Perform or perish?

Innovation will keep heads above the water

It is no secret to anybody that in the national battle against Corona, Uttar Pradesh Chief Minister Yogi Adityanath is playing a pivotal role. His moves to provide relief to the labour class are being closely scrutinized as the exodus of millions has probably created the biggest migration problem in the country since Independence. Carrying the image of a no-nonsense politician who is trying hard to prove his mettle as a capable administrator in testing times, the head of India's most populous state, however, has been embroiled in several verbal volleys with leaders on the other side of the fence in recent days.

But even amidst this hurly burly scene, on 20 May, Yogi Adityanath did something which seems to be out of keeping with the current situation. He launched a dedicated 'UP Start-up Fund' with an initial corpus of ₹15 crore which will be managed by the Small Industries Development Bank of India (SIDBI). "Due to the efforts of Prime Minister Narendra Modi, start-up culture is picking up in India. The PM envisions the youth as job creators," he said on the occasion while hard-selling the fact that his state offers unlimited potential for start-ups, especially in the domains of agriculture, education, health, etc.

No doubt, 'start-up' has been one of the major buzzwords in the country's economic consciousness ever since it was initiated by the Narendra Modi government in 2016. Being looked upon as the panacea for creating a new, vibrant vertical of new age tech-based entrepreneurship and also responding to the growing employment generation demand in the country, the start-ups space has been action-filled, creating many stupendous success stories which completely overshadowed the larger volume of failures lying on the side-lines. A serious infusion of money from PEs and other institutional investors has created an extremely glittering platform for unicorns (companies with over $1 billion market valuation) with their discernible 'on top of the world' attitude. In all fairness, this has been a trend in many developed and emerging countries, with India being in the forefront of this new start-up culture. But this was all till recently.

Corona's unique ability to spare none, however, seems to have delivered a more devastating blow to the start-ups' ecosystem. And instead of enthusiasm as expressed by Yogi Adityanath while launching his start-up fund in Lucknow, the players in the fray seem

Rahul Garg, Moglix

to be grappling with the larger existential issue of keeping their heads above water. And this is no exaggeration even as there are some tiny green shoots visible in the corner – start-ups aligned with services which may ironically benefit from the present crisis. "The equation for Indian start-ups in the market today is simple. You either reinvent yourself or perish from the scene. Reinventing, though, would be easier said than done. Investors, on their part, would be too cautious to spend any further immediately. Not till the time you have a better grasp of the situation," says a senior official of a leading PE firm which has an active presence in many noted start-up ventures (he did not wish to be named).

Big ticket evolution

But before dealing with some of the startling projections about Indian start-ups in the near to medium term, here's a look at how the eco-system has evolved. According to an industry estimate, there are nearly 35 companies (including the likes of Flipkart, PayTMm Quickr, Big Basket, Ola, Oyo Rooms, Zomato, etc.) which are the signing posts of the Indian start-up growth story, having landed in the prestigious unicorn club (over $one billion valuation). India has clearly emerged as the favourite turf of large global investors like Soft Bank, Tiger Global, Warburg Pincus, Nexus Ventures, Alibaba, Sequoia Capital, etc who, at an early stage, supported some of the leading names in the fray today and have consistently enhanced their exposure in the Indian market. "The Indian start-up ecosystem is the third largest in the world with an estimated base of 50,000 start-ups, with a current $55-billion plus cumulative valuation. Till recently, global investors have been showing an avid interest, especially due to the government initiatives towards 'ease of doing business'. For instance, the focus on the Insolvency and Bankruptcy Code (IBC) has encouraged asset reconstruction companies like CDPQ from Canada and Encore Capital from the US to invest in India," says Dr. Ajay Kela, President and CEO, Wadhwani Foundation while pointing at the key trend of entrepreneurship becoming mainstream not only in leading cities but also in Tier-2 towns like Ahmedabad, Jaipur, Kolkata, Kochi, Thiruvananthapuram, Kanpur, Chandigarh, Coimbatore, etc (although Bangalore, Delhi-NCR and Mumbai still comprise 55-58 per cent of start-ups).

