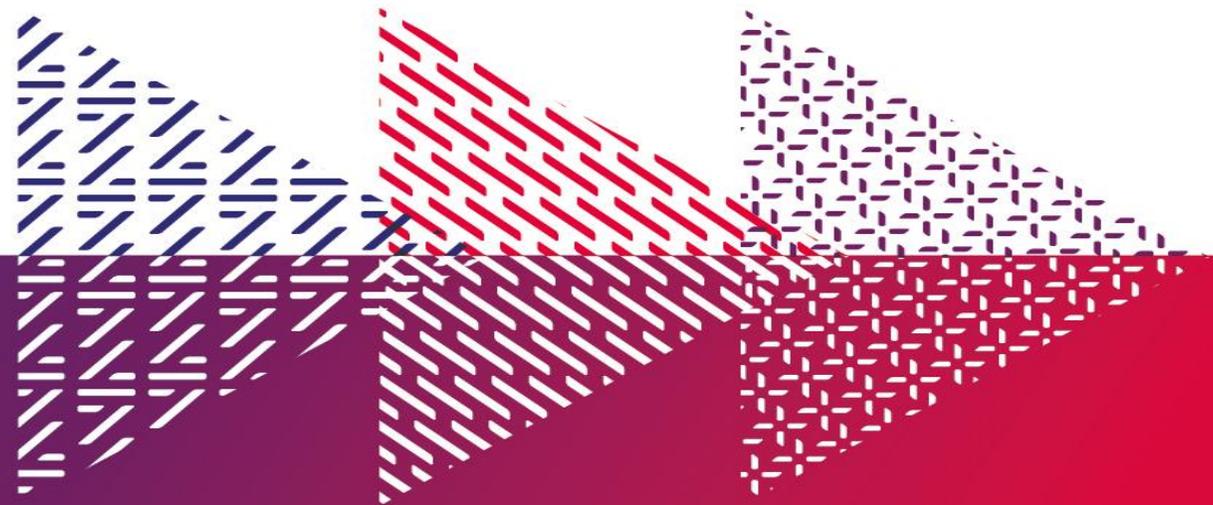




Startup Outlook Report 2024

9th Edition



January 2024

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FOREWORD

9th edition of InnoVen Start-up outlook report, a view from founders



Ashish Sharma

InnoVen Capital

2023 was yet another challenging year for the start-up eco-system, with a weak funding environment and a tough global macro. The headlines were less about new unicorns or mega funding rounds but on layoffs and valuation corrections. While public markets (particularly Tech) has seen a strong momentum (NASDAQ up 40+%), there will be downward pressure on late-stage private valuations.

On the positive side, we are now seeing a higher appreciation for sustainable business models, a laser focus on unit economics/profitability and more realistic valuation expectations.

We are pleased to release the 9th annual Start-up Outlook report, which will provide some useful insights to all stakeholders that have a keen interest in the venture eco-system. This report is part of our continued effort to gauge the current mood & sentiment, as seen through the eyes of entrepreneurs.



SURVEY HIGHLIGHTS

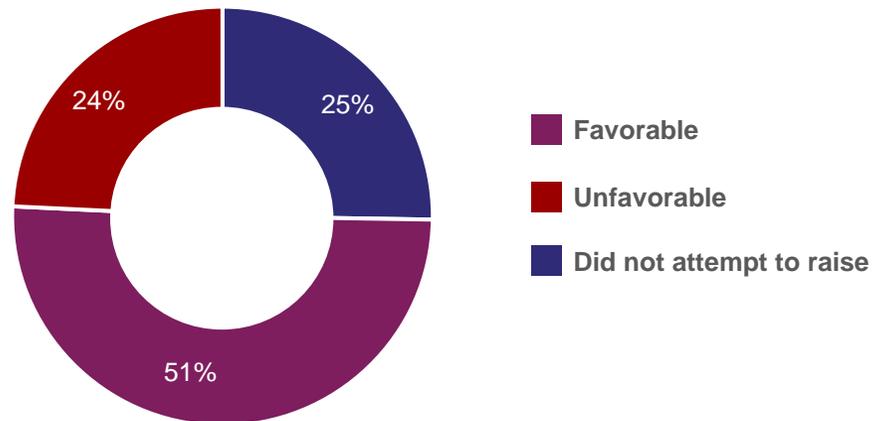
- **68%** of those who attempted to raise had a **favorable fundraising experience** in 2023, down from **71% in 2022**
- **78%** are **optimistic about the fundraising** environment in 2024 ... SaaS, Deep tech founders most bullish
- **62%** founders have a higher bias on **profitability v/s growth** (highest ever) ... up from 55% (2022), 17% (2021)
- **64%** believe that a **domestic IPO** is the most likely mode of exit ... up from 63% (2022) and 58% (2021)
- **61%** founders expect pace of hiring to stay at same levels or go down compared to last year
- **75%** of startups have **less than 20% women in leadership** ... **45%** with **less than 10%** women in leadership
- **23%** believe that artificial intelligence will have a significant impact on their business model over the next 2-3 years
- **24%** founders open to professional CEO in next 2-3 years (up from 20% in 2022)
- **AI** chosen as the most **overhyped sector**, while **B2B & Manufacturing**, the most **underhyped sector**
- **Zerodha** was the most admired start-up, and **Kamath brothers** the most admired founders (fourth year in a row)



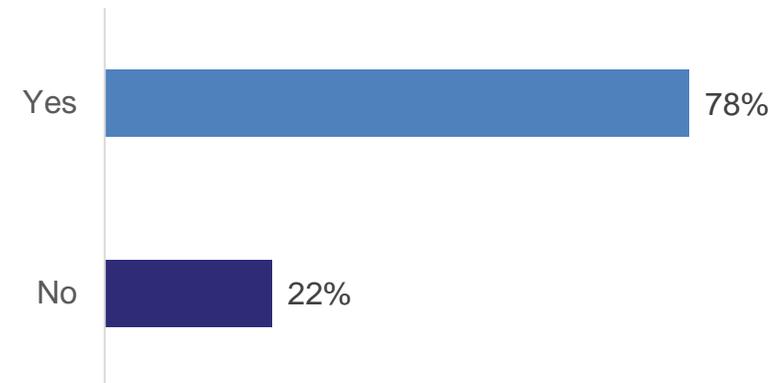
FUNDRAISING

Funding slowdown continued in 2023, however most founders are optimistic about 2024

