



Startup Outlook Report 2021

February 2021



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FOREWORD

6th edition of InnoVen Start-up outlook report ... a view from founders



Ashish Sharma

CEO, InnoVen Capital, India

Last year was an eventful year to say the least. It started on a promising note but Covid led to a perfect storm, with demand destruction, supply chain disruption and funding market dislocation. While no one had a Covid playbook, most founders did a great job to navigate their companies through the fog of uncertainty and came out stronger on the other side.

We are pleased to release our 6th annual Start-up Outlook report, which will provide some useful insights to stakeholders that have a keen interest in the 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

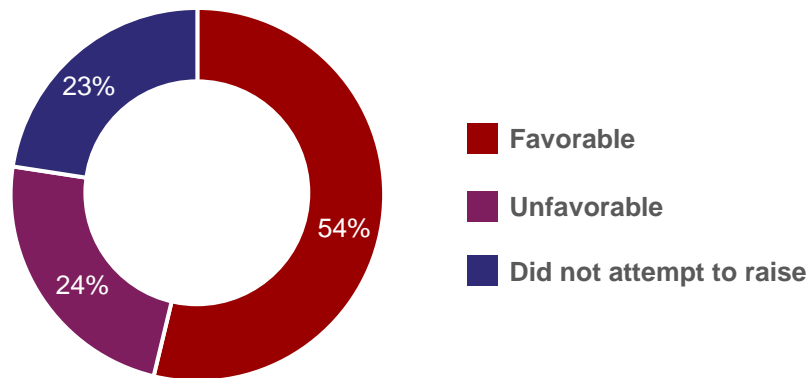
- Over two thirds of founders who tried to raise capital in 2020 had a favorable fund-raising experience, but down from 2019 (75% favorable)
- Most founders (71%) believe that the fund raising environment will be more favorable in 2021 v/s 2020
- Continued bias for growth v/s profitability... 77% of founders ranked growth higher than profitability as a focus area for 2021
- Strong demand recovery after a few months of severe Covid disruption ... two thirds of companies above Pre Covid revenue run-rate by Dec'20. E-Commerce, Logistics (E-Com), B2B platforms, Enterprise software, D2C consumer brands saw the strongest recovery
- 72% of founders expect higher pace of hiring in 2021 ... Digital Media, E-commerce, Logistics and Deep Tech most bullish on hiring
- 47% of founders believe that IPO is a realistic exit scenario (up from 42% last year) ... driven by strong capital markets and IPO readiness
- Founders identified driving high growth & talent management as their top two challenges
- 73% of founders open to a professional CEO running their business at the right stage of maturity
- Gender diversity still a challenge ... 77% of start-ups had less than 20% of women in leadership roles (69% in the year before)
- 45% of founders rated government efforts to improve the start-up ecosystem as Good / Excellent. Respondents believe that Government should do more to develop a stable regulatory environment as well as offer more incentive to domestic players
- EdTech highlighted as the most over hyped sector, while Logistics chosen as the most under-hyped sector
- Zerodha/ Nithin Kamath was the most favourite Indian start-up/ founder, while Elon Musk is the most admired global founder



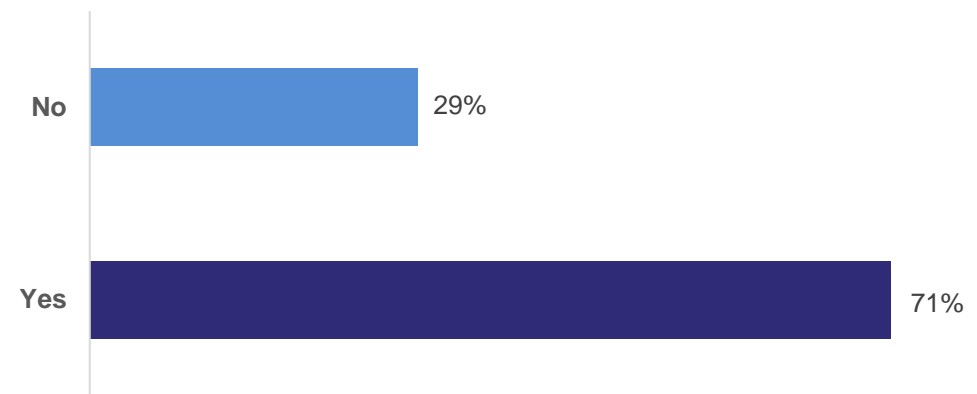
FUNDRAISING

Founders expect funding environment to be very favorable in 2021

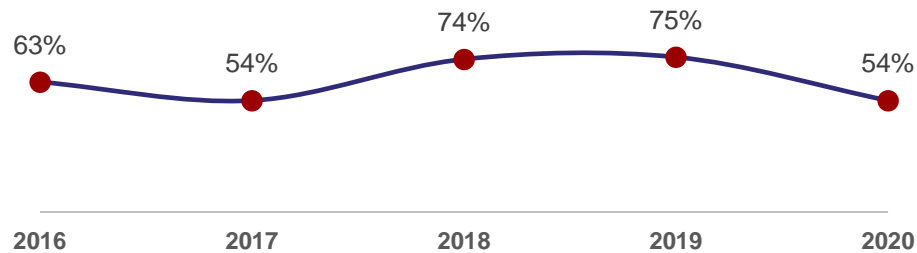
How was your funding experience in the 2020 ?



Will the funding environment be more favorable in 2021 ?