The success of a select few has indeed been mind-boggling. Walmart eventually grabbing Flipkart for a staggering $16 billion is the biggest success saga which India has offered on the start-up success front. Some of the poster boys of this game like Ritesh Agarwal of Oyo Rooms (credited with the mainstreaming of thousands of hotel rooms in the country lacking visibility and ultimately commanding valuations close to the top-notch brick and mortar hospitality firms) are being held in reverential terms by a huge bunch of youngsters fired by entrepreneurial zeal. The government, with its specific policy for start-ups in 2016 with fiscal relaxations and incubation facilitation had further fuelled the aspirations, especially of MBA graduates, to take the route. "The Start-Up India campaign has enabled the creation of a holistic ecosystem to bring together diverse stakeholders like large manufacturing enterprises, OEMs, MSMEs and start-up enterprises on the same platform, empower each of these stakeholder groups, especially start-up units with the necessary resources and explore

Anant Raj Kanoria, CEO, iQuippo

new opportunities to partner for business development. In fact, since the Start-up India initiative was launched in 2016, it has supported the creation of 560,000 jobs – both direct and indirect," observes Rahul Garg, Founder & CEO, Moglix (a B2B industrial procurement platform where Ratan Tata has also invested in his personal capacity). For encouraging incubation centres in the private sector (mostly through educational and technical institutes), an investment subsidy of 20 per cent of the value of capital expenditure (excluding land/building) was provisioned for (institutes need to sign an MoU with the state government). Additionally, several corporates have initiated their own start-up accelerator programme where after initial handholding they can even integrate the start-up entity with their own mainline operations. Just to cite an example, telecom major Airtel is running an accelerator programme and recently it announced picking up a strategic stake in Voicezen, an early stage start-up focused on conversational AI technologies. Voicezen is the third start-up which has become part of the Airtel accelerator programme.

The buzz around the success stories in the Indian start-ups and its poster boys has been so emphatic that it has completely over-shadowed a very high incidence of failures in recent

Sangeeta Gupta, NASSCOM

years. According to a report released by IBM Institute for Business Value and Oxford Economics in 2017, 90 per cent of Indian start-ups find it difficult to stretch their existence beyond five years. Talk to anybody in industry circles and they will tell you that there hasn't been any improvement on this front. "Lack of innovation remains the foremost reason for any start-up to fail. It is well known that most Indian start-ups are prone to emulate successful global ideas, mostly fine-tuning an existing model to serve local needs," observes Ashneer Grover, co-founder and CEO of BharatPe. "Failure rates for start-ups have always been high across the world – 9 out of 10 start-ups go out of business. Globally the top three reasons why start-ups fail are: no market need, company runs out of cash and the right team not in place. Even in India these three reasons are pertinent," reasons Viram Shah, CEO and co-founder, Vested Finance. The import of the message is clear: a high degree of failures is a given thing or discounted factor in this new game across the world and in normal times, it does not have much bearing on market moves. This is well reflected in the fact that in 2019 when a serious slowdown had begun taking concrete shape in India, investors in tech start-ups had not really tightened their purse strings as a fresh capital infusion of a record $14.5 billion was witnessed during the year (the previous annual best was $10.6 billion in 2018).

Fear factor

But after Corona's entry, since the beginning of this year, the somewhat comfortable journey of the Indian start-ups has now dramatically changed to a topsy-turvy course. With the funding tap likely to remain dry for quite some time, a larger existential crisis has emerged posing a threat to the survival of many or rather the majority. "Had there been no disruption of this kind, we would probably have been looking at the emergence of 100 unicorns in the next five years. Now nobody knows what will happen," rues Kris Gopalakrishnan, information technology industry veteran (former Executive Vice Chairman of Infosys) and chairman of early stage start-up accelerator and venture fund, Axilor Ventures.

A recent survey conducted by NASSCOM, the apex body of IT and ITES firms, tends to present the fear factor in more micro-terms and with possible numbers. "Out of the blue, this flourishing growth saga has suddenly been hit by a roadblock…the COVID roadblock. There is no country, business or living being that has not been affected by the COVID pandemic. While governments have been working diligently to protect and save human lives, businesses have been hit and small businesses and early stage start-ups have been the most affected," writes NASSCOM President Debjani Ghosh in the report.