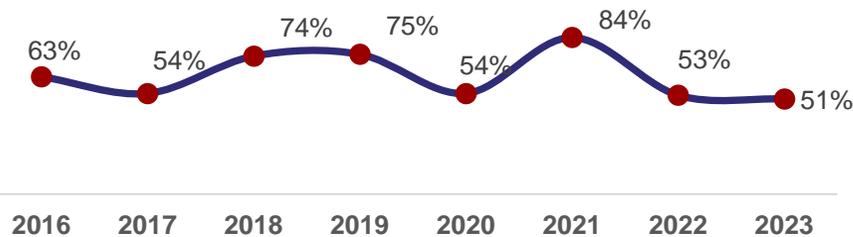
How was your funding experience in 2023?



Will funding environment be more favorable in 2024?



Trend over time (% favorable) fund-raising experience



- Of those who attempted to raise, 68% had a favourable experience (71% in 2022)
- Enterprise/SaaS, DeepTech and Ecommerce founders had the most favorable funding experience
- SaaS & Fintech founders most optimistic, while EdTech & Consumer/D2C most pessimistic on 2024 funding environment

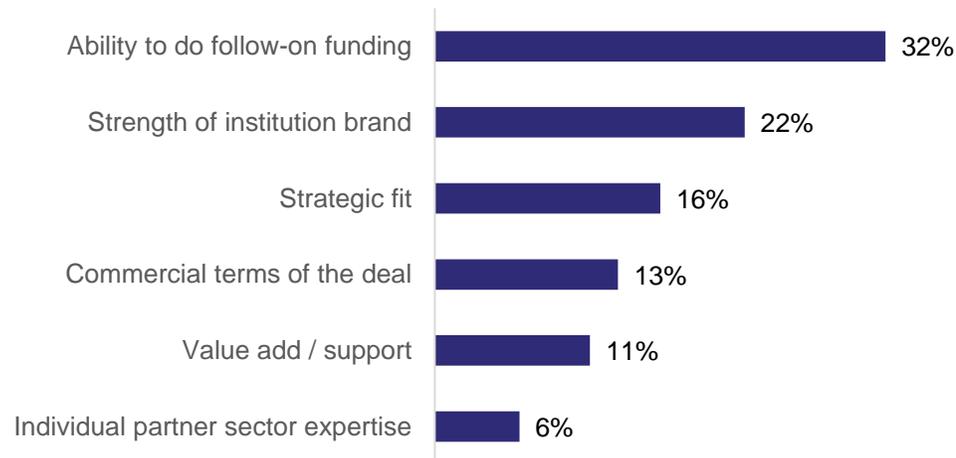




FUNDRAISING

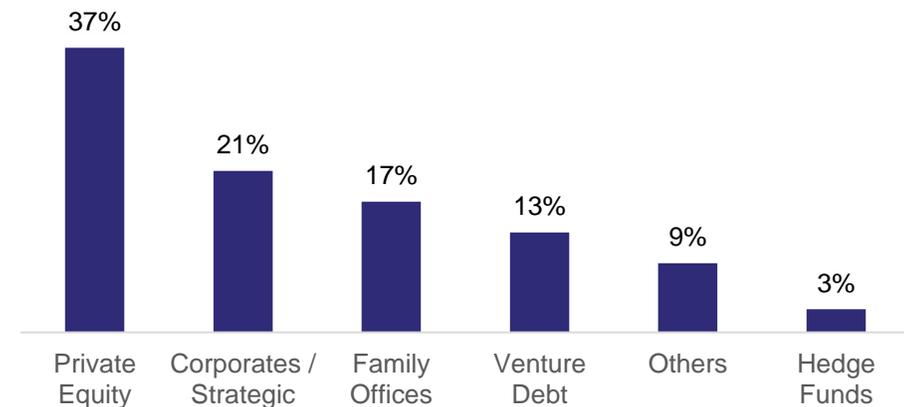
Ability to do a follow-on round becoming more important in a tough funding environment

Most important factor in choosing a lead investor



- Importance of commercial terms at 13% (8% in 2022), driven by more “investor friendly” v/s “founder friendly” terms
- Strength of the Investor’s institutional brand/reputation continues to be #2 factor (consistent with 2022 survey)

In addition to India based VC’s, choose one other type of investor you are targeting for your next round?



- ~60% of founders targeting PE, Strategic investors for their next round ... Family offices & venture debt also on their radar
- Preference for hedge funds continues to decline ... 3% now vs. 8% (2022) and 15% (2021)



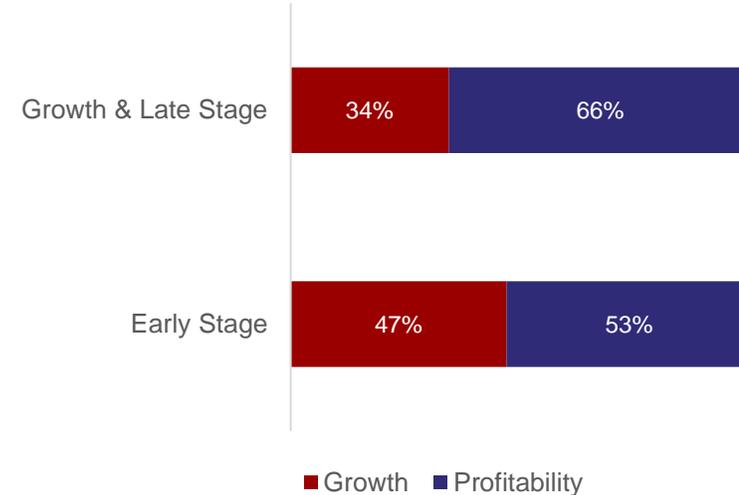
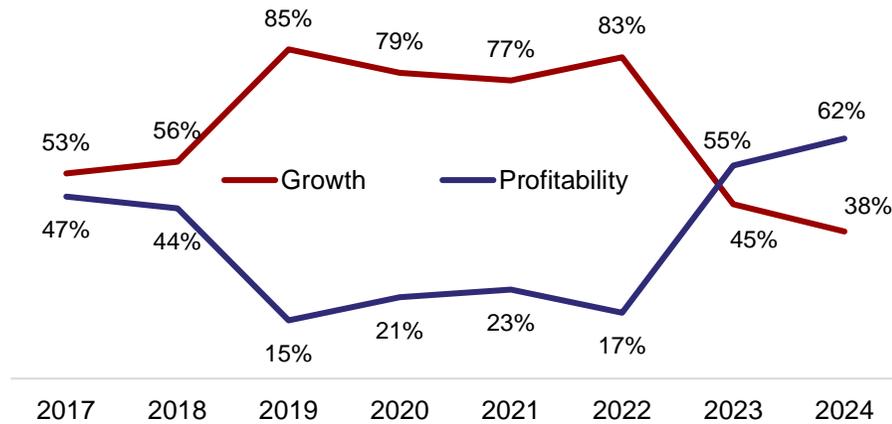
GROWTH VS PROFITABILITY