Trend over time (% favorable fund raising experience)



- Despite Covid, over two thirds of founders who tried to raise capital had a favorable experience in 2020, driven by strong Oct-Dec quarter
- Ed-Tech, Media & E-Commerce - most favorable experience (2020)
- Founders from Enterprise/SaaS, Logistics, E-Commerce and FinTech most optimistic about funding environment in 2021

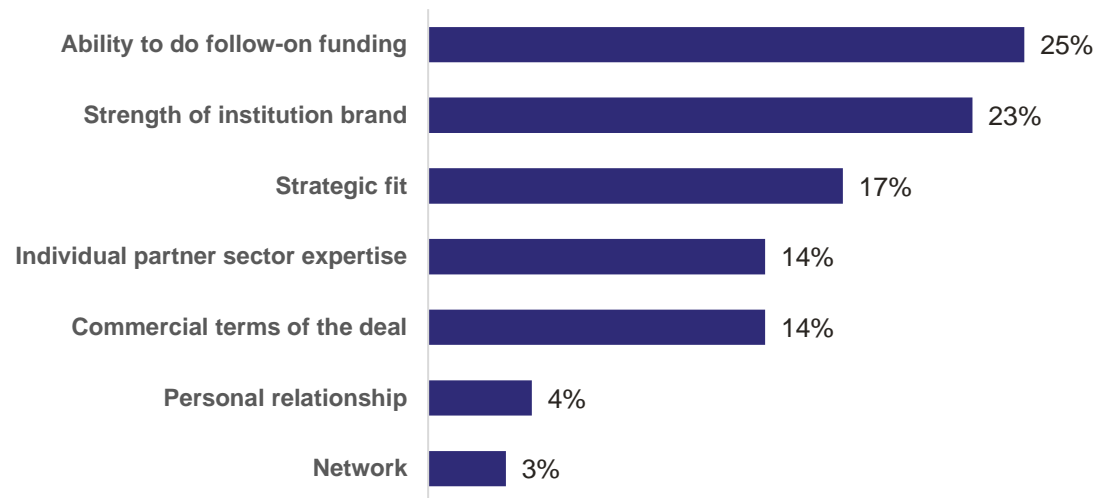




FUNDRAISING

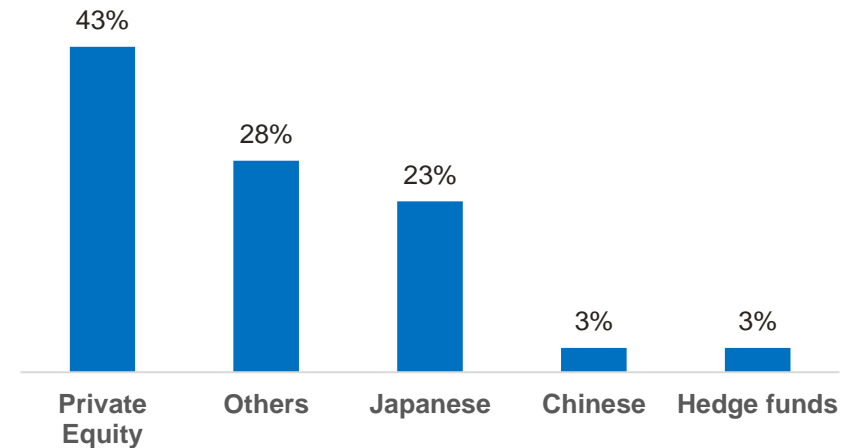
Choosing a lead investor and types of investors targeted

What is the most important factor in choosing a lead investor?



- Founders chose Ability to do follow-on funding and Strength of institutional brand as the top two factors while choosing lead investor
- Ability to do follow on funding gained importance-up from 15% to 25%
- Only 14% of founders selected Commercial terms as most important

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



- Preference for Chinese investors significantly down from 29% (2020) to 3% (2021), due to regulatory and geo-political issues
- Growth/late stage founders increasingly looking at Private equity
- Higher interest in Japanese investors (23%) ..up from 13% last year

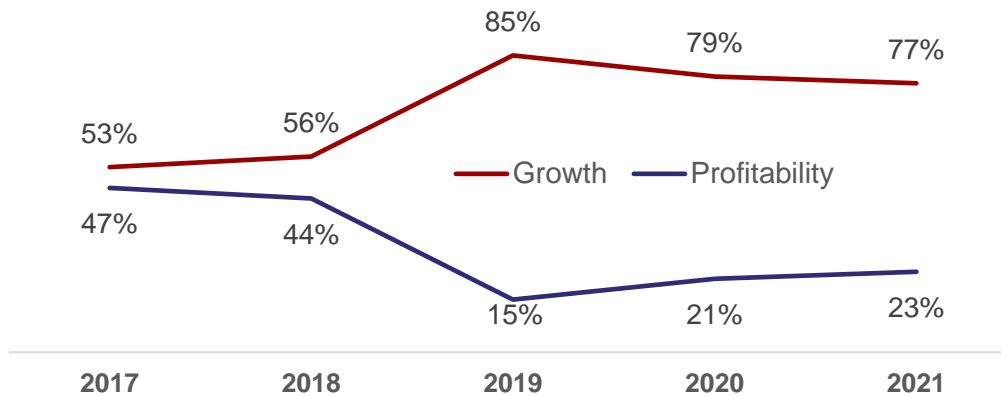


GROWTH VS PROFITABILITY

Striking balance between growth & profitability ... a tough balancing act

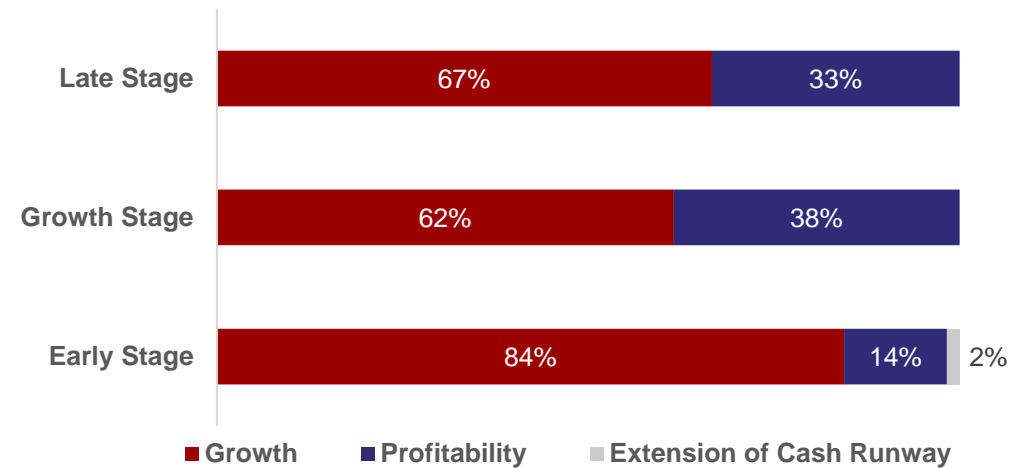
Between growth & profitability, what is the bigger focus in 2021?

