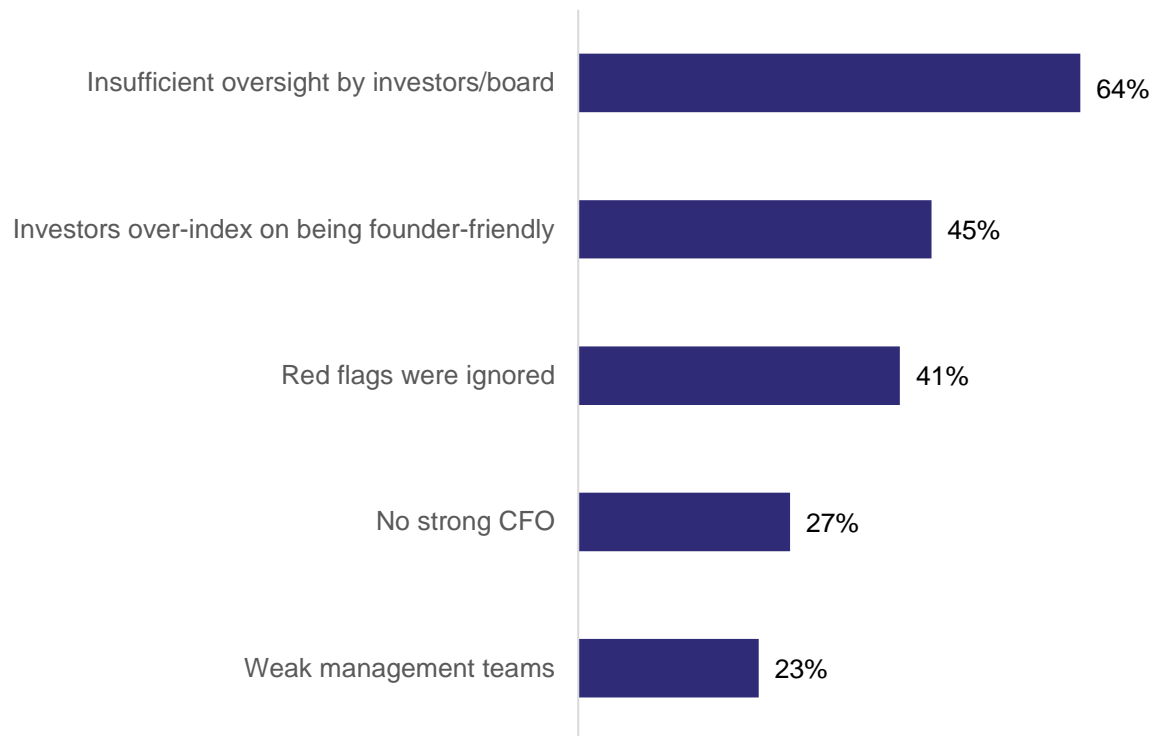
- Finding a differentiated business model #1 challenge for investors



Governance

Primary reasons for governance issues in the last couple of years

Respondents picked up to 2 choices (total won't add to 100%)