Bias for Profitability higher than Growth ... trend that started in 2022

Between growth & profitability, what is the bigger focus currently?

Growth v/s Profitability Bias (By Stage of Company)

Trend over last 8 years



- As the funding environment slowed down over last 2 years, there has been a significant shift in Profitability over Growth
- SaaS & Fintech founders have the highest focus on profitability

- **Growth/Late-stage:** Almost two thirds of founders have higher focus on profitability over Growth
- **Early Stage:** Profitability ranks higher than growth for first time in 9 years (53% vs. 33% in 2022)

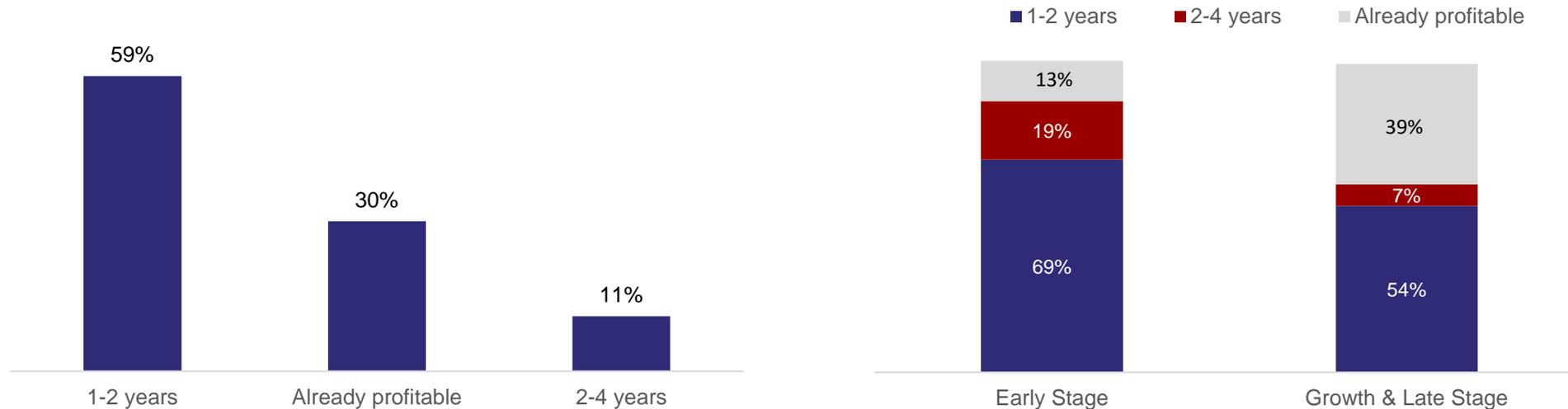




BUILDING SUSTAINABLE BUSINESS MODEL

Estimated timeline to profitability

When do you expect to turn profitable?



- 30% of respondents claimed they are already EBITDA profitable, up from 19% in 2022...SaaS leads the pack
- Majority of respondents expect to turn profitable within 2 years

- Even early-stage respondents are targeting to be EBITDA profitable over the next 1-2 years, while 13% claim to have reached profitability
- 39% of growth / late-stage companies claim to be EBITDA profitable

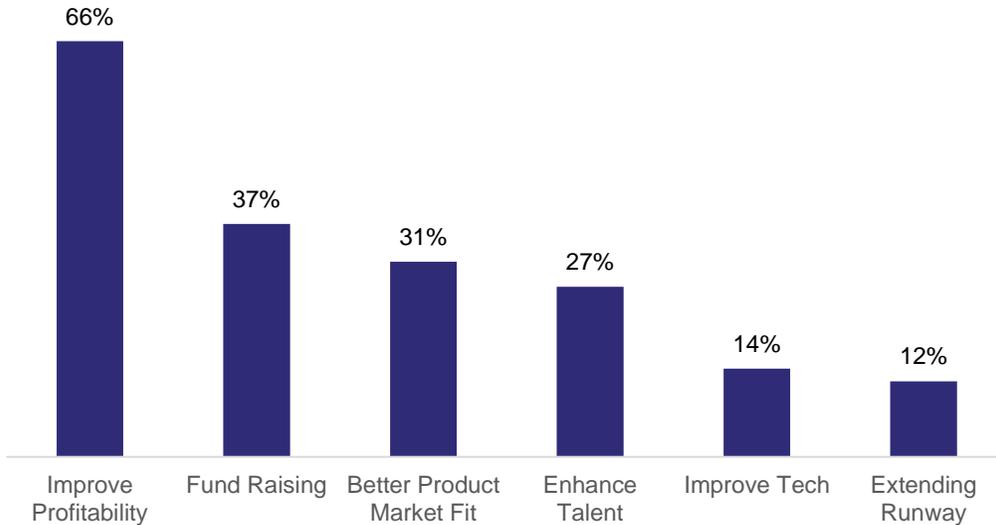


BUSINESS PRIORITIES & CHALLENGES

Fundraising emerges as both a key priority and a challenge for founders

What are your top 2 priorities in the next 12 months?

