



Early-Stage Investment Insight Report 2023

7th Edition



April 2023

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Survey Design

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





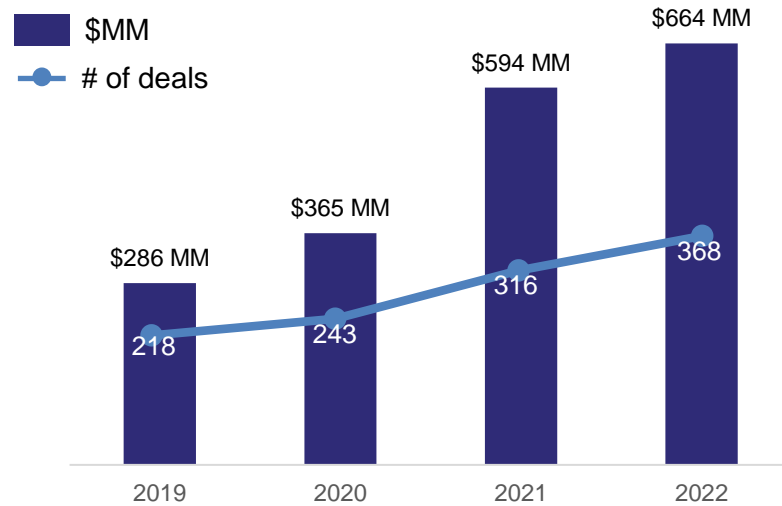
Key Highlights

- **Deal sizes increased** in 2022 with higher entry valuations, particularly in 1st half of the year
- 55% of Investors believe that early-stage companies were generally **overvalued** in 2022
- Top 3 sectors in 2022 for early-stage investors were **B2B platforms, Fintech and SaaS**
- Over **80%** of investors believe that the investment activity in 2023 will be at a slower pace than last year
- Fintech, and SaaS remain among top three focus sectors for 2023 ... **Climate Tech** also makes the list
- Investors attribute rising governance issues to imbalanced Founder friendliness v/s Challenge/Accountability
- 40% of Investors believe that **Tier 1 VC seed programs** have driven up early-stage valuations
- Early-stage Investors largely relied on domestic pool of capital ...limited overseas institutional LP investor base
- In addition to Bangalore, NCR, and Mumbai, there was increased activity in Hyderabad, Pune, and Chennai

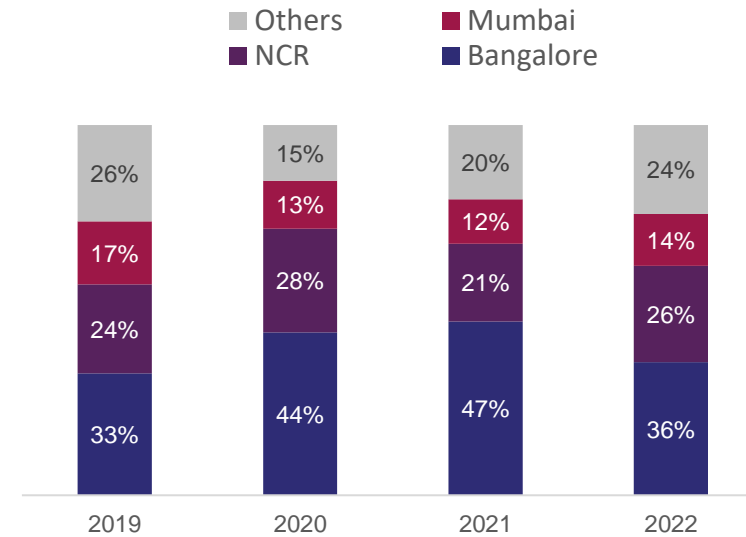


Seed Investments Activity – Total Market

Total investments (\$ MM) and # of deals



Split of deals by city

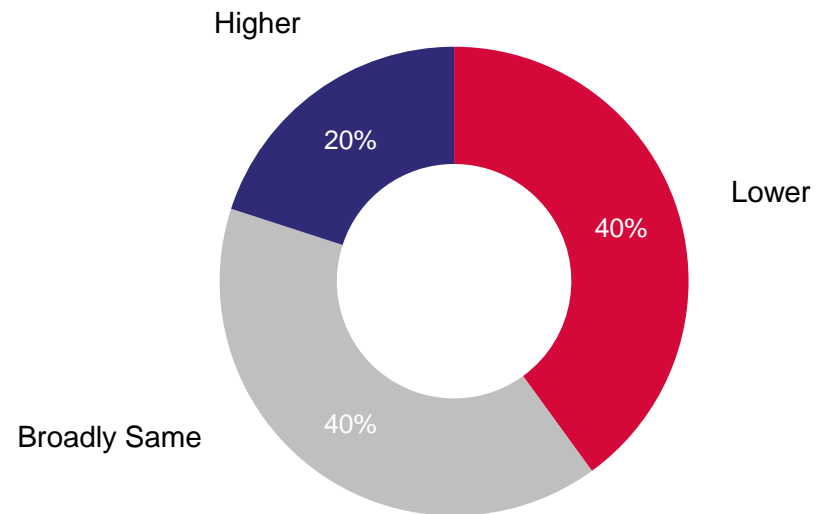


- Strong early-stage deal flow (volume / \$) last year
- However, deal flow considerably slowed during the 2nd half of 2022
- Bangalore & NCR drive 2/3rd of early-stage deal flow
- More activity in Hyderabad, Pune, and Chennai (~5% each)