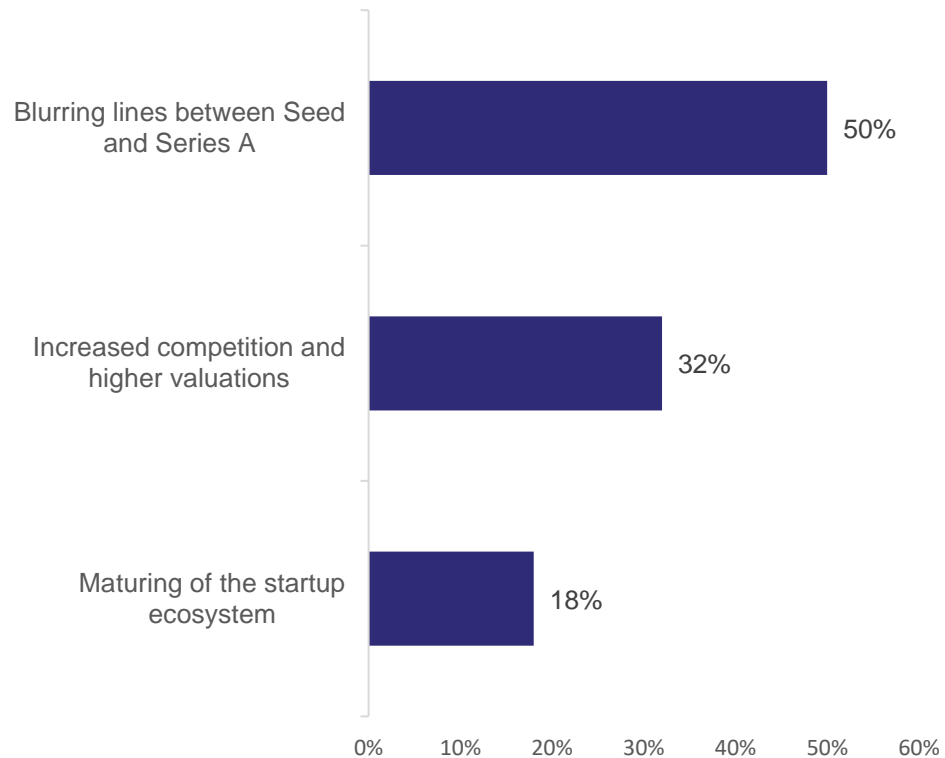


- Insufficient oversight and monitoring by the board emerges as the #1 reason, compared to #4 last year
- Over-indexing on being founder friendly and ignoring warning signs the other key reason identified

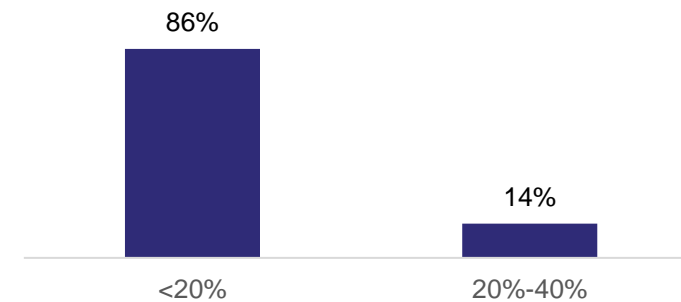


Competitive Landscape – Tier 1 VC Seed Programs

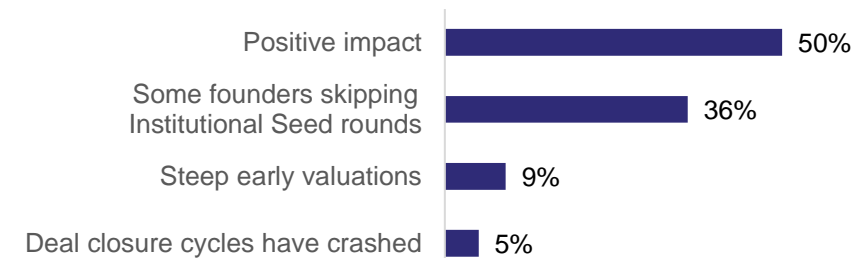
Impact of tier 1 VC seed programs



Deals lost to tier 1 VC seed programs



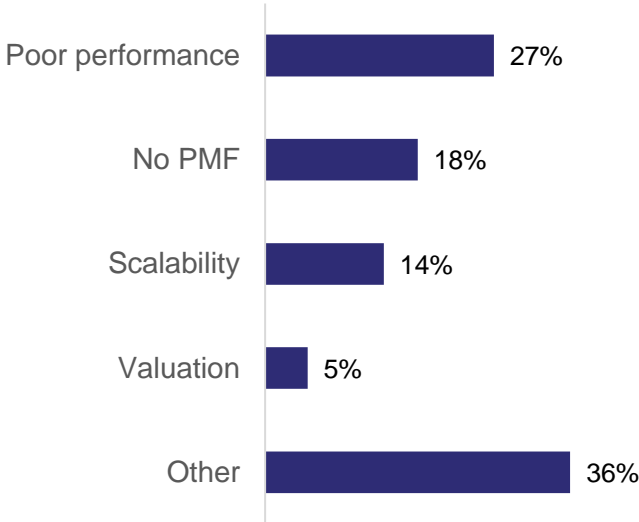
Impact of deepening angel syndicates activity