Trend over last 5 annual surveys



- 77% of founders have a bias for growth over profitability
- Enterprise, Digital Media & Social have highest bias for growth (~90%)
- D2C brands and E-Commerce have a more balanced approach between Growth & Profitability (60% growth/40% profitability)

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



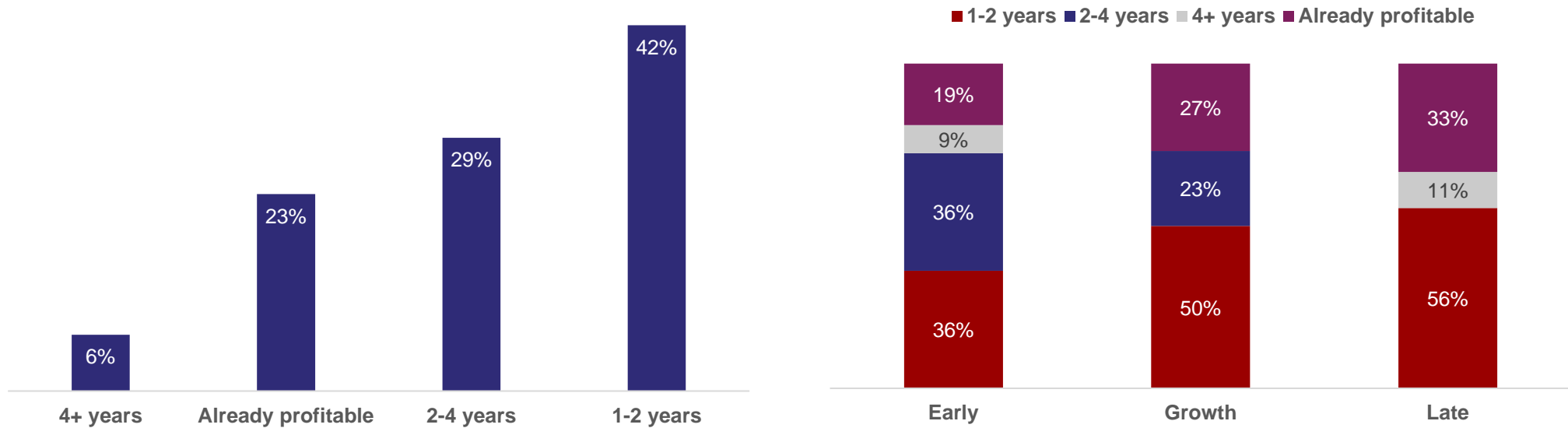
- Early-stage companies focus heavily on growth (84% of respondents)
- Focus on profitability in growth stage up to 38% v/s 27% last year
- Focus on profitability in late stage up to 33% v/s 17% last year



BUILDING SUSTAINABLE BUSINESSES

Estimate timeline to profitability

When do you expect to turn profitable?



- 23% of all respondents surveyed already EBITDA profitable
- 42% of respondents aim to become profitable in 2 years

- 27% of Growth stage cos EBITDA profitable -up from 23% (2019)
- Only 19% of Early stage companies have achieved EBITDA profitability

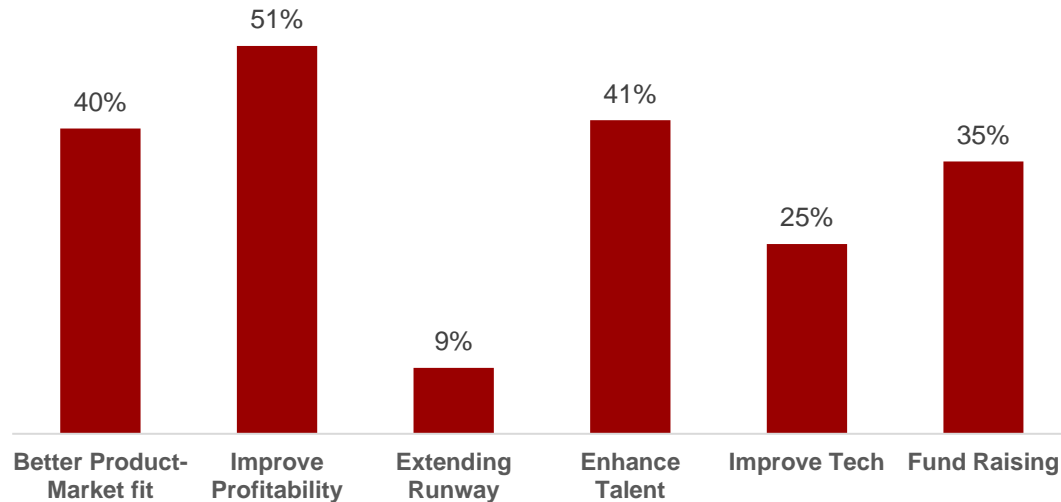


BUSINESS PRIORITIES & CHALLENGES

Improving unit economics and talent management top priorities for founders

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

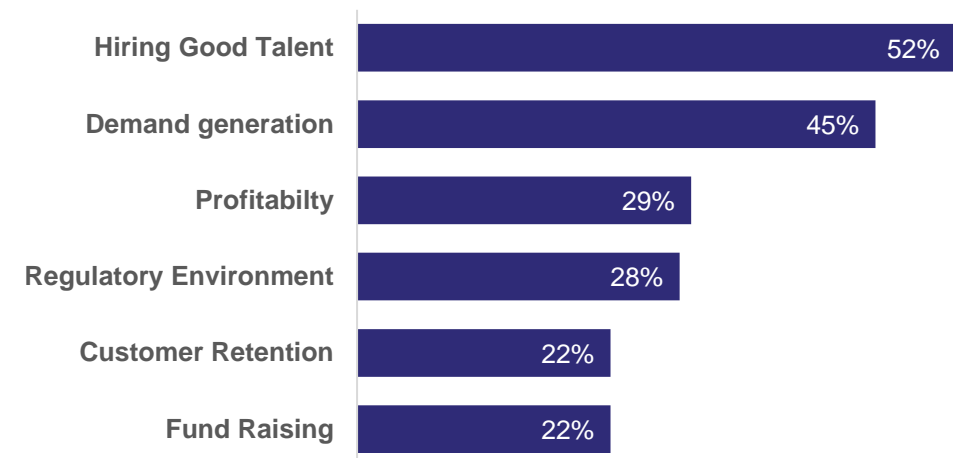
Respondents picked 2 choices (total won't add to 100%)