Investment Trends (1/2)

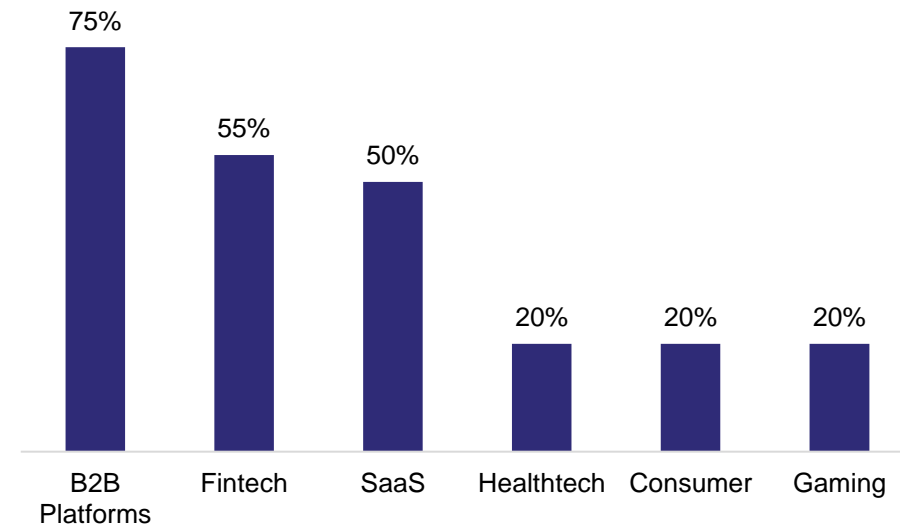
Number of investments made in 2022 vs. 2021



- 80% of investors had flat to lower investment activity
- Pace of investments slowed considerably in 2nd half 2022

Top sectors invested in 2022

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

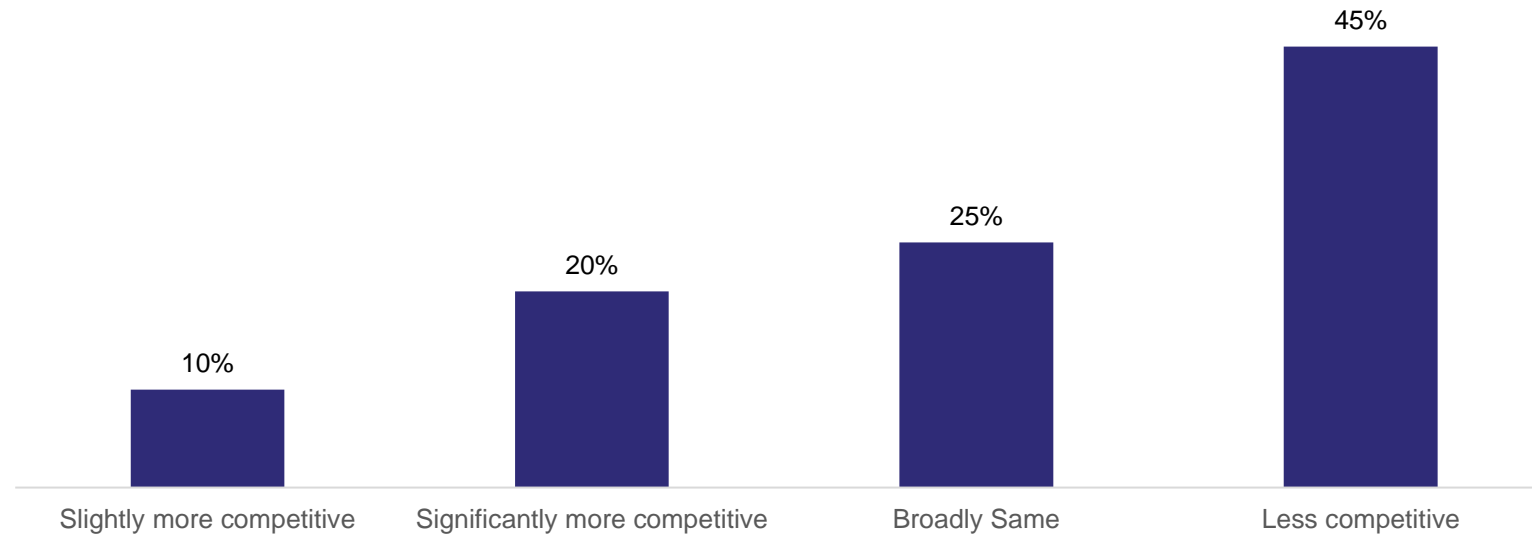


- B2B Platforms, Fintech, and SaaS were the top 3 sectors
- Limited investment activity in Ed-tech, Agritech, Logistics



Investment Trends (2/2)

“How would you describe the competitive dynamics in early-stage investing in 2022 v/s 2021?”