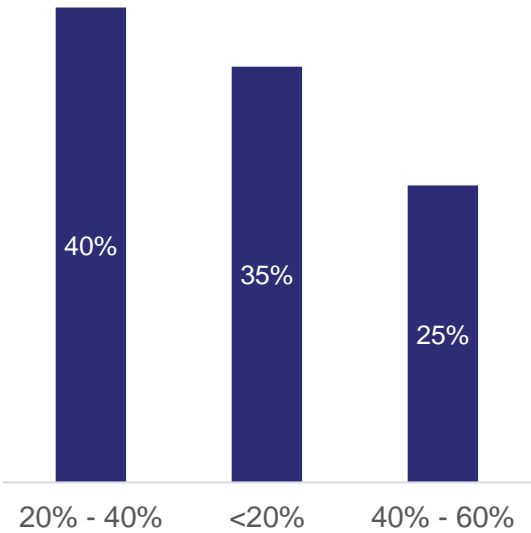


Follow on Funding and Exit Paths

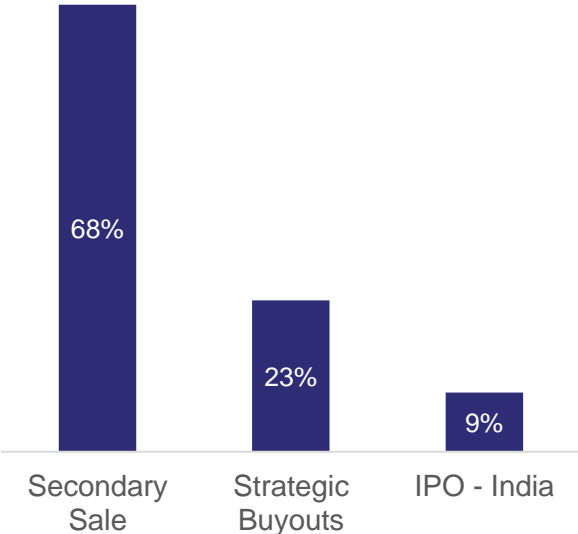
Reasons for failure to raise follow on rounds



% of portfolio companies funded in the last 18 months that raised follow on rounds



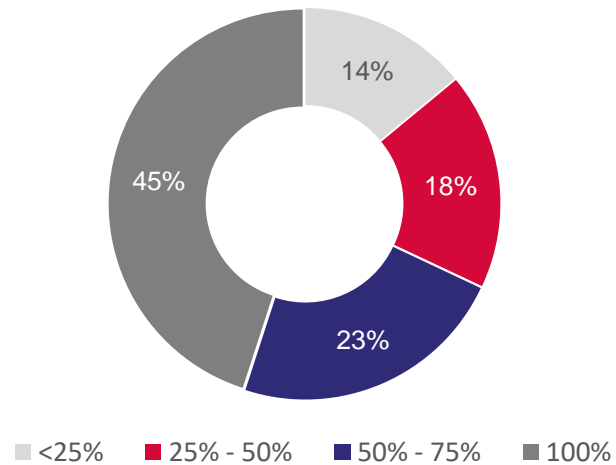
Most likely path of exit





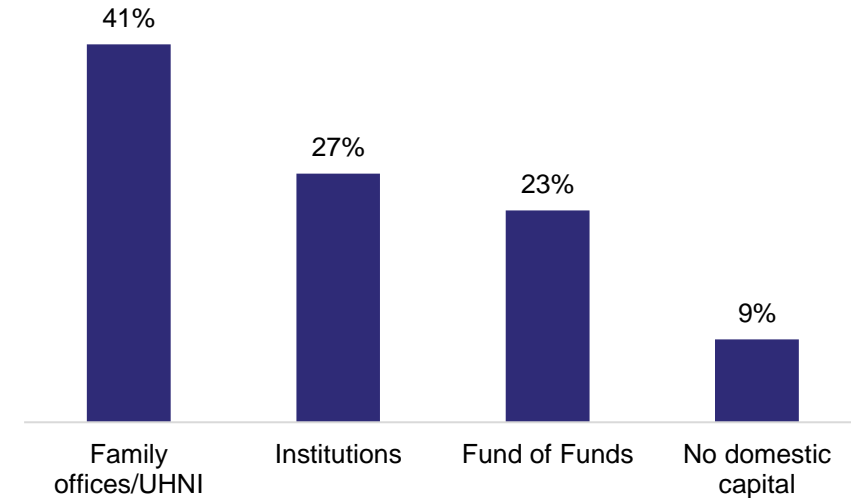
Sources of Funding – Early-Stage Funds

Share of domestic capital in LP¹ base



- 45% of Funds had 100% domestic capital base (vs. 20% in 2022)
- Only 32% of investors with have <50% domestic capital base (LPs)