- Improving unit economics was the topmost priority among respondents; particularly for Retail, D2C Brands, E-Commerce, B2B platforms
- 50% of Early stage startups cited Better Product Market fit as top priority

What are your startup's top 2 biggest challenges?

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

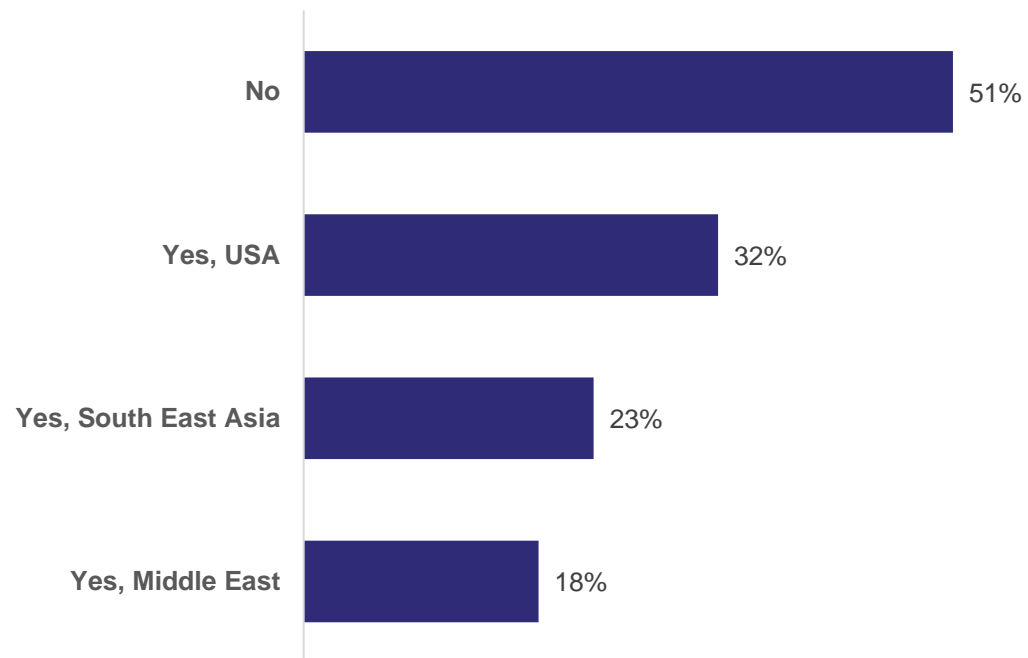


- Hiring good talent and demand generation identified as top two challenges by respondents ...consistent with last year's survey
- Growth stage cos cited regulatory environment as the #2 challenge



GLOBAL EXPANSION PLANS

49% of founders have international growth aspirations



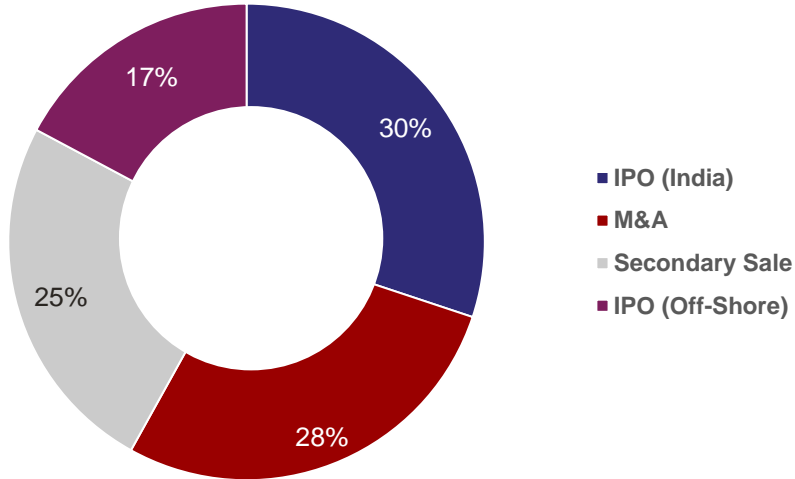
- 51% of respondents want to focus only on the domestic market
- Logistics, Consumer, FinTech, E-Commerce focus on domestic
- Enterprise software companies largely focused on US market
- Education startups have aspirations for International expansion
- Among international markets, respondents had the highest preference for the US, followed by S.E Asia and Middle East



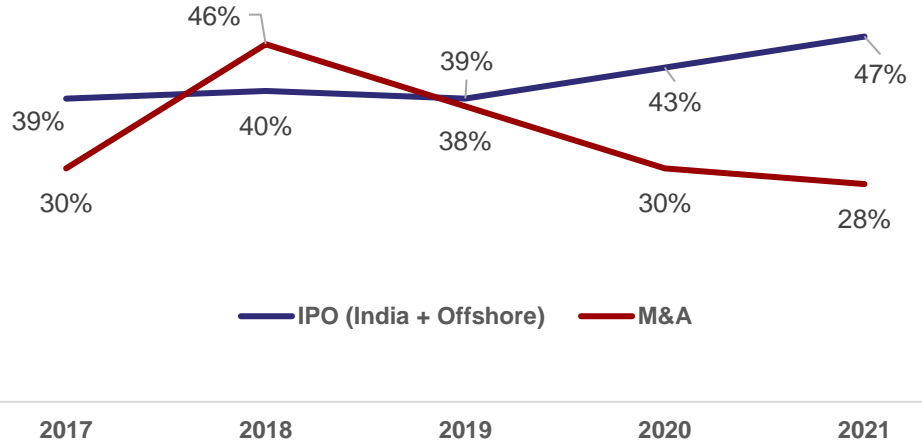
EXIT EXPECTATIONS

Founders looking increasingly to IPO's as the most likely mode of exit

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



Trend over time



- 47% of founders feel that IPO is a likely mode of exit with 70% of growth and late stage founders looking at public market exit
- Respondents from the logistics sector were the most bullish towards doing an IPO in India ...83% prefer an IPO route