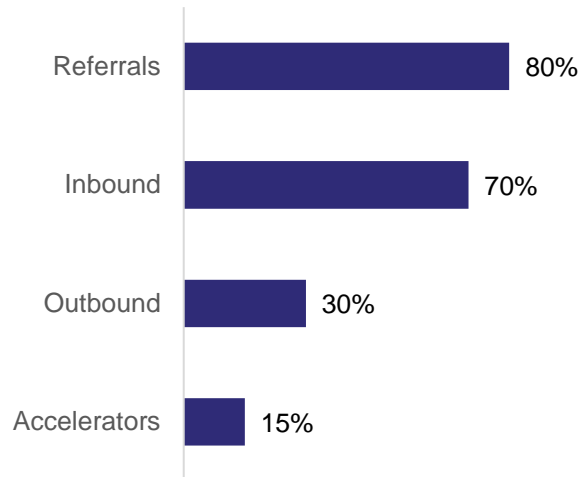
- Most investors (45%) perceived that the investment environment in 2022 was less competitive
- Market dynamics changed significantly in 2nd half of 2022 with less competition for deals



Deal Flow and Investment Criteria (1/2)

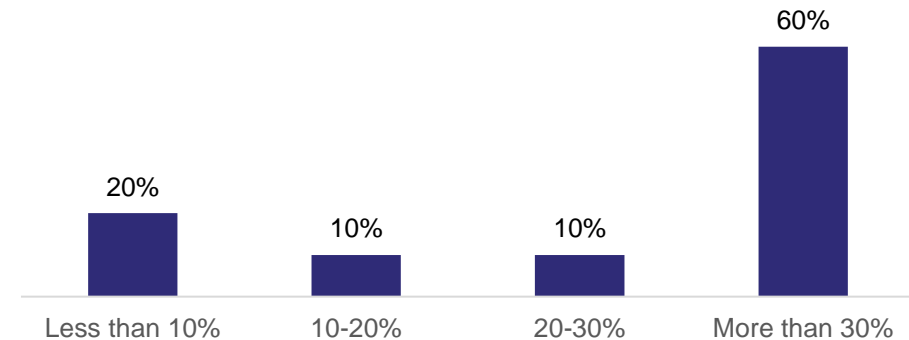
Sources of deal flow

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



- Referrals continue to be #1 source of deal flow
- Referrals increase in importance (80% v/s 48% in 2021)

Startups funded in 2022 at pre-revenue stage

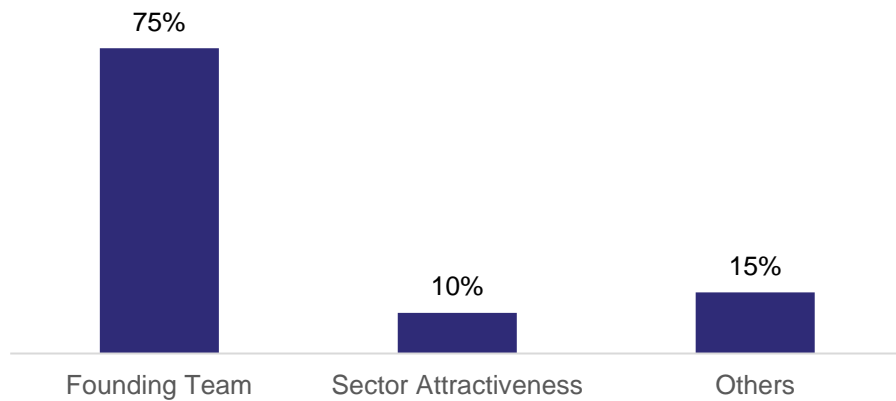


- Most early-stage investments were made at a pre-revenue stage
- For 60% of the investors less than 1/3rd of their portfolio was generating revenue at the time of investment

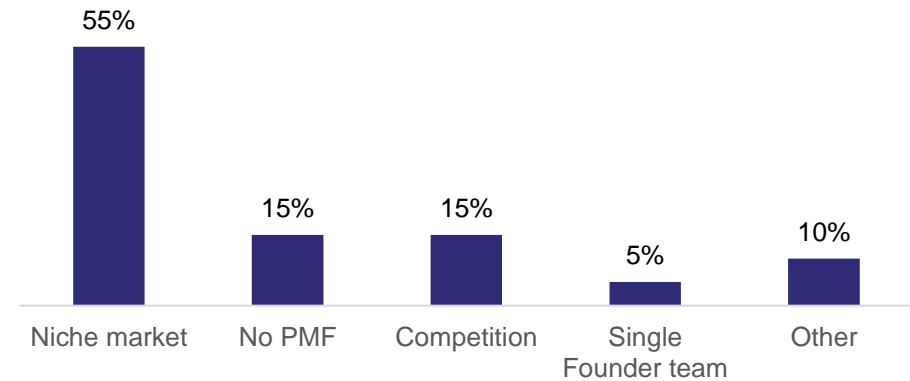


Deal Flow and Investment Criteria (2/2)

Top attributes of investible startups



Most frequent factor to pass on a deal

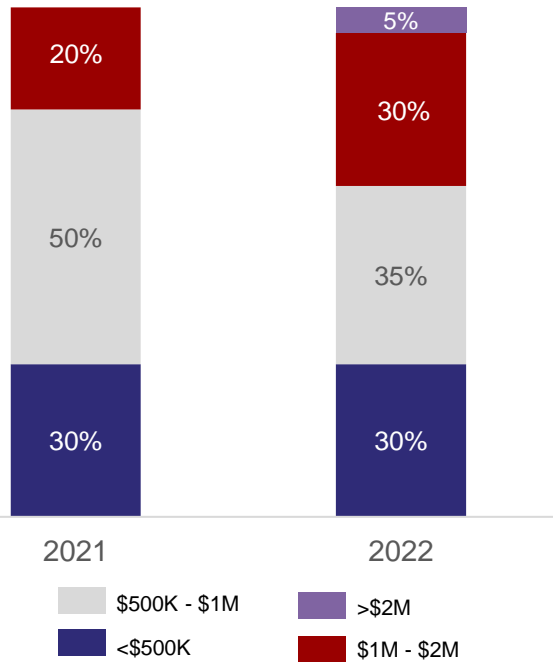


- Strong founding teams continue to remain an important factor for early-stage investors
- Investors staying away from businesses addressing niche markets

