Startup ecosystem in India – Growing or matured?
Foreword

KPMG in India

India has witnessed remarkable growth in the startup ecosystem over the last 5 years or so. The two most significant factors driving the growth of startups in India are consumerism and the digital revolution that has been brought about by smartphones. The number of active internet users grew by 11.34 per cent y-o-y to 481 million in 2017 driven by the exponential increase in smartphone usage and a drastic drop in the cost of data in the country.1

Other factors that have fueled the growth of startups have been the abundant supply of tech talent, a product of the IT boom which took place in the early 2000s, and an increase in the inflow of foreign capital into the country. India has quickly grown to be the third largest base for startups with over 5,200 companies which have been recognized as tech startups.

India’s startup ecosystem is traversing the maturity cycle with impressive traction in the B2B space. While the startup space is still dominated by the B2C sector, which accounted for 73 per cent of the market, a decline of 4 per cent, compared to the previous year. Fiscal 2017 witnessed an addition of over 1,000 startups of which nearly half were in B2B sectors.1

Bengaluru continues to remain the main hub for startups and has the maximum number of startups in India. Bengaluru also leads in terms of funding with startups based out of the city receiving INR479 billion.1 However, Delhi-NCR is gaining traction and has become the second largest base, receiving a total of INR274 billion funding in 2017.1 Tier 1 cities remain the most popular destination for startups with the top four cities accounting for 74 per cent of startups in the country. However, tier 2 and 3 cities have seen a growth in the number of startups being set-up, accounting for 20 per cent of the total startup base, up from 16 per cent in 2016.

The Indian ecosystem continued to remain attractive for investors. There has been an inflow of INR2, 254 billion between 2014 and 2018 with almost half those funds flowing into the country between 2017 and the first half of 2018. However, investors have shown a strong preference for funding companies which are in their matured stage accounting for over 85 per cent of investments in 2017.1 This led to 2017 being the year with the highest investments in terms of value (863,000,000 INR) but the lowest number of deals (885) over the last three years. The seed stage continues to being attractive to investors with over 507 deals taking place in 2017.1 The bridge stage saw a drop in activity with only 89 deals taking place due to the lack of funds. In terms of sector, e-commerce and fintech lead the way with INR292 billion and INR192 billion being invested, respectively, in 2017. The startup ecosystem has also seen a significant increase in the number of startups building solutions for India specifically. There are over 325 startups solving specific challenges in various sectors, such as; healthcare, education inclusion, financial inclusion, clean energy, agriculture, etc.

The first edition of the KPMG – Invest India – Venture Gurukool report titled ‘Startup ecosystem in India – Growing or Matured? – 2018’ aims to cover the trends in the Indian startup ecosystem with an insight into China’s role in Indian startups. Chinese companies account for 42 per cent of investments received under ‘Invest India’. Chinese investments in India have grown at a CAGR of 23 per cent to reach INR123.6 billion between 2000 and 2018.2 The report also studies the sources of funding available currently and the growing role of foreign investors. It also covers the role of the government in promoting the growth of the startup ecosystem and the various tax policies and incentives available to startups.

We, at KPMG in India, thank everyone who has helped us in bringing out this paper. We hope this triggers positive thinking across all the stakeholders to build an innovative and robust startup ecosystem in India.

Jayant Kumaar
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KPMG in India

1. Indian Startup ECOSYSTEM- traversing the maturity Cycle – Nasscom report, 2017
2. The India Startup Report 2018- Your Story
India is a developing South Asian country. It is the most populous and 7th largest country by area. The second most population implies a prospective market for potential entrepreneurs and investors, aiming to maximize from tapping the available resources and manpower. In the present decade, India is undertaking an essential shift towards startup welcoming policies and a business friendly environment.

India has the 3rd largest startup ecosystem in the world, with over 20,000 startups and around 5,000-5,200 of these being technology led startups.

As the innovations make customers lives easier, the advances in the technology (like artificial intelligence and machine learning, block chain, storage and Computing as a Service and robotics) itself is making it easy for entrepreneurs to take a big leap in product development, leading to accelerated development cycles and better business opportunities to chase. 1,000 new tech startups were born in 2017 alone, implying there are ~3 tech startups born each day.

India has been very active in creating a healthy startup ecosystem, and the growth in the number of startups is increasing year on year. The Indian government has floated 50+ sector-specific and sector-agnostic schemes for startups.

The similarities between India and China is making it easier for the Indian entrepreneurs to start looking east and attracting Chinese investors for better knowledge and expertise.

It was during the euphoria of 2015, the Chinese made their presence felt among Indian startups. Alibaba participated in the USD600 million round raised by Snap deal and in the USD700 million that an Indian e-commerce payment system raised with Ant Financial that same year. Thus, two of the major Chinese investors Alibaba and Tencent are already present in India.

Indian startups are welcoming Chinese investors not only because they have deep pockets. It’s because they bring knowledge and expertise that helps young startups save time and effort in building something from scratch. They learn from much experienced industry experts, using their tested ideologies. The investors are more hands-on, providing tangible non-financial benefits.

India has the third highest number of startup incubators and accelerators in the world, after China and the US. The number of startups and incubators grew by 40per cent in 2016-17. This will increase the nurturing of innovative ideas into sustainable business models.

Venture Gurukool is a commune for early-stage ventures. As incubators and accelerators, we provide a host of portfolio management services, impact mentorship, and fundraising assistance which helps in preserving and driving the value of the start-up and increasing the odds of earning better than normal ROI in the medium term.

Venture Gurukool, in India, works towards developing an India-China hub that creates, encourages and promotes knowledge and innovation between founders and investors based in India and China. Venture Gurukool’s vision of facilitating cross-border exchange between India and China helps Indian start-ups with Chinese experience and connects entrepreneurs, enterprises and investors from domestic and International markets to accelerate success. We aim towards building a community which fosters the spirit of entrepreneurship and improves the odds of success for an early-stage company.

We take part in holding events and sharing activities between investors and startups which are currently in business, to communicate on the product, design, development and operation dimensions to connect them and bring together a vibrant ecosystem for startups in India.

Venture Gurukool takes immense pleasure to be a part of this report by KPMG. The rise of the Indian Startup Ecosystem is momentous and holds tremendous amount of opportunities. It is our responsibility as incubators and accelerators to look forward to build our Startup community by nurturing new ventures and encouraging the vision of young entrepreneurs. We shoulder it gladly.
India has become one of the leaders in the start-up space over the last ten years or so. The IT boom in the early 2000s laid the foundation as it created a large talent pool for the tech-enabled businesses to flourish. The other big factor that has led to a steady increase in the number of start-ups is the drastic increase in the number of smartphones in the country. The number of active smartphone users increased to 481 million in 2017, an increase of over 11% over the previous year. India currently has the 3rd largest start-up base in the country, registered at 5,200 companies. A new wave of start-ups in the country aim to focus on local issues in the fields of education, logistics and lodging. A few companies to have achieved the elusive unicorn status in the fields concentrating on local issues include Byjus - an online E-learning company, OYO – a hotel room aggregator and Policy bazaar, an online insurance company.