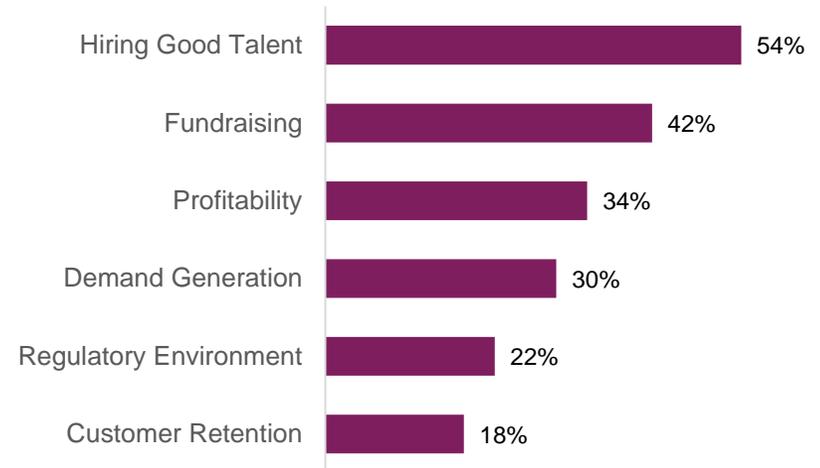
(Will not add to 100% as respondents picked up to 2 choices)



- While profitability continues to be a top priority, fund-raising moves up to #2 vs. #4 priority in 2022
- Achieving PMF (31%) down to #3 priority v/s #2 in 2022

What are your start-up's top 2 biggest challenges?

(Will not add to 100% as respondents chose top 2)

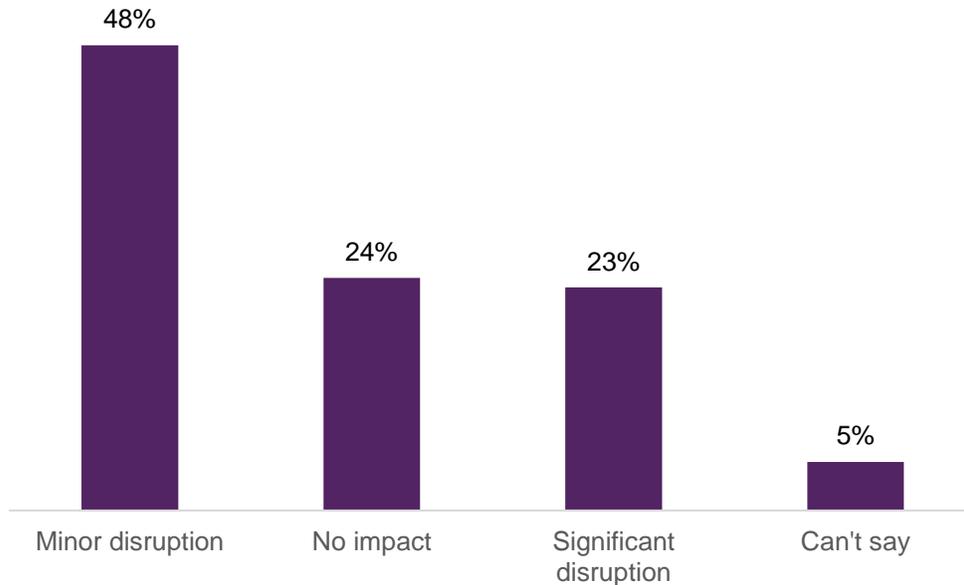


- Hiring good talent continues to be the #1 challenge, despite the job market being more “company” friendly
- Fundraising emerges as #2 challenge (up 42% vs. 28% in 2022)



IMPACT OF ARTIFICIAL INTELLIGENCE (AI)

23% believe that AI will have a significant impact on their business model in the near/mid term



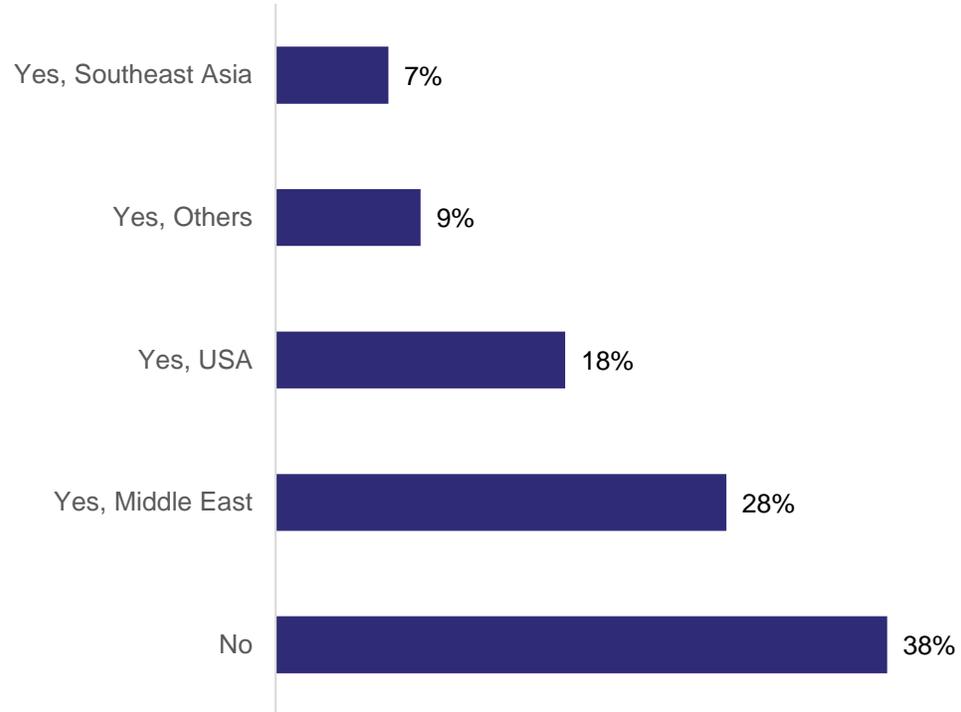
- 48% of respondents anticipate some level of disruption to their business, due to rapid developments/use cases in AI capabilities
- Fintech and Enterprise/SaaS founders identified highest impact of AI on their business models.
- Most consumer/D2C founders believe that AI will not impact their business (45%) or the disruption will be insignificant (36%)
- A higher proportion of growth stage founders (49%) believe that AI will have an impact, compared to early-stage founders (35%)