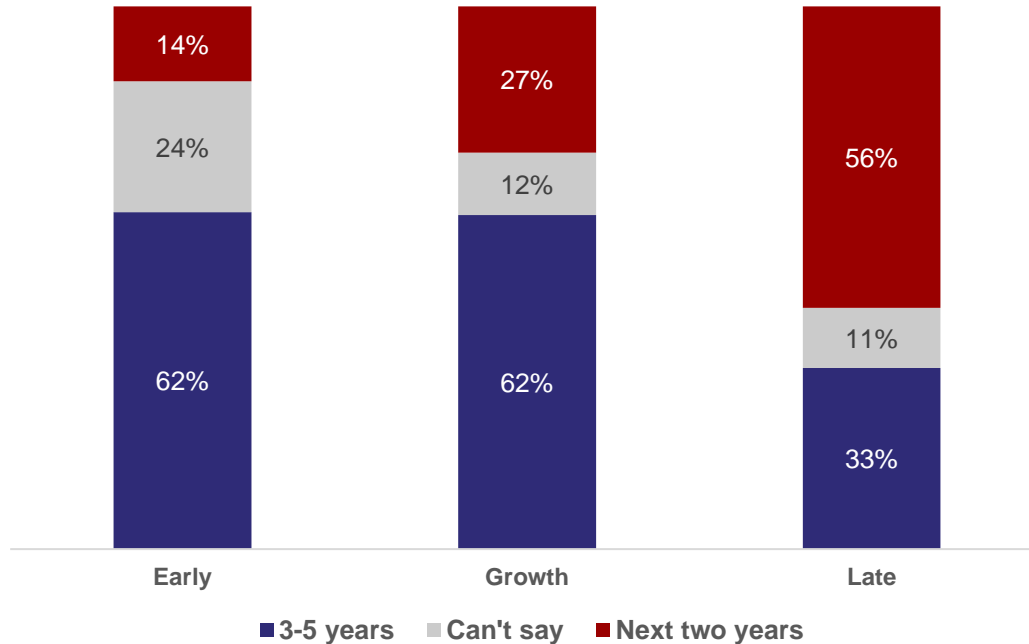
- Retail Consumer brand (47%) and Travel-Hospitality (50%) favored M&A as the most likely mode of exit
- Fintech was the only sector where majority of respondents chose a secondary sale as the most likely path to provide exit to investors





EXIT EXPECTATIONS

Expected timeline of exit for most founders is 3 – 5 years



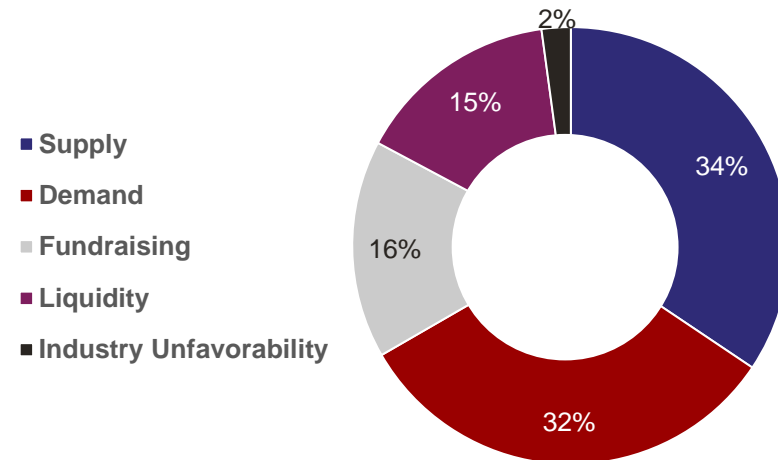
- In total, approximately 60% of respondents stated that their expected timeline of exit is 3-5 years
- 21% respondents expect that they can provide some exit to their investors over next 2 years
- 19% respondents unsure about timing of exit
- Early and Growth stage companies expect a 3-5 year timeline for an exit while late stage companies believed they could expect an exit in the next 2 years (56%)



COVID IMPACT

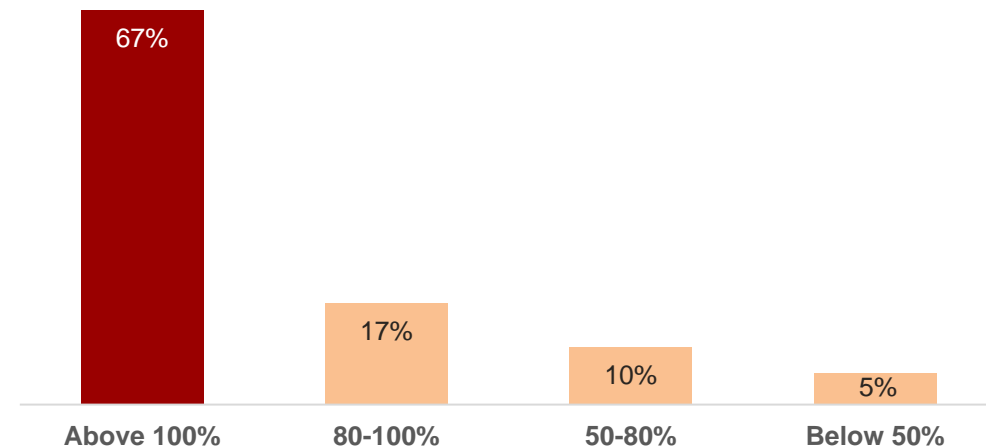
Strong recovery after major disruption ... 2/3rd of companies above Pre Covid levels

What was your biggest challenge during Covid disruption



- For late-stage startups, generating demand was the biggest challenge, while growth stage start-ups cited supply-side as the biggest challenge
- Consumer brands & logistics cited supply-side issues as the biggest challenge during COVID due to lock-down rules and shortage of staff

What's your revenue run-rate now compared to pre-Covid?