There are a number of signs which indicate that the Indian start-up system is moving to a more mature phase. Indian start-ups are beginning to diverge from their geographical concentration in Tier 1 cities, especially Delhi-NCR and Bangalore. Although they still have 80% of the start-up market several start-ups have emerged from smaller cities like Jaipur and Pune. B2B start-ups dominate the share of start-ups. The increase in the number of B2C start-ups is a sign of maturity in the Indian start-up space. This increase is validated by the rise of foreign investments into the country. About half of the 35 billion USD which has flowed into the country for investments in start-ups over the last four years have been during the previous 18 months.

The first ever edition of the KPMG – Invest India – Venture Gurukool report titled “Start-up ecosystem in India – Growing or Matured? - 2018” aims to cover the trends in the Indian Start-up ecosystem with an insight into China’s role in Indian start-ups. The report also has a section on how Chinese investors are playing an active role in fueling start-ups in India. Chinese companies account for 42% of investments received under ‘Invest India’ which was started by the government to attract investments towards India. Chinese investments in India have grown at a CAGR of 23% to reach INR 123.6 billion between 2000 and 2018.

We, at Invest India, thank everyone who has helped us in bringing out this paper. We hope this triggers positive thinking across all the stakeholders to build a innovative and robust startup ecosystem in India.
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1. Introduction
India has always been a startup hub driven by its ability to capitalise the changing technological landscape. The first startup wave took off in India during the 1980s when IT focused companies started emerging in the country, which eventually became global giants. Later on, with the inception of internet, the country saw a boom in the online consumer startups such as Naukri.com, Book My Show, Matrimony.com, amongst many others, during the late 90s and early 2000. And now, with the emergence of broadband and especially SMAC stack (Social, Mobile, Analytics and Cloud), India is witnessing its third wave of surge in tech-startups, thereby making its way towards being an entrepreneurial hub.

To support this growth, the Government of India is taking every possible step towards creating a conducive environment for the country’s startup ecosystem. Through its ‘Startup India’ scheme, the government aims to build an ecosystem in which entrepreneurs can innovate and excel without any barriers. To augment this, the government has taken various steps such as initiating the ‘Startup India Learning Programme’, facilitating patent and trademark filing, relaxing compliance policies, building infrastructure, funding support, tax exemption and addressing regulatory concerns.

In addition, various other initiatives such as ‘Make in India’, ‘Skill India’ and ‘Digital India’ are complementing the ‘Startup India’ initiative, thereby having a positive direct/indirect impact on the country’s startup ecosystem. For instance, the government through its ambitious ‘Digital India’ initiative, aims to connect rural areas by an optical fibre network. This in turn is expected to create opportunities for tech-startups to enter the rural market and provide quality services, such as healthcare, education, etc., to those regions.

Increasing government support, coupled with rise in investors’ confidence and technological advancements are revolutionising the startup landscape of India. On one hand, global investors are pouring in big money in Indian startups, while on the other hand domestic players are leveraging advanced technologies such as Internet of Things (IoT), Artificial Intelligence (AI), Machine Learning (ML), Big Data, analytics, etc. to develop innovative products and sustainable businesses. The combined efforts of all stakeholders have led to the creation of various ‘unicorns’ in the country. However, the big call out is that the duration taken by companies to achieve this milestone has reduced significantly, which indicates a significant rise in the investor base, especially from China.

Over the years, India and China have taken several steps to strengthen their ties. Several meetings between delegates of the two countries have been held to address key issues and to increase collaboration for sector-specific growth. These key initiatives include Prime Minister (PM) of India, Mr. Narendra Modi’s visit to Beijing in May 2015 which led to signing of 24 agreements worth INR662 billion (USD10 billion) in various sectors including railways and education.1 In addition, the PM met the President of China, Mr. Xi Jinping, during the BRICS summit in July 2018, to discuss the international landscape.2 Such momentous visits have enabled the two nations to come close and support each other’s economic growth.

The Indian economy, in the last few years, has witnessed a substantial increase in investments from China that reached INR123.6 billion in March 2018.3 A majority of these investments were in the Indian startups, with some significant contributions from Chinese giants such as Alibaba, Tencent and Xiaomi.

Hence, it is evident that the startup ecosystem in India has become vibrant and mainstream in the last few years – be it in terms of creating jobs, resolving consumer problems, and creating products for the masses.

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2. “PM Modi, Chinese President Xi to meet for the 4th time this year at G20 Summit in November”, Hindustan Times, 15 October 2018
3. “Fact Sheet On Foreign Direct Investment (FDI)”, DIPP, accessed on 15 October 2018
2. India’s startup landscape
2.1. Overview

India, with a startup base of over 20,000 companies (until June 2018), has witnessed an impressive growth in its startup landscape in the last few years. The growth has largely been driven by rise in consumerism and digital revolution brought by smartphones. This in turn has led to creation of initial success stories by firms such as Info Edge, BookMyShow, Flipkart, amongst others, which eventually steered the establishment of a promising entrepreneurial culture in India.

What is a startup?

According to the Department of Industrial Policy & Promotion (DIPP), Government of India, a startup is an entity, incorporated or registered in India:

- **Inception**: Incorporated in the last seven years
- **Focus**: Working towards innovation, development or improvement of products or processes or services, or if it is a scalable business model with a high potential of employment generation or wealth creation
- **Legal status**: Operating as a private limited company or registered as a partnership firm or a limited liability partnership
- **Revenue**: Operating with an annual turnover not exceeding INR250 million for any of the financial years since incorporation/registration

An entity shall cease to be a startup:

- Upon completion of seven years from the date of its incorporation/registration, ten years in case of startups in the biotechnology sector, or
- If its turnover for any previous year exceeds INR250 million

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1. “Indian Startup Ecosystem”, Startup India, accessed on 17 October 2018
2. “DIPP comes out with fresh notification on definition of start-ups”, The Hindu, 12 April 2018
Startup ecosystem

The startup ecosystem in India mainly comprises entrepreneurs, their companies and various supporting, funding, research and knowledge organisations.