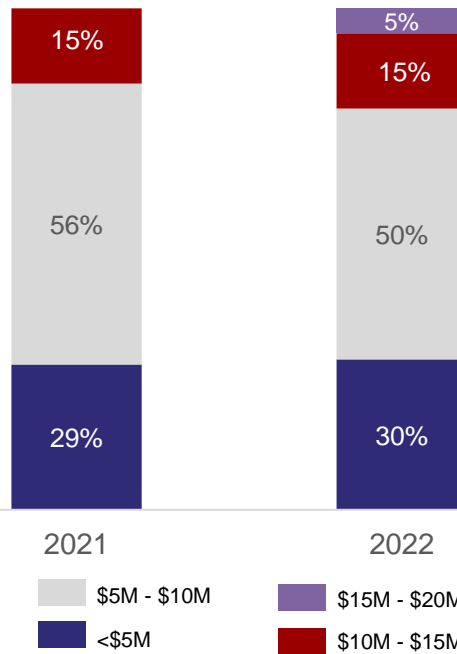


Deal Size and Valuations

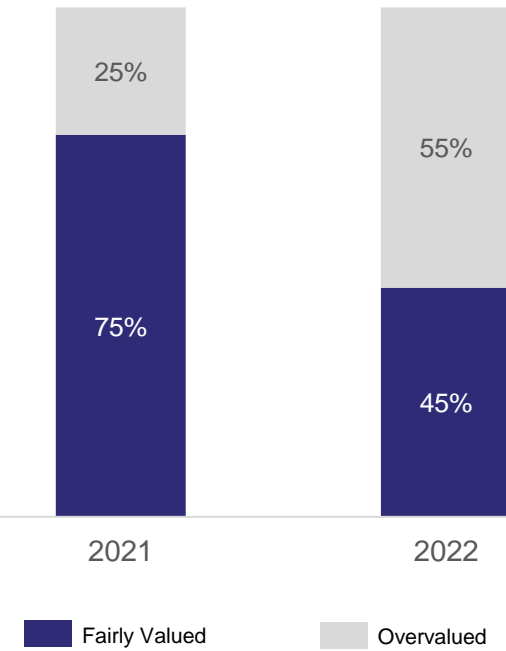
Investment amount per deal



Seed round valuations



Outlook on valuations

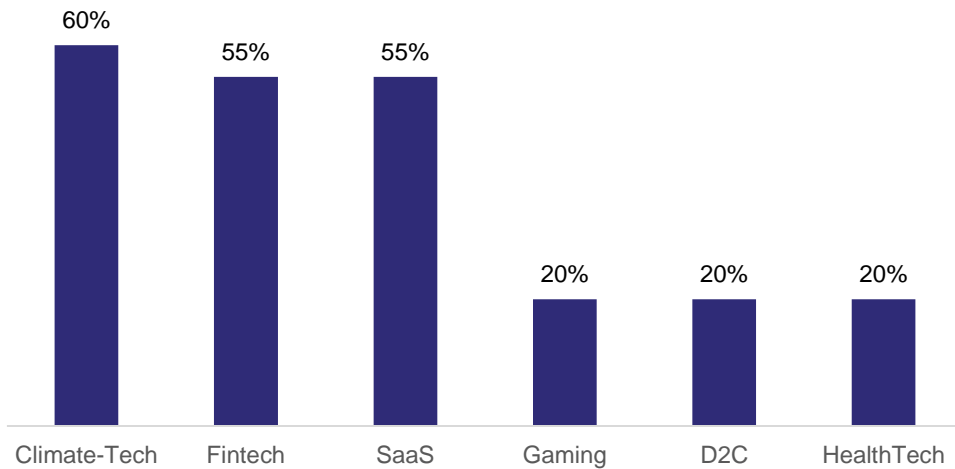


- Ticket sizes as well as valuations increased in 2022
- But most investors (55%) now believe that companies were overvalued