GLOBAL EXPANSION PLANS

62% of founders aspire to enter global markets, primarily the Middle East and USA



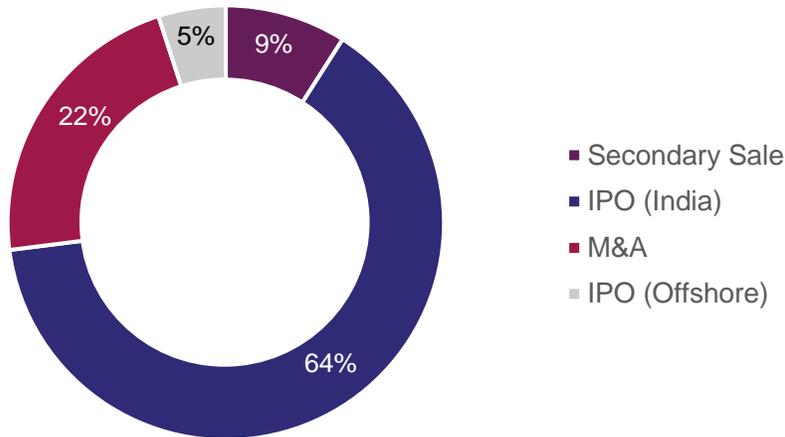
- Significant jump in global aspirations (62%) vs. 2022 (49%)
- Middle East moves to #1 spot, ahead of the US, driven by government initiatives, subsidies, ease of doing business
- E-commerce, Healthtech, and Edtech companies predominantly focused on the domestic market
- Preference for global expansion highest in Enterprise/SaaS, with US being the #1 focus market
- Consumer/D2C founders primarily focused on domestic markets, but 36% are open to expanding to the Middle East



EXIT EXPECTATIONS

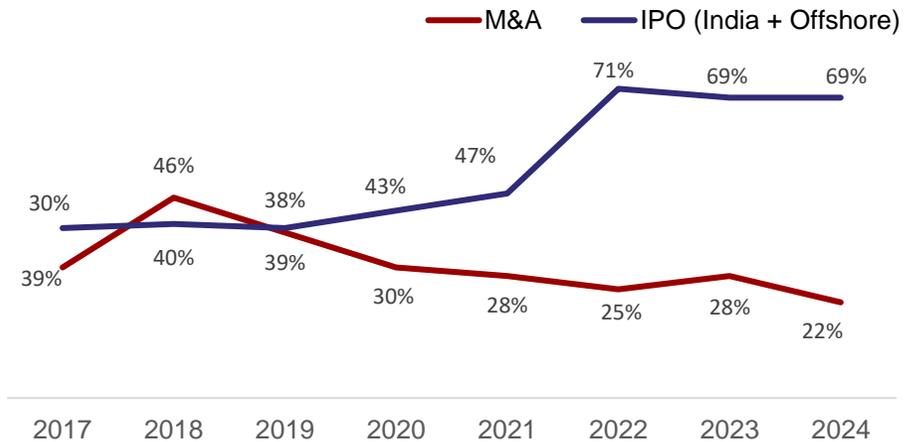
Domestic IPOs the most preferred mode of exit, and preference increasing over time

What is the most likely mode of exit for your company ?



- Focus on domestic IPOs continues to rise - 64% (2023) v/s 30% (2020), driven by successful Tech IPOs over the last 2-3 years
- Interest in overseas IPOs falls to 5% (2023) v/s 13% (2022). Secondary sale as an exit option up to 9% from 3% in 2022

Trend over time



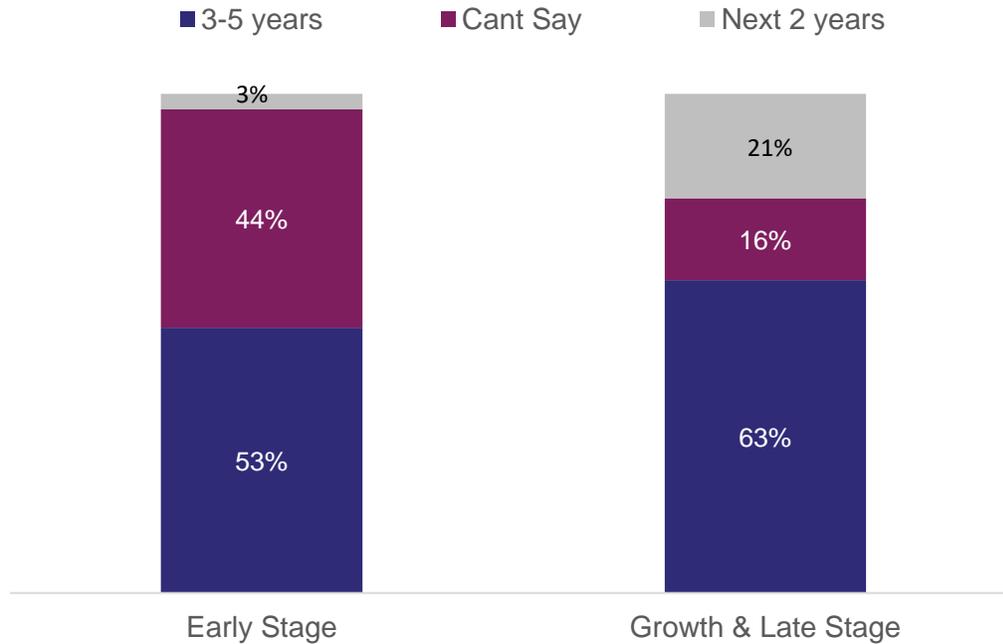
- An exit through an IPO continues to be the preferred mode, followed by an M&A/Strategic exit
- Enterprise/SaaS and Agritech founders most bullish on an IPO exit, followed by Fintech