India’s growth journey – as a startup hub

India’s startup ecosystem is not a recent occurrence, but has been there for over four decades and went through phases of evolution. During 1980s, a handful of IT companies started emerging, driven by the IT revolution, which later on became global giants and positioned India on the world’s economic map. In the late 90s, emergence of the internet and development in telecom technology encouraged local entrepreneurs to grab the opportunity and start scale businesses. This period, witnessed the inception of many dot-com startups such as BookMyShow and many industry portals such as AgencyFAQs, etc.

Today, the startup ecosystem in India has seen a tremendous growth in both the quantum and variety, with an increasing advent of technology startups (tech startups). In 2017, the country witnessed an addition of more than 1,000 tech startups, taking the total count to approximately 5,200, thereby strengthening its position as the third largest startup ecosystem across the world, after the U.S. and the U.K. As per a NASSCOM report titled “Indian Startup Ecosystem Maturing – 2016”, the tech-startup base in India is expected to grow twice as much to reach an estimated 10,500 startups by 2020.

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3. “Startup Ecosystem”, DIPP, accessed on 3 October 2018
4. “Indian Start-up Ecosystem – Traversing the maturity cycle”, NASSCOM, November 2017
5. “India retains its position as world’s third largest startup”, Times of India, 26 October 2016
Startup ecosystem in India – Growing or matured?

India is one of the fastest growing startup landscape in the world and every major accelerator, investor, angel group, is participating in becoming a part of this growth journey. Today, the Indian ecosystem is flooded with innovative ideas and needs the right channel and guidance in terms of acceleration, scaling up and funding.

- Raman Roy, Chairman, NASSCOM, and CEO and MD, Quatrro Global Services

This recent growth in the Indian startup base is an outcome of a combination of multiple factors:

On the demand front, increasing smartphone penetration has led to a significant increase in the number of consumers connected to the internet. As per the Internet and Mobile Association of India (IAMAI), in December 2017 the number of active internet users in India grew YoY by 11.34 per cent to reach 481 million. The sheer size of these users, along with the increasing need for consumption makes them an attractive customer base.

On the supply side, the country is home to a huge technology talent base. Availability of adequate human resource coupled with changing views of the traditional mercantile community towards ‘business’ as a career, is driving the growth of the startup base in India.

Lastly, huge capital inflows from global investors along with the government’s extensive focus to provide a conducive business environment is facilitating the entrepreneurial spark in the country.

A well-established startup ecosystem as it is being witnessed today, is an effect of all these favourable megatrends.

Source: “Indian Startup Ecosystem – Traversing the maturity cycle”, NASSCOM, November 2017

6. “Internet users in India expected to reach 500 million by June: IAMAI”, Economic Times, 20 February 2018
Geographic cluster

For years, Bengaluru has been a leader in terms of number of startups, driven by its huge technology talent pool and presence of global investors. The city is also home to a maximum number of unicorns in India such as Flipkart, Ola, Inmobi, Quikr, Mu Sigma, amongst others. In terms of funding raised by startups, Bengaluru with INR479 billion (USD75 billion) topped the chart in 2017. However, Delhi-NCR has slowly started gaining traction and became the second largest startup hub in the country. The city is headquarters to various big brands such as an Indian e-commerce payment system, Snapdeal, Zomato, Grofers, etc., and was also ranked second in terms of the total funding raised by startups in 2017, which stood at INR275 billion (USD4.3 billion).

Figure 2: Tech startup base in India – Location analysis (2017)

Until now, tier 1 cities such as Mumbai, Hyderabad, Chennai and Kolkata including Bengaluru and Delhi NCR were popular destinations for startups. However the country is slowly witnessing emergence of promising startups across tier 2/3 cities such as Pune, Ahmedabad, Jaipur, Indore, Chandigarh and Kochi. In 2017, while tier 1 cities retained their position as key startup hubs in India (with 90 per cent share), 20 per cent of the startups emerged from tier 2/3 cities, as compared to 16 per cent in 2016. Some of the emerging startups from these cities include Xpressbees (Pune), Lendingkart (Ahmedabad), Voylla (Jaipur), Groundworks (Indore), Jugnoo (Chandigarh) and Entr (Kochi). Growth in the startup ecosystem of these tier 2/3 cities are driven by favourable factors such as availability of low cost technology, talent and low operating costs, which are playing an important role in evolving these cities as important startup hubs in the country.

Business focus analysis (B2B and B2C)

Currently, India’s tech startup ecosystem is being dominated by B2C (Business to Consumer) entities with a large number of companies focusing on addressing consumers’ needs and catering to that segment of the market. In 2017, B2C startups held 73 per cent share as compared to 40 per cent of B2B, in the total start up base. However, growth in the B2C segment has also allowed businesses to experiment buying goods online, thereby driving the growth of the B2B segment. Hence, B2B start-ups, by utilising the infrastructure (such as logistics and payments) that was built for B2C, is likely to grow at a faster rate than B2C in the near future.

Fiscal 2017 witnessed an addition of over 1,000 startups of which nearly half were in B2B sectors such as fintech, healthtech, media-tech, etc., with a focus on Artificial Intelligence (AI), Big Data and analytics, Machine Learning (ML), Internet of Things (IoT) etc. Significant growth in the B2B segment is driven by corporate investors who have knowledge of deep enterprise technology, and are ready to invest money on these new-age startups.

Some of the notable B2B startups in India are Industrybuying (an online store for industrial supplies), Wydr (an app based wholesale shopping platform, which connects manufacturers, distributors, suppliers and retailers), Mswipe (mobile point-of-sale solution) amongst others.

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7. “Indian Tech Startup Funding Report 2017: $13.5 Bn, 885 Deals, 1078 Investors”, INC42, 29 January 2018
<table>
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<th>Year</th>
<th>Total startup base</th>
<th>B2C</th>
<th>B2C</th>
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<tr>
<td>2017</td>
<td>5,000-5,200</td>
<td>73%</td>
<td>40%</td>
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<tr>
<td>2016</td>
<td>4,700-4,900</td>
<td>77%</td>
<td>37%</td>
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<tr>
<td>2017</td>
<td>New startup additions (1,000)</td>
<td>59%</td>
<td>47%</td>
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13 per cent start-ups had both B2B & B2C focus
14 per cent start-ups had both B2B & B2C focus
6 per cent start-ups had both B2B & B2C focus

Source: “Indian Start-up Ecosystem – Traversing the maturity cycle”, NASSCOM, November 2017
Focus on key sectors

Tech enabled B2B and B2C startups in India have been driving innovation to meet consumer needs, solve problems and revolutionise various sectors such as healthcare, education, financial services, and logistics, among others. By using emerging technologies such as AI, ML, IoT, etc., these startups are changing the business landscape of almost all sectors in the country.