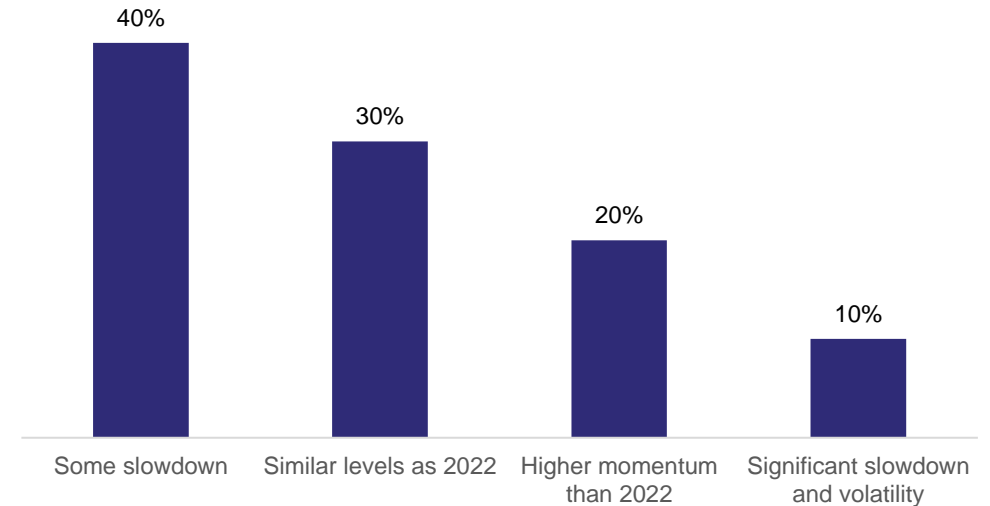
Investment Outlook for 2023

Investor expectation for top 3 sectors of 2023
Respondents picked up to 3 choices (total won't add to 100%)



- Investors maintain optimistic outlook for Fintech and SaaS
- Increasing interest in Climate-Tech in 2023

Funding activity expectations

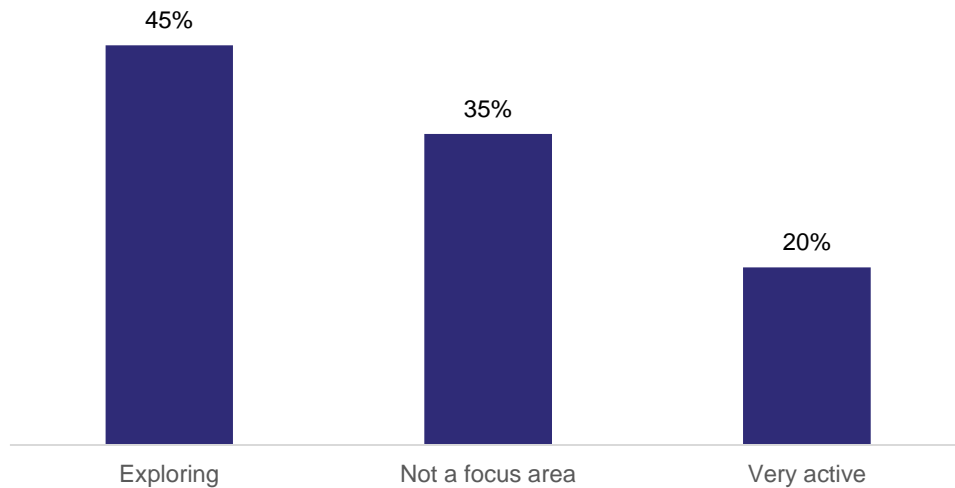


- Majority investors expect a slowdown in 2023
- Only 10% of investors believe that the slowdown will be severe



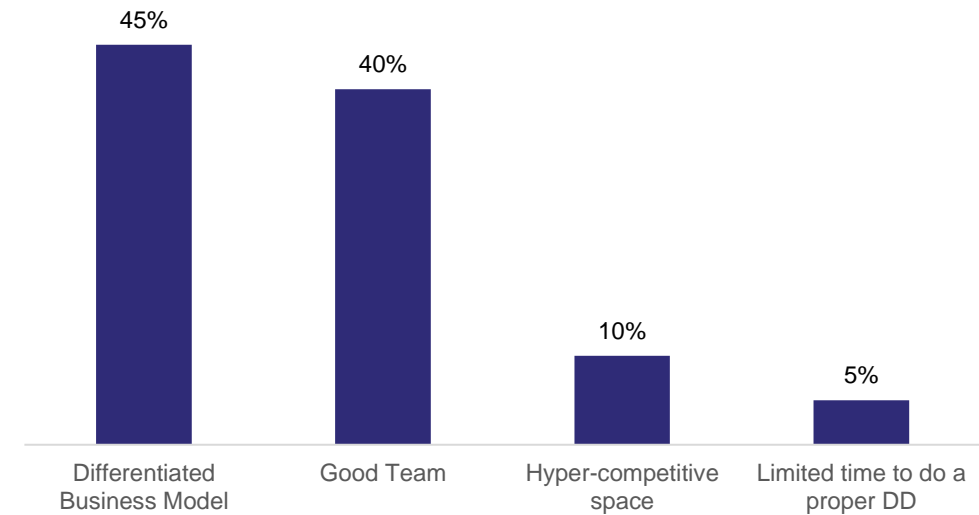
Investment Outlook – Emerging Sectors

Interest in emerging sectors – Web 3.0, Metaverse



- 20% of investors very focused on these sectors
- Majority investors (45%) exploring/learning about the space