EXIT EXPECTATIONS

Expected exit timeline for most founders is 3 to 5 years



Early-stage

- 53% expect an exit event in next 3-5 years, up from 43% (2022)
- 44% are uncertain on their exit timelines vs. 50% (2022)

Growth / Late-stage

- 21% of founders expect an exit within the next two years
- Majority founders anticipate an exit over a horizon of 3-5 years



IMPACT OF FUNDING SLOWDOWN

Most founders are optimistic about a higher valuation in the next round

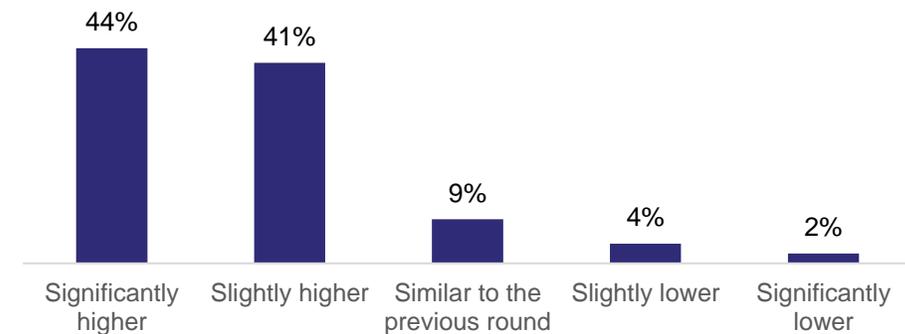
What do you believe has been the impact of the funding slowdown?

(Will not add to 100% as respondents picked up to 2 choices)



- Slowdown driving sustainable business models & lower valuations
- Slowdown has also led to more disciplined investing (32%) and higher focus on governance (19%)

What is your realistic valuation expectation for your next round of funding relative to the last round?



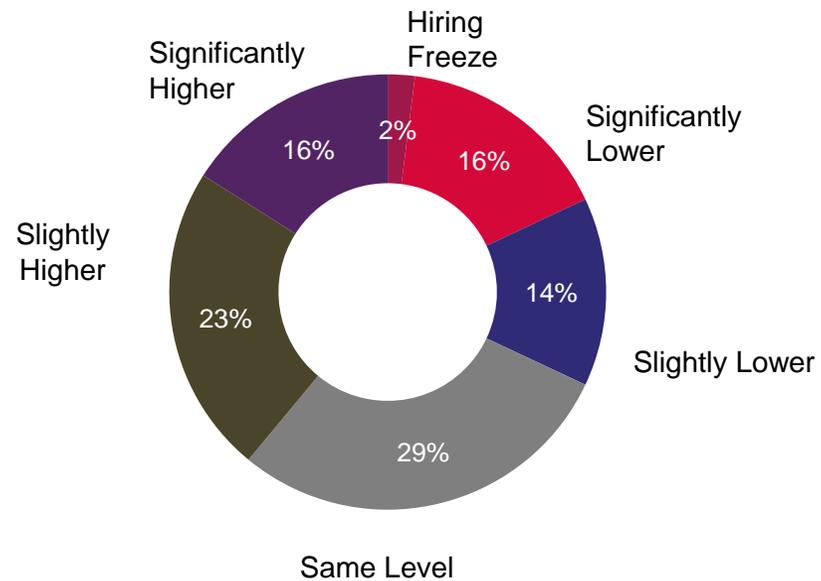
- Most early-stage founders expecting higher valuations
- However, 20% of growth/late-stage founders expect a flat to a down round



WORKPLACE

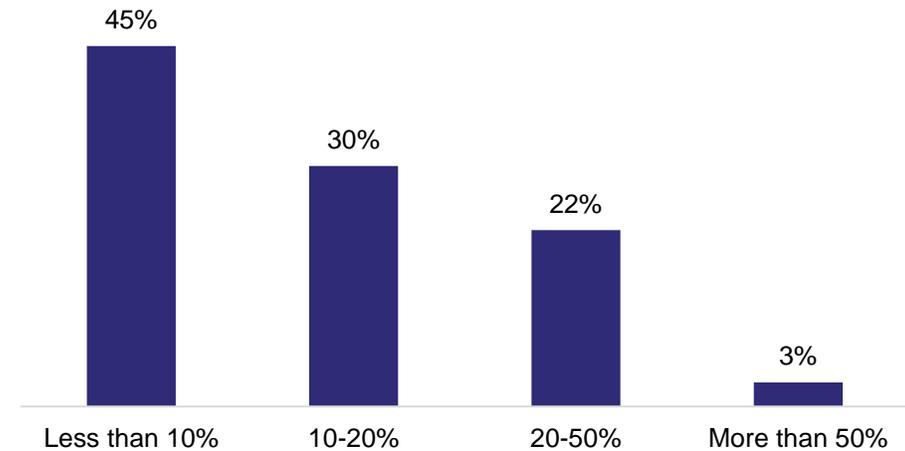
Hiring to remain sluggish. Diversity in leadership roles remains a challenge

Expected pace of hiring in 2024 compared to 2023



- Only 39% expect an increased pace of hiring in 2024
- Expectations of a hiring freeze down to 2% vs. 6% last year

What % of your top leadership team are women?



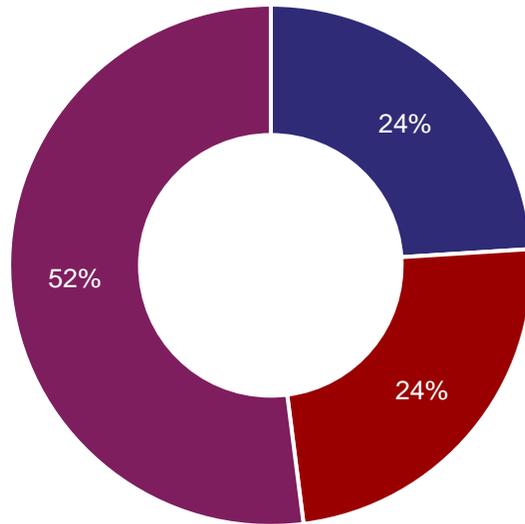
- 75% of cos. have < 20% women in leadership v/s 67% (2022)
- 45% of cos. have <10% women in leadership vs 38% (2022)



WORKPLACE

76% of founders are open to a professional CEO running their business in the future

Can you see a professional CEO running your company?