E-commerce

For a long time in India, startups were synonymous to e-commerce due to the presence of prominent companies in this segment, owing to a lucrative market. E-commerce in India has been witnessing a significant growth and is expected to become the world’s fastest growing e-commerce market in the future. According to eMarketer, the retail e-commerce sector in India is expected to register a y-o-y growth of 31 per cent in 2018, to reach an estimated value of INR2,372 billion (USD32.7 billion). The sector is expected to grow at a CAGR of 22 per cent to reach INR5,218 billion (USD71.94 billion) by 2022.10 Expanding smartphone and internet user base, coupled with the country’s growing young population and swelling middle class is driving the growth of the online retail market. The sector has presence of some of the biggest startups such as Flipkart (acquired by a global retail company), Snapdeal, ShopClues, an Indian e-commerce payment system, etc. along with some foreign companies, which are competing amongst themselves to capture a bigger portion of the pie.

HealthTech

India, with a population of over 1.2 billion,11 still remains a country where quality healthcare is limited to tier1/2 cities. As per a KPMG report on “Healthcare access initiatives – 2016”, approximately 60 per cent of hospitals, 75 per cent of dispensaries and 80 per cent of doctors are located in urban areas, serving only 28 per cent of the Indian populace.12 However, in the recent past, many healthcare startups have come forward to bridge this gap by connecting patients with healthcare providers, through various platforms. In 2017, the healthtech sector had over 320 start-ups, which grew by 28 per cent as compared to 2016.4 Although, most of these startups cater to urban customers, there are some companies such as Gramin Healthcare, Karma Primary Healthcare which provide technology-based healthcare solutions in rural areas.13,14 Initially, healthtech startups focused on developing doctor-patient platforms, providing diagnostic, medicine delivery services, etc. However, with the development in technologies, a new set of tech startups have evolved in the system that focuses on various other aspects of healthcare such as online access to genomic tests, eye scanning devices, calorie counters, cloud solutions for medical records, e-commerce space for medical devices, fitness apps and wearables. Some of the notable startups in this sector are Portea, Netmeds, Mapmygenome, BioQuest, GetActive, Cult to name a few.

Healthtech startup base

- +320 (2017)
- 28 per cent y-o-y growth in number

10. “India’s e-commerce market to hit $32.7 billion this year; growth trails only these 2 countries in A-Pac”, Financial Express, 8 June 2018
11. “A population of over 1.2 billion, but India reeling under critical vacancies”, The Times of India, 17 April 2017
12. “80 per cent of Indian doctors located in urban areas”, The Economic Times, 19 August 2016
13. “Kiosk by kiosk, this healthcare startup is transforming healthcare for rural India”, Your Story, 27 June 2018
14. “1Crowd, others invest in rural health-tech startup Karma Healthcare”, VCCircle, 20 March 2018
Fintech

Increasing focus of the government towards financial inclusion, coupled with promotion of cashless technologies such as mobile wallets, Point of Sale (POS), Unified Payments Interface (UPI) are transforming the Indian financial sector, by providing opportunities to startups in digital payments, advisory and content services. Currently, a majority of the startups in this space are focusing on mobile payment through POS devices to mobile wallets, while some other startups are offering comparison services and tools for banking and insurance. Some of the prominent startups in this space are an Indian e-commerce payment system, PhonePe, BankBazaar.com, PolicyBazaar, MSwipe, among others. In 2017, a fintech startup base in India registered a y-o-y growth of 31 per cent to reach approximately 360 in 2017. In addition, the growth opportunities in the digital payments segment has also attracted many global players. Hence, with increasing number of players, the digital payments segment is slowly maturing in India, while other segments such as wealth management and insurance-tech are gradually emerging.

EdTech

Lack of quality education, especially in rural areas, is one of the major challenges that the Indian government is facing at present. This gap has created huge opportunities for edtech startups to provide access to affordable quality education. These companies, apart from focusing on academic programme, also provides online services on personality development and career counselling. As per a 2017 KPMG report titled ‘Online Education in India: 2021’, online education in India is expected to grow eight times, by 2021. This growth is likely to have a positive impact on the edtech market that has a potential to reach INR142 billion (USD1.96 billion) by 2021, from INR16 billion (USD247 million) in 2016. In the recent past, startups in the edtech space have come up with multiple platforms of education such as e-learning programmes (that includes technology, content and support services), multiple learning options (classroom, live online groups, self-paced) and innovation (content creation, gamification). Going forward, these startups are expected to focus on increasing online education penetration to semi-urban and rural areas by providing content in multiple languages.

Key notable edtech startups in India include, Simplilearn, Pocket Science, Toppr, among others. Some of the startups focusing on rural areas are Learning Delight, Hippocampus Learning Centres, Sudiksha Knowledge Solutions etc.

15. “Online Education Market In India To Touch $1.96 Bn By 2021 – Decoding The Impact On EdTech Startups”, INC42, 1 June 2017
TravelTech

India is the seventh largest tourism economy in the world in terms of its contribution to GDP. According to World Travel and Tourism Council (WTTC), India’s tourism and travel sector contributed 9.6 per cent to the country’s GDP in 2016. The online travel market in India is expected to grow at a CAGR of 16 per cent to reach an estimated value of INR986 billion (USD13.6 billion) by 2021. Despite this huge potential, the penetration of online booking of hotels in India is just 20 per cent. To capture the addressable market, a number of startups based on the Online Travel Aggregator (OTA) model, along with hospitality companies and budget hotel chains, have emerged in the past. Some of the prominent players in this sector are Goibibo, Yatra, OYO, FabHotels, to name a few.

Logistics

India’s logistics sector was worth INR10,216 billion (USD160 billion) in 2017 and is expected to reach INR15,595 billion (USD215 billion) by 2020. However, the country’s highly fragmented logistics sector faces a lot of challenges such as high cost of logistics, poor material handling infrastructure, lack of seamless movement of goods and fragmented warehousing. To address these challenges, a number of tech-enabled startups have emerged in the country. These companies provide various services such as online marketplace for freight transportation booking, freight rate exchange (like commodity exchange), real-time tracking, and warehouse and fleet management, thereby leading to improvement in productivity and transparency. Notable players in the India’s logistics startup ecosystem include Blackbuck, Rivigo, Delhivery, among others.

Consumer services

Consumer services, that includes food and grocery delivery, is one of the most promising markets in India. According to a major financial services company, online food and grocery sales in the country is expected to grow at a CAGR of 141 per cent by 2020, contributing INR1.088 (USD16 billion), or 12.5 per cent, to overall online retail sales. To capture the growing market, more than 200 startups are competing with each other. However, a majority of the share in the food delivery space is being held by big companies such as Swiggy, Zomato and Foodpanda while the online grocery sector is being dominated by a Bengaluru based company and Grofers, etc. The segment is also witnessing the entrance of some big ecommerce players such as Flipkart, with Quikr being the newest entrant in the online grocery segment.