Challenges in finding investable opportunities



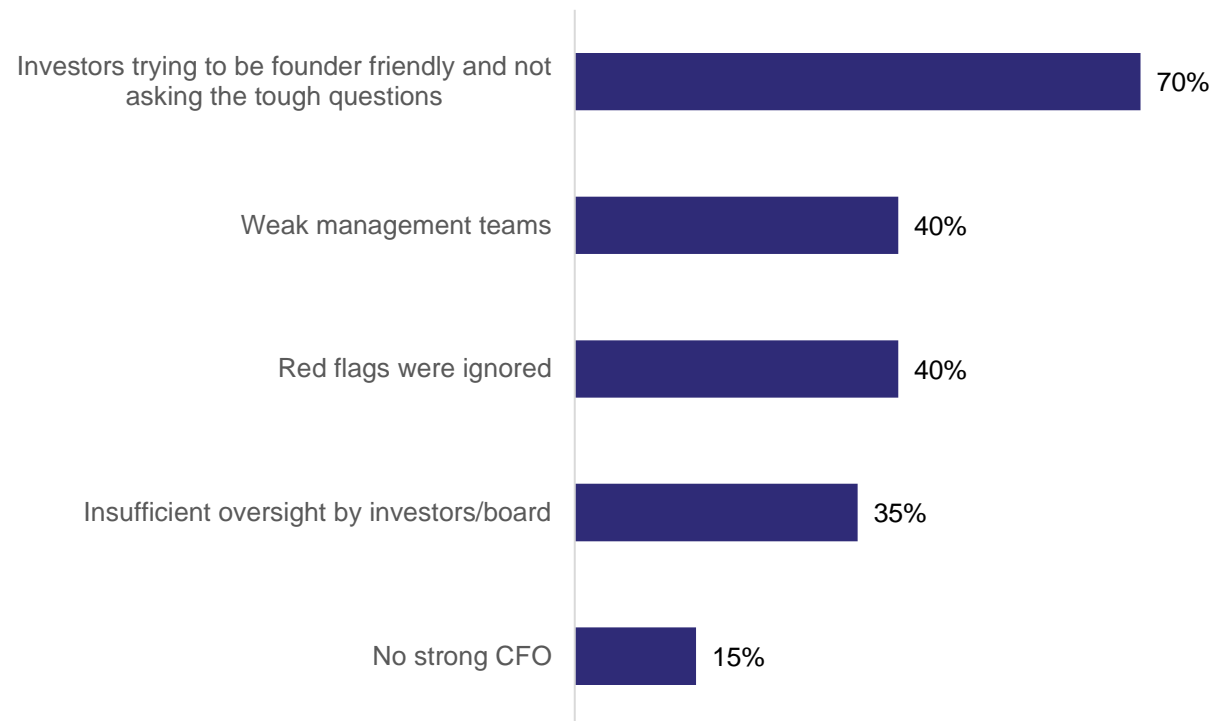
- Finding a differentiated business model along with a good team continues to be a key challenge for investors
- DD timelines not a challenge for early-stage investors



Governance

***“We have seen several cases of governance issues in the last couple of years.
What do you think are the primary reasons for the same?”***

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

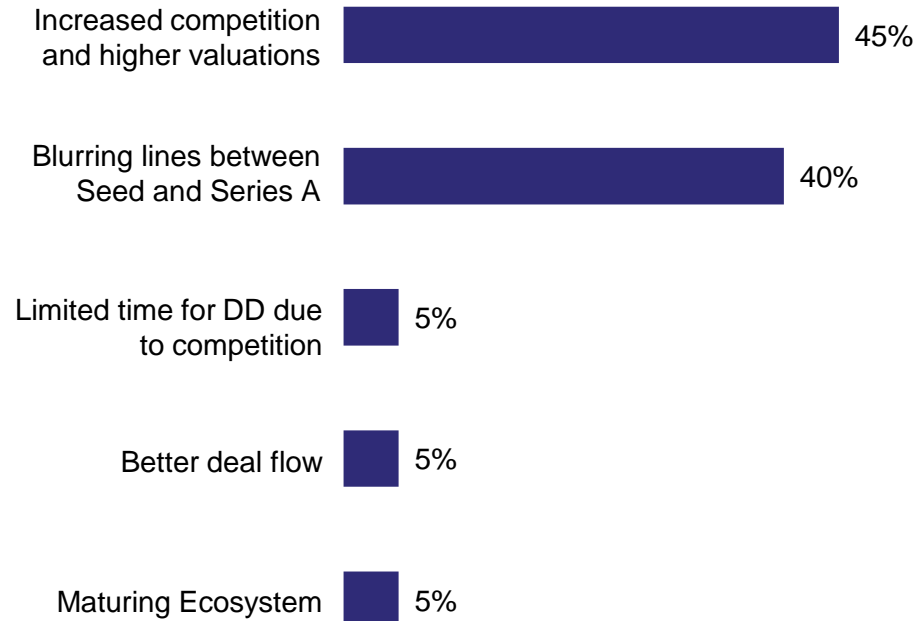


- Investors believe that the #1 reason for governance issues was poor balance between being “Founder Friendly” and “Asking the tough questions”
- Ignoring warning signs, and weak management teams were other reasons identified for governance issues