- No, founders should remain in charge
- Yes, possible in next 2-3 years
- Yes, but only at the right state of business

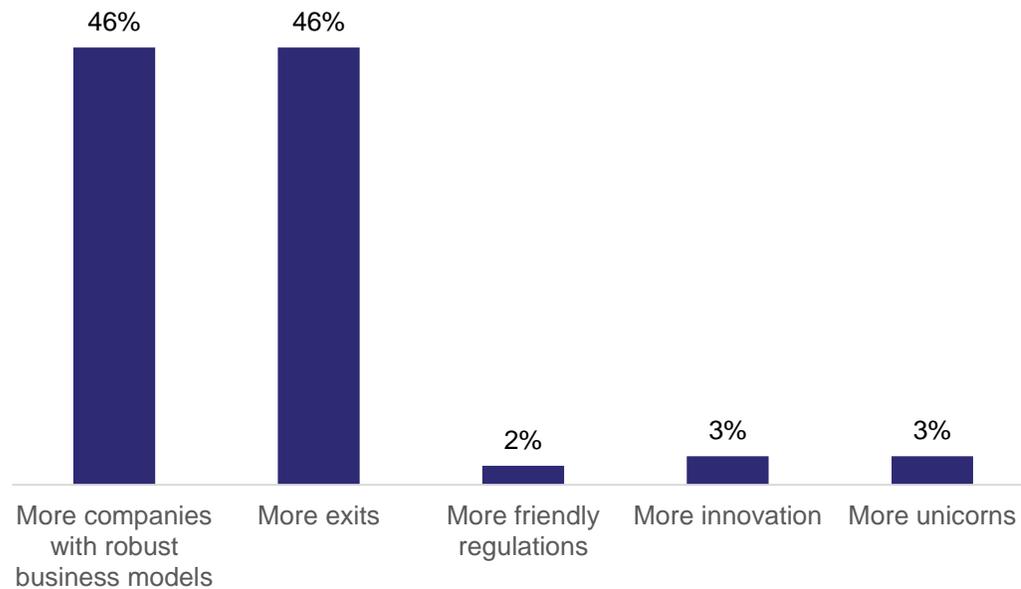
- 76% of founders see a professional CEO running their company, up from 70% in last year's survey
- 24% respondents open to professional CEO in next 2-3 years
- 52% of founders are open to a professional CEO, however, only at right stage of business
- 24% respondents feel that founders should always remain in charge, down from 30% last year



DRIVING POSITIVE INVESTOR SENTIMENT

More exits and resilient business models will drive a positive investor sentiment

What will drive a more positive investor sentiment ?



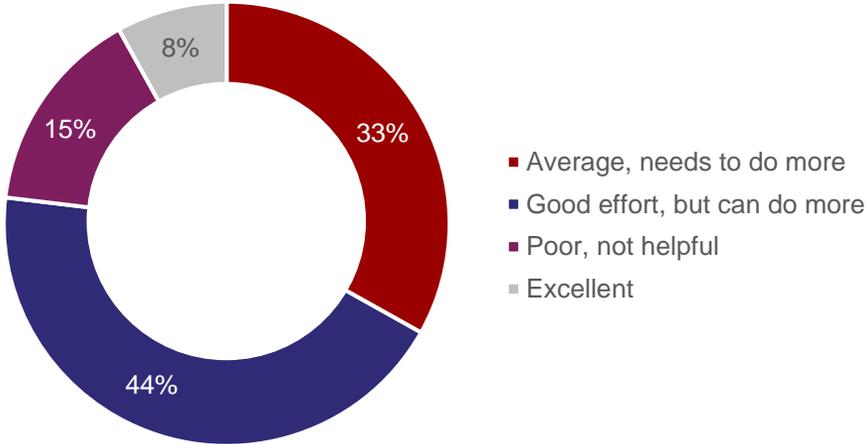
- Increase in exits emerges as a key driver for improving investor sentiment, 46% (2023) vs. 27% (2022)
- More robust business models in the eco-system also highlighted as a catalyst for improving investor sentiment



GOVERNMENT POLICY

52% respondents rate government efforts as positive

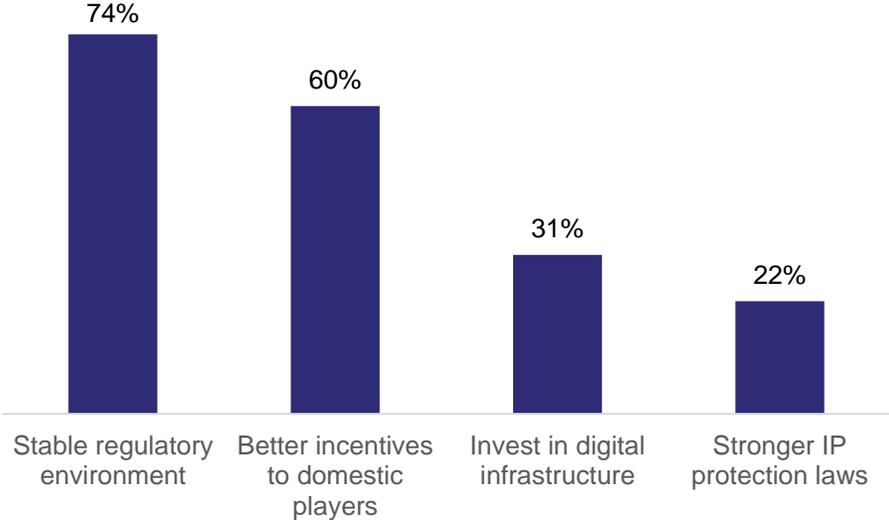
Rate government's efforts to improve the start-up ecosystem



- 52% founders rating government efforts as good or excellent, up from 34% last year
- 33% respondents feel that the government can still do more for the ecosystem

What can government do to make it more appealing for start-ups?