Foodtech startup base (2017)

200+, y-o-y decline of 33 per cent
The enterprisetech sector in India is gradually developing, driven by transformations that are happening in the business world. With advancements in technology, organisations in India and globally, including small and medium enterprises (SMEs), are getting specialised services from Software as a Service (SaaS) and enterprise resource planning (ERP) startups. Currently, over 480 enterprise product startups are operating in the Indian market, of which 90 per cent provides SaaS solutions. As per a 2016 NASSCOM report titled “Indian SaaS – The Next Big Thing”, SaaS accounts for 9 per cent of India’s software sales, and is expected to grow three-fold to reach an estimated value of INR73 billion (USD1 billion) by 2020.

Prominent startups in the enterprisetech startup ecosystem in India are Zoho, Freshworks, Capillary Technologies, MuSigma, Deskera, Happay, to name a few.

AI, Big Data and Machine Learning are slowly getting integrated in almost every sector in India, be it fintech, ecommerce, etc. These technologies are helping create customer friendly environment for companies of varied sectors by providing services such as intelligent shopping assistants to helpful chat bots etc., thereby creating huge opportunities for deeptech startups. Currently, over 700 advanced tech startups are operating in India, with AI being the fastest growing segment. In 2017, the AI industry in India was estimated at INR11.5 billion (USD180 million), with India being the third largest AI startup hub in the world.

Some of the notable startups in this domain are SigTuple, Halli Labs, Tuplejump, Qubole, to name a few.
2.2. Startup funding and investment scenario

A typical funding life cycle of a startup in India varies with the age of the firm. A company with an age of one year (is usually funded through family and friends), three years (funding is through angel/seed funds/venture capital/private equity), five years (funding from venture capital/private equity/banks) and eight years and above (funding through public market/private equity investment). In addition, a startup financing life cycle includes seed funding at an early stage, venture capital investments and public markets at growth stage.

Figure 4: Startup financing life cycle

Angel investors
- A small round of funding to help a new startup get off the ground
- Invest solely into entrepreneurs with idea
- Include individual angel investors, angel investor groups, friends, and family

Venture capital
- Used to scale the company’s business model
- Comes from large venture capital firm
- Consist of Series A and B (funding rounds for early stage companies) and Series C and onwards (for established companies)

Public markets
- Available to late stage startups
- Used for aggressive expansion or innovation
- Funds are invested by private equity companies and public markets

Funding environment – Key facts

The growing startup base of the country has attracted a lot of investors from across the globe, which have poured a significant amount of money in India. Since 2014 (till June 2018), the Indian startup ecosystem has attracted INR2,319 billion (USD35.3 billion) worth of investments,24,25 out of which almost half of the funding were received in 2017 and the first half of 2018.

The investments in startups have continuously increased, since 2014, except for the dip in 2016, when the investors’ confidence settled to realistic levels. The constant rise in fund flow indicates the level of confidence investors have in Indian startups. They, however, show greater interest in funding companies which are expected to have sustainable unit economics and a scalable business model.

Figure 6: Top companies by funding: 2017

Source: “Glossary of Funding Types”, Crunchbase, 30 September 2018; KPMG in India analysis, 2018

Source: “Indian Tech Startup Funding Report 2017: $13.5 Bn, 885 Deals, 1078 Investors”, INC42, 29 January 2018


25. “Indian Tech Startup Funding Report H1 2018: $3 Bln Invested Across 372 Deals", INC42, 2 July 2018; KPMG in India analysis, 2018
The year 2017 witnessed record investments worth INR863 billion (USD13.5 billion) in the Indian startups, while it had the lowest number of deals, as compared to the previous two years. This is mainly due to increasing investors’ focus in the later stages of funding, where a handful of companies raise funds. Therefore, top 10 companies account for a bulk of the funding. In 2017, top 10 companies captured 70 per cent of the total funding raised by Indian startups, with some of the popular deals being Flipkart (INR263 billion in 4 rounds), Ola (INR113 billion in 6 rounds), and an Indian e-commerce payment system.

However, fund flow in 2018 is expected to register a YoY decline of 32 per cent to reach an estimated value of INR590 billion (USD8.1 billion). Although, the funding is expected to decline, experts are seeing it as a return to normalcy, as investors are deploying capital cautiously by analysing the sustainability of businesses.

Stage-wise funding breakdown

India’s startup ecosystem has attracted the attention of major global investors, particularly in the later stage. Investors such as Alibaba, Tencent Sequoia Capital among others have invested in a number of late-stage companies such as Flipkart, Ola and an Indian e-commerce payment system, which are the key ‘unicorn’ companies in India.

Figure 7: Startup funding across different stages (INR billion)

Source: “Indian Tech Startup Funding Report 2017: $13.5 Bn, 885 Deals, 1078 Investors”, INC42, 29 January 2018

Although, late stage might have attracted big pocket investors, seed stage startups continues to fascinate the highest number of investors. In 2017, across 507 deals, investment in seed stage stood at over INR10 billion (USD157 million), while the growth stage witnessed 194 deals worth INR112 billion (USD1.8 billion). However, the bridge stage faces a lot of cash crunch owing to presence of limited number of funds that cater to this segment. In 2017, it attracted mere INR3.9 billion (USD60 million) across 89 deals.

**Startup funding by city**

In terms of investment, Bengaluru attracted the highest number of investors in 2017, with 366 deals and INR479 billion (USD7.5 billion) in funding, while Delhi-NCR had held the top spot in 2015 and 2016 in terms of deal value and volume (305 in 2015 and 316 in 2016). In terms of deal volume, Mumbai, Hyderabad and Pune stood at third, fourth and the fifth position respectively. However, tier 2/3 cities with just 28 deals in 2017, registered a y-o-y decline of 46 per cent. This indicates that smaller cities such as Surat, Bhubaneswar, Jaipur and Hubli are also witnessing fund inflow, but over 90 per cent of the funding is still concentrated in Tier 1 cities, primarily Bengaluru, Delhi-NCR and Mumbai.

**Sector focus of funded startups**

In 2017, fintech took top spot in terms of number of deals, while e-commerce topped the chart in terms of the value of investments.