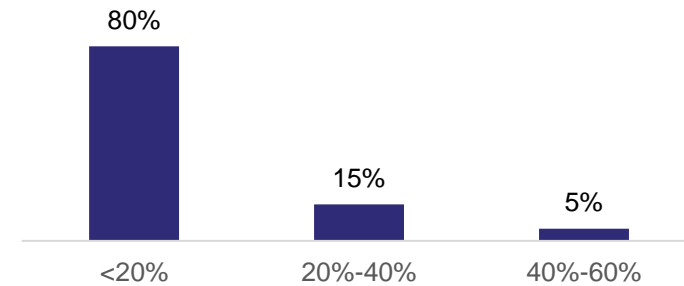


Competitive Landscape – Tier 1 VC Seed Programs

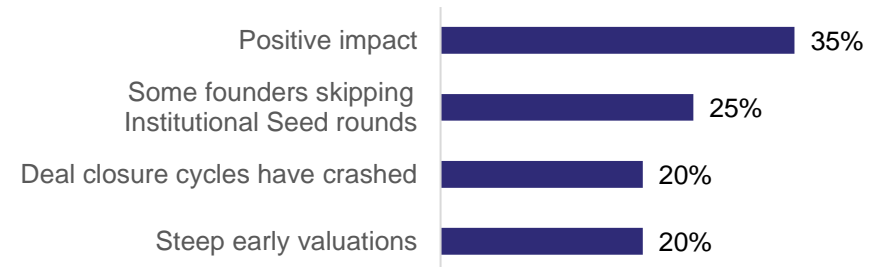
Impact of tier 1 VC seed programs



Deals lost to tier 1 VC seed programs



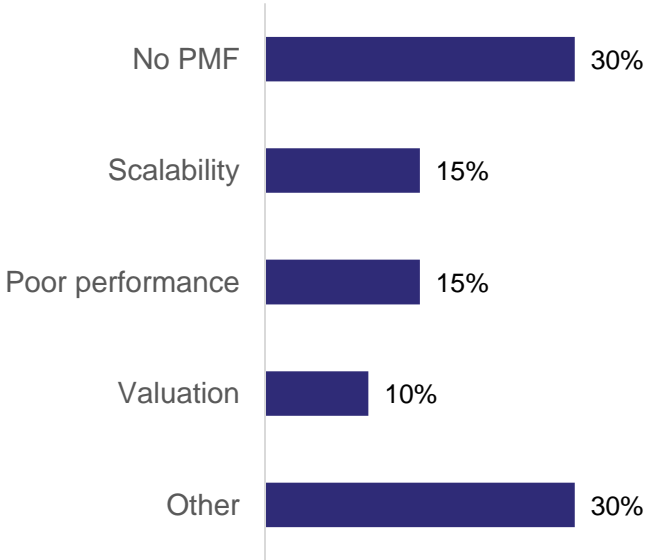
Impact of deepening angel syndicates activity



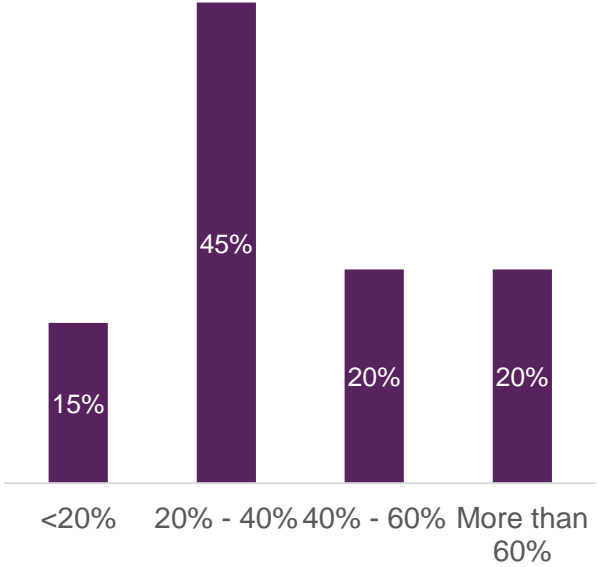


Follow on Funding and Exit Paths

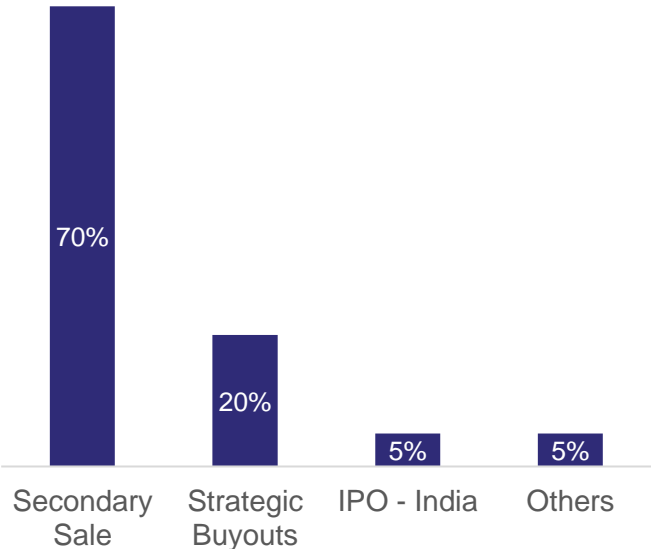
Reasons for failure to raise follow on rounds