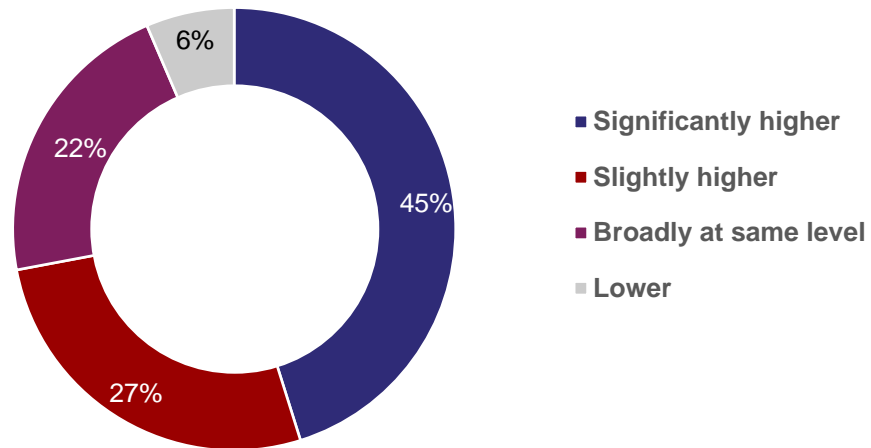
- Over two third of respondents have achieved above 100% of their pre-Covid revenue run rate
- Only 15% of companies have achieved less than 80% of pre-Covid revenues ... Travel/Hospitality, F&B/ Retail most adversely impacted



WORKPLACE

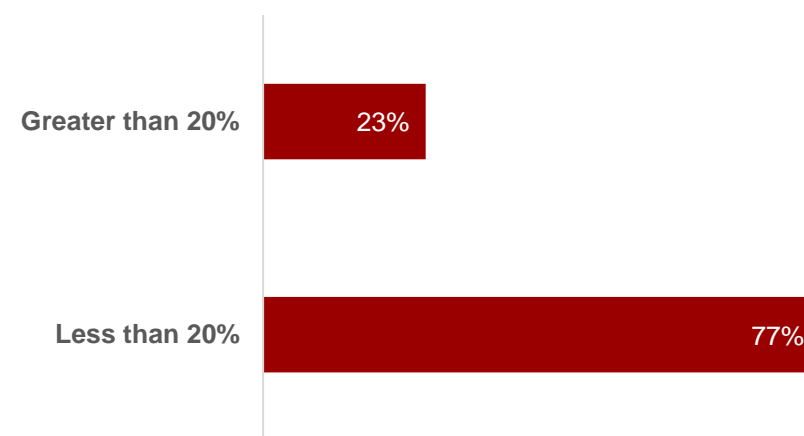
Expecting higher pace of hiring in 2021 ... but women in leadership still a challenge

What will be your pace of hiring in 2021 compared to 2020?



- 72% of respondents expect higher hiring in 2021 v/s 2020
- Sectors that are most bullish on hiring this year, include Logistics, Digital Media, E-commerce and Deep Tech
- Health Tech, Enterprise & Fintech expect hiring at same level

What % of your top leadership team are women?



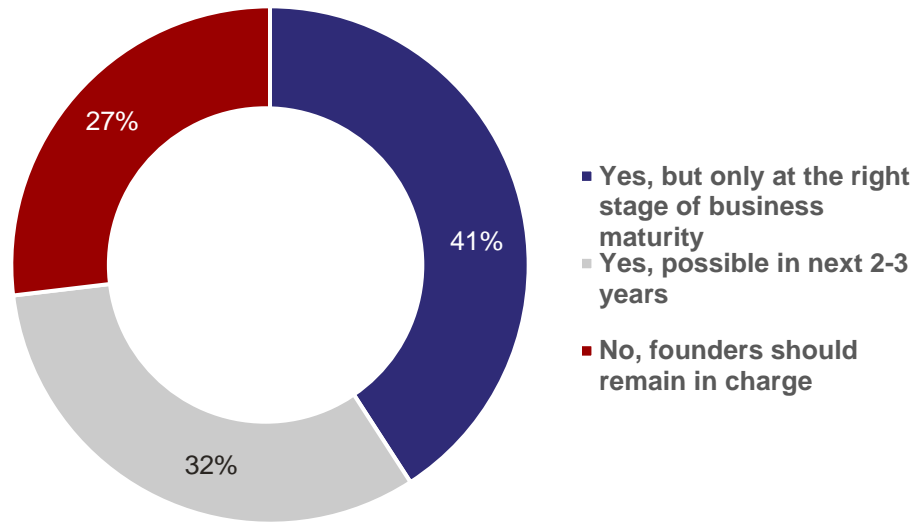
- Less than one fourth of respondents have over 20% women among their leadership teams (v/s 21% last year)
- Gender diversity continues to be a challenge and there has been no improvement over the last few years



WORKPLACE

73% of founders open to professional CEO running their business in the future

Can you see a professional CEO running your company?