**Figure 8: Tech startup funding across different cities (INR billion)**

![](image1.png)

Source: “Indian Tech Startup Funding Report 2017: $13.5 Bn, 885 Deals, 1078 Investors”, INC42, 29 January 2018

**Figure 9: Tech startup funding across different sectors (INR billion)**

![](image2.png)

Source: “Indian Tech Startup Funding Report 2017: $13.5 Bn, 885 Deals, 1078 Investors”, INC42, 29 January 2018
## Figure 10: Funding by sector (2017)\(^{27}\)

<table>
<thead>
<tr>
<th>Sector</th>
<th>Total funding (2017)</th>
<th>Number of deals (2017)</th>
<th>Top receiver (2017)</th>
<th>Key highlights</th>
</tr>
</thead>
</table>
| **Fintech**       | INR192 billion (y-o-y increase of 258%) | 111 (y-o-y increase of 21%) | • An Indian e-commerce payment system (INR89 billion)  
• PhonePe (INR32 billion) | • Seed funding witnessed a decline  
• Majority of the investment in late stage  
• About 33% of funding in the areas of AI and analytics |
| **Healthtech**    | INR21 billion (y-o-y increase of 204%)  | 111 (y-o-y increase of 35%) | • Netmeds (INR894 million from TannCam and Sistema Asia Fund) | • Health information management and aggregator/e-commerce are maturing  
• Emerging segments: anomaly detection, disease monitoring, and telehealth/telemedicine  
• Almost 31% of funding in AI, IoT, and analytics |
| **Consumer services** | INR31 billion (y-o-y increase of 121%) | 99 (y-o-y decline of 21%) | • Swiggy (INR5 billion from Naspers, SAIF Partners and others)  
• An online grocery company (INR14.5 billion from Alibaba on February 2018) | • Entrance of big players such as Flipkart in online grocery segment  
Increasing focus of foreign players |
| **E-commerce**    | INR292 billion (y-o-y increase of 322%) | 80 (y-o-y decline of 35%) | • Flipkart (INR263 billion from four technology and investment companies) | • An American retail company acquired Flipkart for INR1,160 billion (USD16 billion)\(^{28}\)  
• An American e-commerce giant invested INR320 billion (USD4.6 billion) in India in the last five years. Plan to invest INR43 billion (USD600 million) more\(^{29}\) |
| **Enterprise tech** | INR16 billion (y-o-y decline of 30%) | 78 (y-o-y increase of 11%) | • One of Asia’s largest Uptime Certified Tier IV data center situated in India (INR5.7 billion in a series B round) | • Increasing focus of domestic companies on foreign market (Zoho has 12 million users in the U.S. and Europe) |

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27. “2017 In Review: The 8 Hottest Sectors In The Indian Startup Ecosystem”, INC42, 30 December 2017  
28. “BigBasket receives $200 million in a round led by Alibaba”, The Economic Times, 2 February 2018  
29. “Amazon’s Nearly Done Investing Its Promised $5 Billion In India As Walmart Challenge Looms”, Bloomberg Quint, 16 September 2018
### Sectoral Analysis

<table>
<thead>
<tr>
<th>Sector</th>
<th>Total funding (2017)</th>
<th>Number of deals (2017)</th>
<th>Top receiver (2017)</th>
<th>Key highlights</th>
</tr>
</thead>
<tbody>
<tr>
<td>Deeptech</td>
<td>INR7 billion (y-o-y decline of 44%)</td>
<td>60 (y-o-y increase of 46%)</td>
<td>• Qubole (INR1.6 billion from Singtel Innov8, Harmony Partners and others)</td>
<td>• An American multinational technology company entered India’s startup ecosystem by acquiring AI startup Halli Labs</td>
</tr>
<tr>
<td>Edtech</td>
<td>Over INR11 billion (no change as compared to 2016)</td>
<td>Over 48</td>
<td>• Springboard (INR607 million)</td>
<td>• Yo-Y decline of 54% in seed funding</td>
</tr>
<tr>
<td>Traveltech</td>
<td>Over INR50 billion</td>
<td>Over 30</td>
<td>• OYO (INR16 billion from four major investment companies)</td>
<td>• Over INR2.7 billion in early-stage startups, a y-o-y increase of 199%</td>
</tr>
<tr>
<td>Logistics</td>
<td>Over INR26 billion (y-o-y increase of 205%)</td>
<td>Over 25</td>
<td>• Delhivery (INR6.4 billion from Carlyle Asia Partners)</td>
<td>Yo-Y decline of 52% in deals and funding at seed and early stages</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• BlackBuck (INR6.7 billion)</td>
<td></td>
</tr>
</tbody>
</table>

### Investor Landscape

A total of 1,078 investors participated in the Indian tech startup funding, a decline of 7 per cent as compared to 2016. Decline in investor participation could be attributed to reduction in angel investors’ participation from 653 in 2016 to 512 in 2017. Despite a decline, angel investors contribute the maximum share in the total investors, followed by venture capitalists, corporates, and others.

While angel investors form a significant share of close to 50 per cent in the active Indian investor mix, venture capitalists are the most active among foreign investors, accounting for about 57 per cent share in the total number of investors. Japan forms an impressive share of about 30 per cent in foreign funding in Indian startups, second to the U.S. with a 45 per cent share. Some of the key foreign investors in the Indian startup ecosystem include Nasper, Sistema Asia, Shunwei Capital, Vy Capital, Sands Capital, to name a few.

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**Investor landscape**

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**Figure 11: Investor participation**

<table>
<thead>
<tr>
<th>Year</th>
<th>Angel network</th>
<th>Corporate</th>
<th>Venture Capital</th>
<th>Angel investor</th>
<th>Others</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>3%</td>
<td>29%</td>
<td>21%</td>
<td>44%</td>
<td>3%</td>
</tr>
<tr>
<td>2015</td>
<td>3%</td>
<td>24%</td>
<td>15%</td>
<td>56%</td>
<td>2%</td>
</tr>
<tr>
<td>2016</td>
<td>2%</td>
<td>21%</td>
<td>18%</td>
<td>56%</td>
<td>3%</td>
</tr>
<tr>
<td>2017</td>
<td>4%</td>
<td>28%</td>
<td>18%</td>
<td>47%</td>
<td>3%</td>
</tr>
</tbody>
</table>

Source: "Indian Tech Startup Funding Report 2017: $13.5 Bn, 885 Deals, 1078 Investors", INC42, 29 January 2018
Merger and acquisitions\textsuperscript{30,31}

So far, funding appetite of the Indian startups have been fulfilled by the traditional investors such as angel, PE funds, etc. However, in the recent past, lack of funding especially in the bridge stage has led to these startups getting acquired or acqui-hired (acquisitions for talent) by a big company or merger of two smaller companies at the initial stage itself.