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



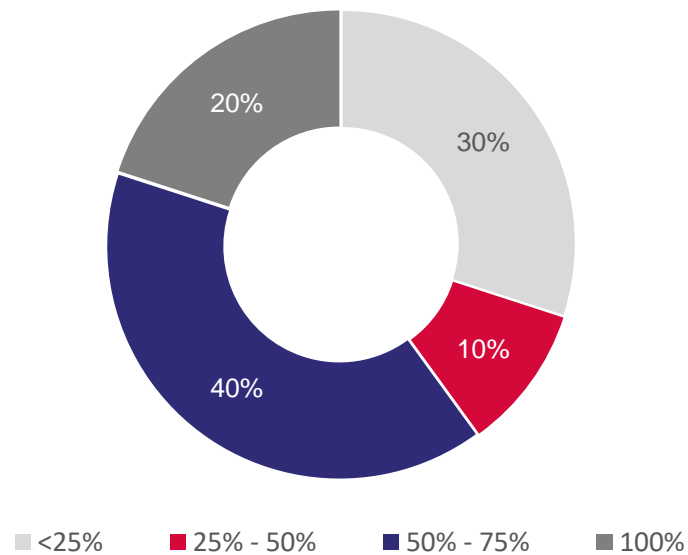
Most likely path of exit





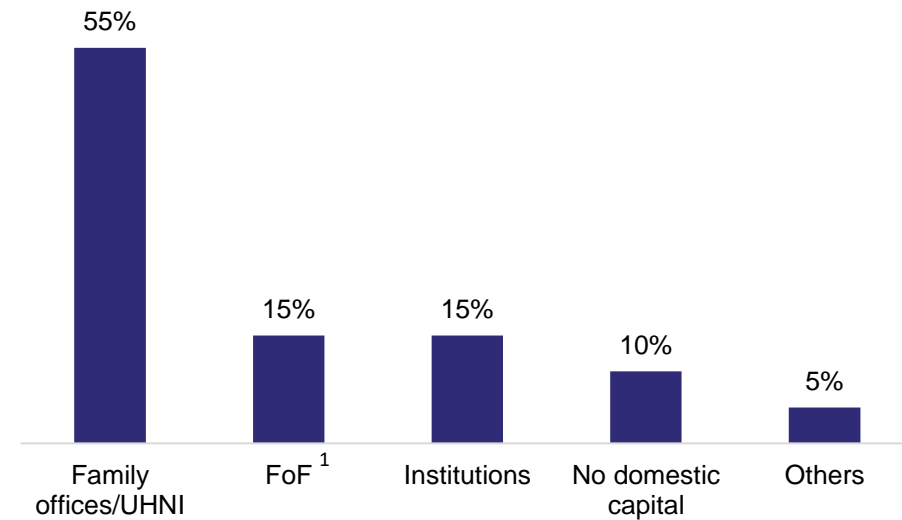
Sources of Funding – Early-Stage Investors

Share of domestic capital in LP base



- 60% of investors have a majority domestic LP capital base
- 20% of investors have only domestic investors

Sources of domestic capital



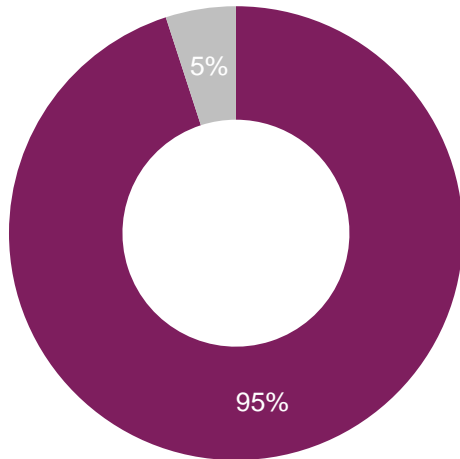
- Family offices and UHNI contribute majority of the LP capital
- Lack of Institutional participation in early-stage funds

1. Fund of funds



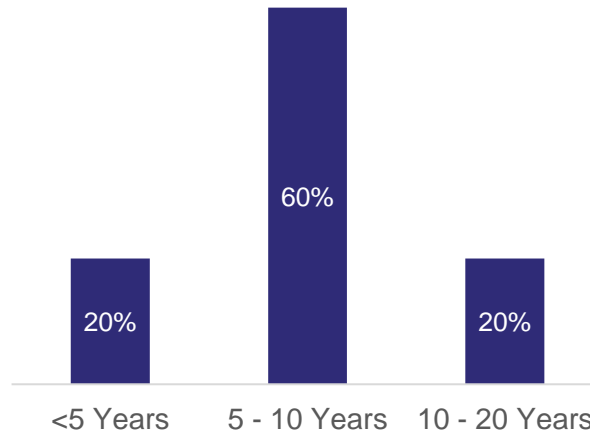
Founder Demographics

Average size of founding team

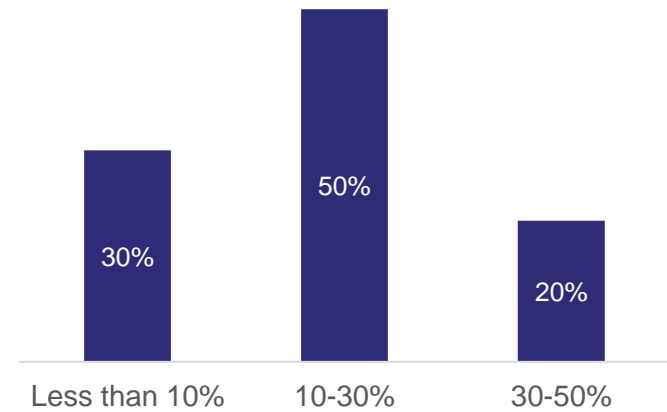


■ 2-3 Members ■ >4 Members

Average work experience of founders



Share of repeat founders funded in 2022



- Emergence of more experienced founding teams over last few years
- 20% of investors had over 30% repeat founders in their new investments 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 completed over 300 transactions with more than 200 start-ups, including 35+ unicorns like Swiggy, Byjus, boAt, Dailyhunt, Licious, Ofbusiness Eruditus, Infra.Market, Pharmeasy, Xpressbees, Shiprocket, Elasticrun, Oyo Rooms, CureFit, Udaan, Zetwerk, Moglix, Firstcry, Mensa Brands, Blackbuck, Rebel Foods, BharatPe, Cars24, Spinny, Slice, Vedantu, Dealshare and many more.

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