(Will not add to 100% as respondents picked up to 2 choices)



- A stable regulatory environment and better incentives for domestic players chosen as the top 2 areas of improvement
- Respondents also chose stronger IP protection laws as an area of improvement ...up 22% vs. 19% (2022)





OVERHYPED & UNDERHYPED SECTORS

Founders chose AI as the most overhyped sector and B2B as the most underhyped sector

Overhyped Sectors

AI	37%
Fintech	20%
Edtech	18%

Underhyped Sectors

B2B	12%
Manufacturing	11%
Agritech	9%

- AI seen as the most overhyped sector vs. Edtech in 2022 and Quick commerce in 2021
- Fintech moves up to #2 overhyped sector vs. #3 in 2022

- B2B and Manufacturing emerge as the most underhyped sectors, vs. Agritech & HealthTech in 2022
- Agritech been in the underhyped list for last several years



FAVOURITE STARTUP AND FOUNDER

Zerodha chosen as most admired India start-up for the fourth consecutive year

**Indian Startup
Admired Most**

Zerodha

Zomato

OfBusiness

Lenskart

Zoho

**India Founder
Admired Most**

Kamath Brothers

Vijay Shekhar Sharma

Asish Mohapatra

Sachin Bansal

Bhavish Aggarwal

**Global Founder
Admired Most**

Elon Musk

Brian Chesky

Sam Altman

Jeff Bezos

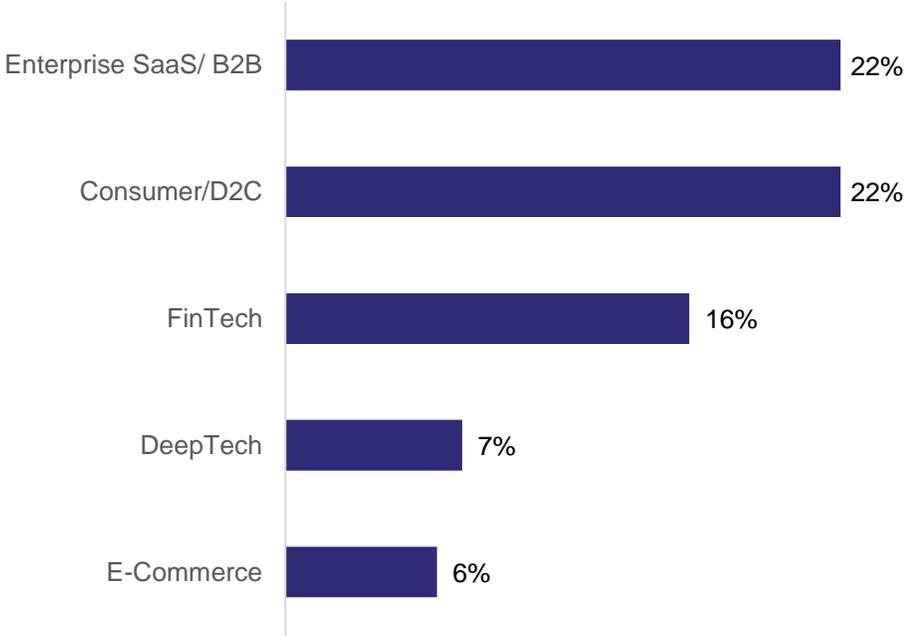
Steve Jobs



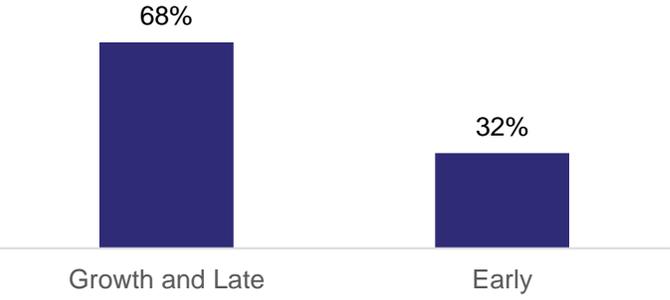
RESPONDENT DEMOGRAPHICS

100 founders surveyed across sectors and stages (only VC/PE backed companies)

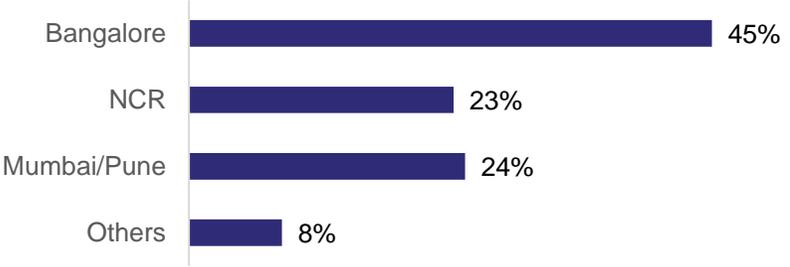
Top 5 sectors



By Stage



By City



Note: Other sectors includes Edtech, Logistics, AgriTech, HealthTech, etc.



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, Byjus, Eruditus, Cure.fit, Infra.Market, XpressBees, Blinkit, Shiprocket, Elasticrun, Udaan, Zetwerk, Moglix, Firstcry, Mensa Brands, Blackbuck, Pharmeasy, Rebel Foods, BharatPe, Cars24, Spinny, Slice, Vedantu, Upstox, Ather, Porter, Chaayos and many more. For more information, please visit www.innovencapital.com

About the report

The Start-up Outlook report is an annual report published by InnoVen Capital & provides an outlook on the sentiment prevailing in the start-up eco-system through the eyes of founders. The survey is administered to founders & senior leaders and covers a broad cross-section of companies from early-stage, growth stage and late stage. It covers wide ranging topics around funding environment, exits, focus areas, challenges and other aspects that are on the mind of founders. The 9th Start-up outlook report was based on a survey conducted with 100 VC/PE backed start-up leaders.

Data and figures herein may represent the whole or part of a set of responses to a given question to account for data completion matters.

For more information on the report, please contact:

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