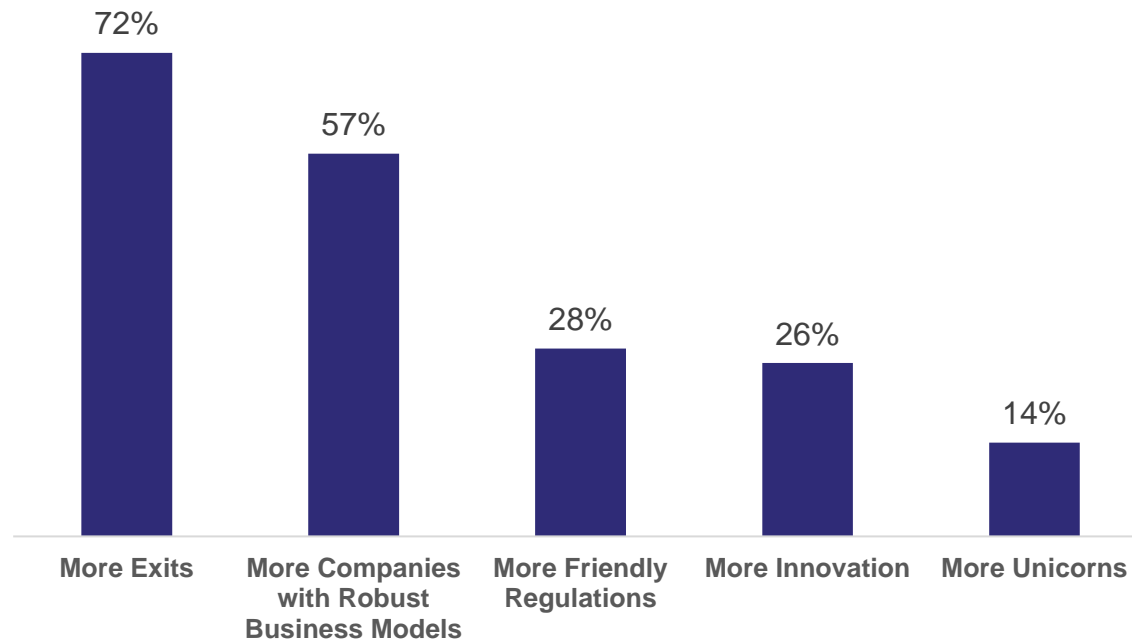
- 73% of respondents believe that they can see a professional CEO running the business in the future
- Late stage founders most open to the thought of a professional CEO running their business over the next 2-3 years, with 56% of late stage respondents believing so. This is more common in the US (e.g. Google, Microsoft, eBay, LinkedIn, Uber) but not many examples in India yet
- However, 27% of respondents (up from 19% last year) believe that founders should remain in charge and there is no need to get a professional CEO.



POSITIVE INVESTOR SENTIMENT

More exits and emergence of sustainable business models will drive positive sentiment

What will drive a more positive investor sentiment ?



- Majority of respondents believe that more exits will most likely drive positive investor sentiment
- While there have been some bumper exits like Flipkart-Walmart as well as some secondary exits like Byjus, Oyo, Swiggy, Paytm, a more broad-based exit track record will improve investor's sentiment further.
- More exits help validate business models as well as provide returns to investors, thereby enabling more capital into India
- Founders also believed that more companies with robust and sustainable business models would help drive improved investor sentiment

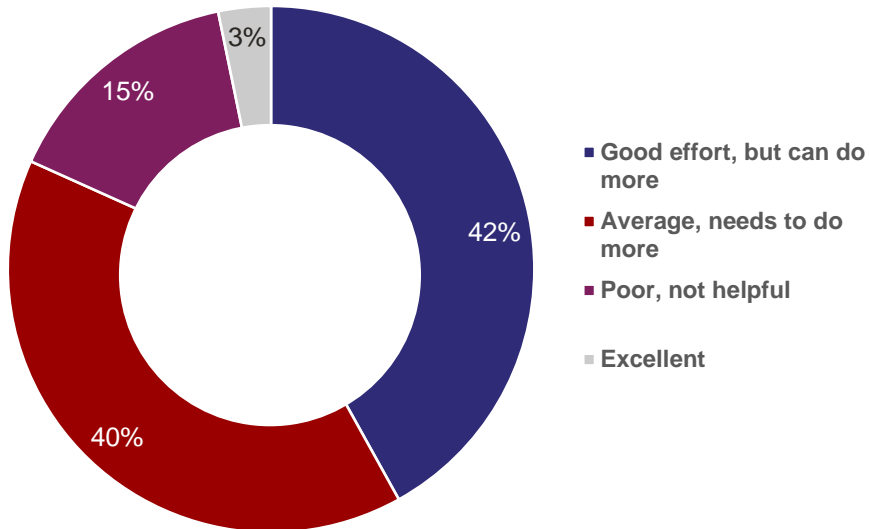
* Respondents picked 2 choices (total won't add to 100%)



GOVERNMENT POLICY

Improved rating of government efforts to support the venture eco-system

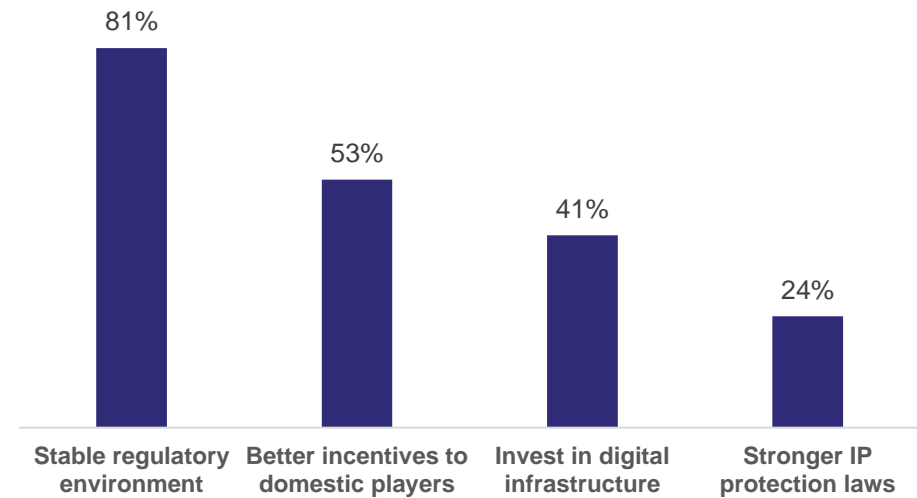
Rate government's efforts to improve the start-up ecosystem?



- 45% of respondents rated Government's effort as good to excellent, which is up from 35% in 2019
- Similar to last year, stable and predictable regulatory environment was cited as the key area for concern

What can government do to make it more appealing for startups?