In 2017, the Indian tech-startup ecosystem witnessed 133 M&A deals, of which only 3 per cent were mergers, while 32 per cent and 65 per cent were acqui-hires and acquisitions, respectively\textsuperscript{29}. Some of the high profile M&As of 2017 include Flipkart’s acquisition of eBay India, an Indian e-commerce payment company acquired Little and Nearbuy; Zomato’s acquisition of Runnr. The year also witnessed some interesting M&As – the entrance of an American multinational technology company in to India with the acquisition of Halli Labs, Quikr acquired two subsidiaries of a Mumbai based banking company, and an Indian banking company acquired an online mobile phones recharge company for just INR 3.8 billion (USD 60 million) from Snapdeal. While 2018, witnessed one of the biggest acquisitions of a startup when an American retail company took over Flipkart for a whooping INR 1,160 billion (USD 16 billion).\textsuperscript{32}

Hence, it is evident that investors are treating M&As as a viable option to prevent their investments. Going forward, consolidation in the startup ecosystem is expected to increase, wherein more investors would use this as an exit route.

\textbf{Figure 12: Number of M&A deals}

\begin{figure}[h]
\centering
\includegraphics[width=\textwidth]{figure12}
\caption{Number of M&A deals}
\end{figure}

\textsuperscript{30.} “Indian Tech Startup Ecosystem Reported 133 M&As In 2017, 32% Were Acqui-hires”, INC42, 30 January 2018

\textsuperscript{31.} “How a rise in M&A in startups is redefining the market”, Your Story, 8 August 2018

\textsuperscript{32.} “Walmart completes deal to buy Flipkart for $16 billion”, Live Mint, 18 August 2018
Key exits

Investors from all around the globe have invested in Indian startups with an aim to get attractive returns. Growing consumerism and increasing internet penetration has led to startups getting mainstream, which ultimately is driving good returns for the investors during an exit. In 2017, VC firms made exits worth INR179 billion (USD2.8 billion), an increase of 46 per cent from 2016, with M&A being the most popular exit route amongst the investors. Below are some of the popular exits:

<table>
<thead>
<tr>
<th>Company (subsidiary of Flipkart)</th>
<th>Investor</th>
<th>Fund invested</th>
<th>Return on investment</th>
<th>Acquirer/IPO</th>
</tr>
</thead>
<tbody>
<tr>
<td>Myntra</td>
<td>PremjiInvest</td>
<td>INR1.6 billion (USD25 million)</td>
<td>500%</td>
<td>An American retail company</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Company</th>
<th>Investor</th>
<th>Fund invested</th>
<th>Return on investment</th>
<th>Acquirer/IPO</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ola (An Indian e-commerce payment system)</td>
<td>Tiger Global</td>
<td>INR7.7 billion (USD120 million)</td>
<td>363%</td>
<td>A Japanese investment company</td>
</tr>
<tr>
<td></td>
<td>A venture and growth capital fund</td>
<td>INR4.8 billion (USD75 million)</td>
<td>533%</td>
<td>A Japanese investment company</td>
</tr>
<tr>
<td></td>
<td>A Indian conglomerate</td>
<td>INR100 million</td>
<td>2650%</td>
<td></td>
</tr>
<tr>
<td></td>
<td>An India focused venture capital fund</td>
<td>NA</td>
<td>7438%</td>
<td>Alibaba</td>
</tr>
<tr>
<td></td>
<td>A U.S. based venture capital firm</td>
<td>NA</td>
<td>1648%</td>
<td></td>
</tr>
<tr>
<td>Vini Cosmetics</td>
<td>Bay Capital</td>
<td>~INR290 million (USD4.6 million)</td>
<td>1700%</td>
<td>WestBridge</td>
</tr>
</tbody>
</table>

From the above table, it is evident that the investors have received huge returns by investing in Indian startups. However, not all the exits give high returns. There are several acquisitions in the Indian startup ecosystem where value were lower and investors hardly recover their money. For example: Infibeam acquired Unicommerce for INR1.1 billion (USD178 million), while the total funds raised by the company was INR638 million (USD10 million), during its six years of operations.

Although, all the exits do not generate huge returns as Flipkart’s, yet, such deals definitely boost investors’ confidence. At present, India might have very limited high value exits, but going forward with the increase in number of unicorns, there is a definite scope for such billion dollar exits providing investors with huge returns.

33. “Exit blues”, Live Mint, 12 January 2018
34. “Venture capital exits jump 56% to $2.77 billion in 2017”, Live Mint, 26 December 2017
35. “SoftBank, Tiger Global, Naspers, others make big gains out of Flipkart-Walmart deal”, Business Today, 10 May 2018
36. “SoftBank gets 60% return on its Flipkart investment”, The Economic Times, 8 August 2018
38. “An Indian e-commerce payment system Funding: SAIF Partners May Bag $400 Mn From Stake Sale”, INC42, 19 May 2017
39. “Reliance Capital pockets a 2650% return from An Indian e-commerce payment system investment”, Economic Times, 8 March 2017
40. “Venture capital in India: Are exits heating up? Or is it just an illusion?”, Live Mint, 27 July 2018
2.3. Unicorn startups in India: An emerging trend

Several internet and technology-driven startups have emerged in the Indian startup ecosystem, which have attracted huge foreign capital. Various venture capital (VC) and private equity (PE) investors have decided to finance Indian startups and have invested billions of dollars in the past few years, creating a number of unicorns during the course. As per VCC Circle, privately held tech unicorns have raised INR1,150 billion (USD18 billion) in the last ten years, through venture capital.

Figure 13: Unicorn startups in India

Unicorn funding captured significant share in the startup deals announced in 2017, as Indian unicorns in the B2C space continue to gather funding. Fiscal 2017 witnessed a rise in unicorn funding led by an Indian e-commerce payment company and Flipkart. 2018, so far, has been the best year for unicorns with seven new entrants in the list, highest ever in the last decade. This year, the startup ecosystem in India has already witnessed some of the biggest developments. On one hand, an Indian e-commerce payment system, by reaching a valuation of USD1 billion in less than two years, became the fastest Indian startup to reach unicorn status, while on the other hand, Flipkart, India’s largest unicorn, was acquired by Walmart making it the world’s largest ever ecommerce deal.

Moreover, although India’s unicorn base is much smaller as compared to the U.S. and China, investment in Indian startups is likely to grow in the near future and is expected to produce more such unicorns.

The reason for the rise in the number of unicorns is because companies with strong growth unit economics continue to get funded.

- Co-founder and CEO of an online grocery company

In addition, many more companies such as Rivigo (USD950 million), BookMyShow (USD850 million) and Delhivery (USD700 million) are queued up to be part of the unicorn club. Continuous rise in the number of unicorns indicate positive investors’ confidence in the Indian startup ecosystem.