Sources of domestic capital



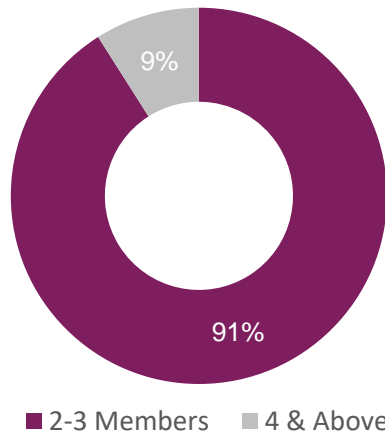
- Family offices/UHNI contribute majority of domestic LP capital
- Institutions 27% vs. 15% (2022) and FoF² 23% vs. 15% (2022)

1) Limited Partners who invest in funds
2) Fund of Funds

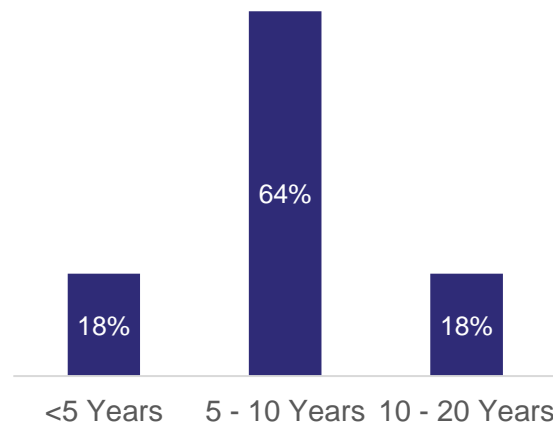


New Investments: Founding Team Demographics

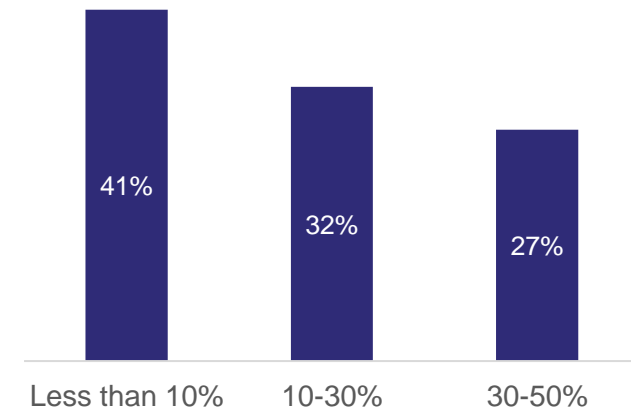
Average size of founding team



Average work experience of founders



Share of repeat founders funded in 2023



- Trend of investors betting on more experienced founding teams continues for last 3 years
- 27% of investors made over 30% of new investments in companies with repeat founders vs. 20% in 2022

About InnoVen Capital

InnoVen Capital is Asia's leading debt firm with offices in India, China and Singapore. It provides debt capital to high growth ventures. Started in 2008 as the first dedicated venture debt provider in India, the platform offers multiple debt capital solutions, including venture debt, acquisition finance, growth loans, working capital etc. To date, InnoVen Capital India has executed over 400 transactions, with more than 200 start-ups, including 35 unicorns. Portfolio companies include Swiggy, boAt, OfBusiness, CureFit, Dailyhunt, Oyo, Licious, Eruditus, Cure.fit, Infra.Market, XpressBees, Blinkit, Perfios, Shiprocket, Elasticrun, Udaan, Zetwerk, Moglix, Firstcry, Mensa Brands, Blackbuck, Pharmeasy, Rebel Foods, BharatPe, Cars24, Spinny, Slice, Vedantu, Upstox, Ather, Porter, Purpple, Chaayos and many more. For more information, please visit www.innovencapital.com

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