(Respondents answered this question with multiple choices)



- Respondents from Fintech chose stable and predictable regulatory environment
- EdTech chose stronger IP protection laws among top two areas while Logistics identified Digital infrastructure as a focus area



OVERHYPED & UNDERHYPED SECTORS

Founders overwhelmingly chose Ed-Tech as the most over-hyped sector

Overhyped Sectors

EdTech 56%

Gaming 5.4%

Fintech 4.3%

Underhyped Sectors

Logistics 11%

Consumer brands 9.7%

AgriTech 6.5%

- EdTech was by far chosen as the most overhyped sector with 56% of respondents indicating so.
- Last year, Fintech & AI were the most overhyped sectors with 15% of respondents believing so

- Logistics (11%) and consumer brands (9.7%) were considered the 2 most underhyped sectors
- Consumer brands was also the most underhyped sector in 2019 while AgriTech was considered most under-hyped in 2018



FAVORITE STARTUP AND FOUNDER

Zerodha /Nithin Kamath chosen as most admired Indian start-up /Indian founder

**Indian Startup
Admired Most**

Zerodha

Swiggy

Zomato

Zoho

Ola

**India Founder
Admired Most**

Nithin Kamath

Sridhar Vembu

Bhavish Aggarwal

Kunal Shah

Sachin Bansal

**Global Founder
Admired Most**

Elon Musk

Jeff Bezos

Brian Chesky

Bill Gates

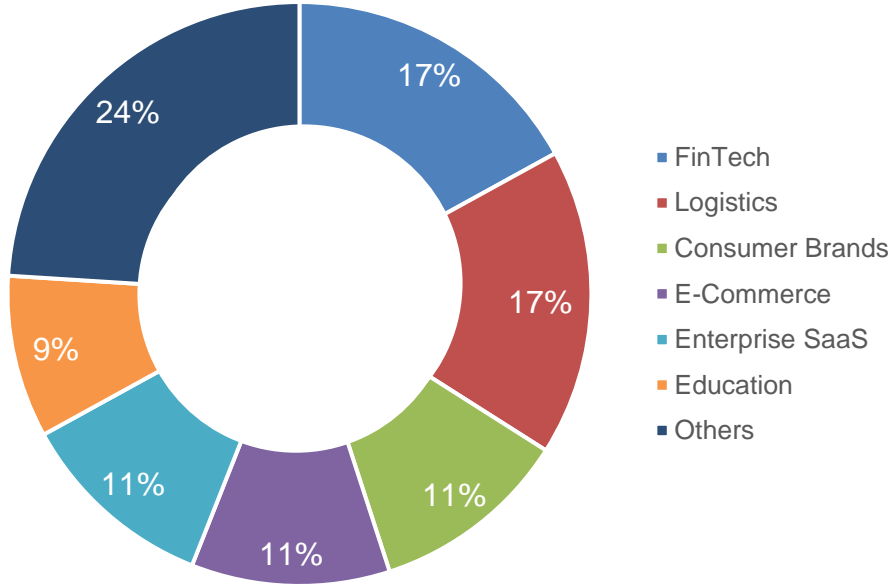
Jack Ma



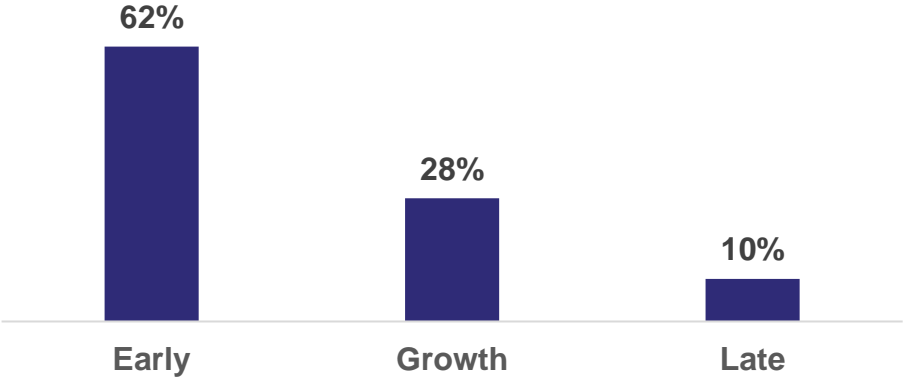
RESPONDENT DEMOGRAPHICS

~ 100 founders surveyed across sectors and across stages (Early, Growth, Late)

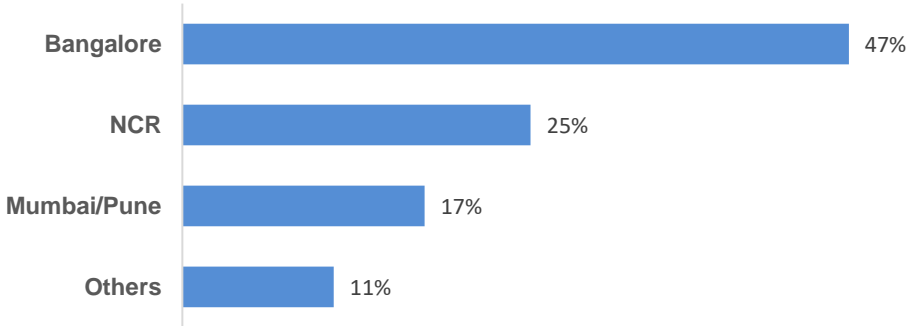
By Sectors



By Stage



By City



About InnoVen Capital

InnoVen Capital is Asia's leading venture lending 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 250 transactions with more than 180 start-ups, including Byjus, Swiggy, Oyo Rooms, Dailyhunt, CureFit, FirstCry, Eruditus, Snapdeal, PharmEasy, boAt, Licious, Myntra, Blackbuck, Rebel Foods, BharatPe, Pepperfry, Infra.Market, Zetwerk and many more. For more information, please visit www.innovencapital.com and follow us at [@InnoVenCap_IN](https://twitter.com/InnoVenCap_IN).

About the report

The Start-up Outlook report is an annual report published by InnoVen Capital India & 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 6th Start-up outlook report was based on a survey conducted with approximately 100 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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