In specific terms, the report, which makes a statement on the universe of IT start-ups, has underlined that 90 per cent of the firms face a decline in revenues, 30-40 per cent have temporarily halted their operations and about 70 per cent have cash which will not last more than three months (refer to the graphics). And most of the start-ups surveyed are not expecting the normal business cycle to return for anywhere between six months to a year. "Our report is mostly talking about early stage companies which have been in existence for less than three years and are mostly in a bootstrapped mode. Funding is going to be extremely difficult for such entities in the near run," explains Sangeeta Gupta, Senior VP & Chief Strategy Officer, NASSCOM.

Industry stakeholders confirm that the scenario appears to be extremely bleak for fresh investment in the coming months. "Fresh capital infusion is unlikely to happen in the next six to nine months barring some exceptional cases where existing investors may be putting in more money to protect their interests," says Appu Addison, VP (Investments) of Singapore based early stage start-up investment firm ThinKuvate (it has supported five ventures in India, mostly consumer-facing). "The COVID scenario has actually been an opportunity in many ways, as we have seen people coming online to transact and also buying or viewing equipment online. But on the other hand, it has delayed some of our funding plans as investors have taken a wait and watch approach," admits Anant Raj Kanoria, CEO, iQuippo, an online marketplace specializing in the sale and renting of construction and mining equipment.

"Most of the new kids on the block may fail to survive with no funds coming their way. Leading investors seem to have made up their mind to completely stay away from early stage

Rohit Kapoor, CEO, India and SA, OYO Hotels

start-ups in the near run," says M.S. Gupta, Consultant, Electronic Sector Skill Council of India.

Survival mantra and silver lining

Though nobody is willing to formally hazard a guess on the expected volume of start-up debacles in the near run (for around a year), in informal conversations stakeholders are maintaining a broader ratio of 50-60 per cent exiting the business because of liquidity starvation. And those who are going to hang around (with around five years of existence and having received a couple of rounds of funding, (their survival will be crucial for those who have invested in them) reinvention will be the key. "The two key operational elements for start-ups would be: conserve the cash to burn in the future and rethink the entire strategy. For instance, the metrics readily used by players in the e-commerce industry like GMV (Gross Merchandise Value) will have to be integrated into a sustainable business model," points out Ankur Pahwa, Partner & National Leader (e-commerce and consumer internet), Ernst & Young India. "A serious reinvention is definitely the need of the hour. The start-up companies will have to further consolidate their specialization and expand their services portfolio based on that. For instance, a consumer-facing company in a specific vertical can further innovate by adding B2B component to the business in the same space," adds Sangeeta Gupta of NASSCOM.

The NASSCOM report, meanwhile, is not all about impending gloom. In no uncertain terms, it also talks about potential winners emerging from this crisis. Start-ups aligned with online education, healthcare services, logistics and distribution, etc. are expected to further consolidate their positioning with an increased demand for their services. And some of the leading players in these verticals are going that extra mile to prepare a bigger stage for the new regime defined by Corona and the limitations it has imposed. "We know that this is a momentary phase which will push online education to the next level. This is no time to go into hibernation. We have not slowed at all," claims Arjun Mohan, CEO of upGrad, India's leading online higher education company. With noted serial entrepreneur Ronnie Screwvala at the helm, upGrad has upped the ante in recent weeks. On 25 May, it announced an 18-month online post-graduate program (PGP) in partnership with the reputed IMT Ghaziabad, followed by placement opportunities with top-notch employers.

It is also a busy time for some of the medical services start-up platforms which are on a growing curve. Take the case of BeatO, an integrated digital diabetes management solution platform that combines IoT sugar monitoring devices with app ecosystem using AI (artificial intelligence) to provide the right information at the right time to its users (with its triage system, users can be instantly connected to required doctors and diabetes educators if needed). "Recognizing that the customer needs are evolving very fast, in the last four weeks, BeatO has also introduced a new suite of digital products – Virtual Endocrine Clinic on the BeatO app, where users can have on-demand video chats with top endocrinologists, cardiologists, rheumatologists etc; and a Diabetes Total plan, a 360-degree subscription plan that takes care of the management and hospitalization needs of a user," says Gautam Chopra, CEO, BeatO. BharatPe, a QR code-based payment app for offline retailers and businesses, which offers small loans to traders as well, also claims to be using the disruption phase to subtly push the envelope. "BharatPe has used this COVID-19 time to strengthen the tech and product and will be aggressively acquiring merchants and lending to them. We want to lend $100 million to small merchants from now till the end of the year. During the lockdown, we have launched new products and features to help merchants in their business, and the response is encouraging," comments Ashneer Grover, CEO of the company. Azhar Iqubal, co-founder and CEO, Inshorts and Public (fast growing digital media platforms) has a similar story to share. "COVID-19 and the extended lockdown has made it critical for people to have real-time updates, and hence both our apps have

Gautam Chopra and Yash Sehgal, BeatO

Ashneer, Co Founder and CEO, BharatPe

seen 200+ per cent rise in users during the last three months. While we were expecting the lockdown to result in increased digital content consumption, this huge jump in the user base has surprised us too. We are focusing on investing in technology up-gradation now."

Major signposts of the Indian start-up system like Oyo Rooms which has been at the receiving end of several reports in the recent past (massive layoffs and absolutely shaken business structure theories doing the rounds because of its linkage with the severely affected travel vertical) also emphasizes that it is significantly modifying its operational modules. "We are currently training our 15,000 hotel room partners across the country with new SOPs (standard operating procedures) based on the minimal touch principles. Plus, we are also working on strengthening our supplementary verticals of co-living and wedding retail stores. The volumes will definitely come back and we will come out stronger from this crisis," Rohit Kapoor, CEO, OYO India and South Asia says, exuding confidence.

A bit of stronger handholding, though, is emphasized by industry stakeholders at this stage, particularly in the form of low-cost credit provisions. "Low interest working capital loans to start-up enterprises may be envisaged given that venture capital funding may take a temporary hit. Secondly, the government may look to provide greater support to start-up enterprises with handling the cash flow by directing the on-time release of GST refunds," says Rahul Garg of Moglix. A top executive of another noted start-up company, however, points at the recently initiated FDI modification by the government which is believed to be directed at controlling investments from China – a potential deterrent for new ventures in India. "As per the revised guidelines, any investor of a nation that shares land borders with India will now require government approval for making any investment in India. While the move to curb hostile acquisitions is well-intended, it can create an additional funding obstacle for home-grown start-ups. This has also confused homegrown start-ups who would now shy away from Chinese capital which has been a key investor," says he.

Meanwhile, in terms of immediate relief to start-ups to enable them to deal with Corona shock, there have been broader hints from government quarters. The Department of Industry and Internal Trade (DPIIT) is expected to soon approach the cabinet for the clearance of a Start-up Seed Capital Fund and credit guarantee scheme to help new players on the horizon. And another key buzz in Delhi's administrative circle these days is that the government is planning to engage the big four of the global consultancy business to promote India's case for fresh investments under its flagship 'Make in India' and 'Start-up' programmes as new global alignments are expected after the COVID-19 crisis.

Current hurdles notwithstanding, there is a feeling that after the churnings, things may stabilize again for the start-up universe given its strong future linkages, not only for India but the world at large. "Come to think of it, we have Ola for Uber, Gaana for Spotify, OYO Rooms for Airbnb and Flipkart for Amazon but where are the meta-level start-ups for the next Google or Facebook or Twitter? Top-notch technical talent and greater investment in R&D is the need of the hour," observes Ajay Kela of Wadhwani Foundation. "Take it as a temporary phase. The growth cycle will start again at some phase and with innovative ideas and good leaders, you can look at new frontiers," says Kris Gopalakrishnan. That the 'sky is the limit' sentiment pertaining to future start-ups has not completely vanished is probably a big solace in the battered Indian start-up space right now.

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