However, despite increasing fund flow into the Indian startups, some of the initial entrants to the unicorn list have lost their hold. Companies such as Just Dial (once valued at USD1 billion in 2013) and Snapdeal (once valued at USD6.5 billion) are no longer considered unicorns. Failure of these giants is primarily due to lack of innovation in the Indian startup ecosystem. As per a report by IBM Institute for Business Value and Oxford Economics titled “Entrepreneurial India”, 90 per cent of Indian startups fail within the first five years, owing to dearth of innovation.

40. "Race to $1 bn: Which Indian startup was the fastest to get unicorn status?", VCC Circle, 2 May 2018
41. "It’s only August but 2018 is already the best year for Indian unicorns", VCC Circle, 10 August 2018
42. "What is a Unicorn Startup?", CB Insights, accessed on 7 October 2018
43. "Logistics start-up Rivigo Services in talks to raise up to $400 million", Live Mint, 7 September 2018
44. "BookMyShow valuation soars to $850M after the $100M fundraise", Economic Times, 19 July 2018
45. "India’s next unicorns: The 8 that have grabbed investor attention", Live Mint, 1 May 2018
46. "JustDial Reports Strong Growth In Q1 FY19, But Marginal YO-Y Increase", INC42, 20 August 2018
47. "Kalaari Capital looks to sell its stake in Snapdeal for Rs 50 crore", Economic Times, 15 March 2018
48. "90% Of Indian Startups Will Fail Because Of Lack Of Innovation, Study Says", Forbes, 18 May 2017
2.4. Growth of incubators and accelerators

Startup incubators are companies which help new startups in their initial phase of growth by providing several services. These units offer office space, research labs, library, startup boot camps, alumni support, and faculty and industry mentorships. They assist startups in raising startup capital and conduct various networking activities to reduce the financial pressure and resource issue. Accelerators, on the other hand, support startup firms in building prototypes, help in fundraising, brand building and customer growth. These firms typically offer shared resources, developer tools, co-creation/co-innovation, client-specific solution, investor connect, and business mentorship.

With the evolvement of India as a startup hub, incubators/accelerators play a crucial role in this growth by providing mentorship, presenting innovative ideas, offering technical support, attracting investors and thus, helping acquire new customers. In 2017, the number of active incubators/accelerators in India increased approximately 36 per cent y-o-y, to reach a count of over 1904. Out of the total incubators/accelerators, about 40 per cent of them are located in tier 2/3 cities. While incubators are present across different locations in India, accelerators are primarily concentrated in urban areas with a majority being located in Bengaluru, Delhi NCR and Mumbai. Incubators/accelerators can be classified into four broad segments: Corporate, Private, Academic, and Government-supported.

Figure 14: Major startup incubators and accelerators in India

49. “Top accelerators and incubators in Delhi NCR to make your startup scale fast”, Bizztor, 26 May 2018
50. “50 Amazing Startup Incubators and Accelerators in India”, INC42, 14 April 2013
51. “A list of 19 startup incubators in Bangalore you can apply”, The Hacker Street, 30 May 2017
Currently in India, majority of incubators are operated by educational institutions (about 47 per cent) such as Indian Institute of Technology (IITs), Indian Institute of Management (IIMs), Indian School of Business (ISB), Indian Institute of Science (IISc) and a number of other technology and business schools. In addition, there are a number of privately operated incubators and accelerators, of which some are domestic while others run in collaboration with foreign partners.

The incubators/accelerator base in India registered a strong growth in 2017. This was primarily due to increasing penetration of corporate accelerators. In fact, in the last few years it has emerged as a trend, wherein various large multinationals have set up incubator and accelerator programmes. Additionally, some of the Indian companies have also joined in, supporting potential entrepreneurs of the country. Some of the government run incubator programmes are NASSCOM 10,000 Startups incubation initiative, Smart City accelerator, etc.

While corporates and private majorly work on the accelerator model, academic and government-supported agencies operate on an incubator-like model. The technology focus area of incubators/accelerators mainly revolves around cloud, Big Data, analytics, AI/Machine learning, IoT, etc.

Hence, it is evident that India has got excellent supporting infrastructure and a conducive environment for startups to flourish. Although, efforts of all stakeholders i.e. investors, academia and corporates would be required to further grow the startup ecosystem of India, however, it is the government that would play a significant role of facilitating the entire development process.

Source: “Indian Start-up Ecosystem – Traversing the maturity cycle”, NASSCOM, November 2017

Figure 15: Classification of incubators/accelerators and key services offered (2017)

- **Corporate**
  - 20 (y-o-y increase of 33%)
    - Funding Access to customers
    - Networking through industry connect
    - Technology support and counsel

- **Private**
  - 65 (y-o-y growth of 55%)
    - Office space
    - Mentorship by industry stalwarts

- **Government supported**
  - 15 (y-o-y increase of 25%)
    - Mentorship
    - Access to government schemes
    - Legal support

- **Academic**
  - 90 (y-o-y increase of 29%)
    - Access to knowledge and faculty
    - Access to investors, mentors, experienced leaders, etc.
2.5. Role of the government: As a facilitator

In January 2016, the Government of India launched the ‘Startup India’ initiative with an aim to empower youth and promote entrepreneurship. Since its launch, the initiative has successfully supported many aspiring entrepreneurs. As of June 2018, 10,272 entities\(^{53}\) have been recognised by the Department of Industrial Policy and Promotion (DIPP) as startups, which allows them to access various benefits, including guidance, incubation and funding. Hence the government, through its 360 approach, is mentoring, nurturing and facilitating startups throughout their life cycle.

The initiative, which got off to a slow start, has witnessed various developments in a short span of over 2.5 years. The government has brought in several changes around policy simplification, funding and industry-academia partnership, to facilitate the growth of the startup ecosystem in India. Some of the major steps taken by the government under the ‘Startup India’ programme are:\(^{54,55}\)

### Simplification and handholding

**Launched Startup India portal and mobile app**
- That helps with queries related to the ‘Startup India’ initiative
- App provides services and information to users on the go

**Launched ‘Startup Indian Hub’**
- An online platform for all stakeholders of the startup ecosystem to connect and engage with each other

**Fast tracking of patent examination at lower costs**

**Formation of Insolvency and Bankruptcy Board to allow faster exit of startups.**

### Funding support and incentives

**Created a Fund of Funds (FFS) for startups with a corpus of INR100 billion, to be released by 2025**
- INR6 billion has been released in the last two years (FY16 and FY17)
- As on January 2018, total commitments under FFS stands at INR10 billion to 24 Alternative Investment Funds (AIFs)

**Tax exemption to startups for 3 years in a block of 7 years, if incorporated between 1 April 2016 and 31 March 2019**

Abolished ‘angel tax’, thereby exempting angel investors from income tax on their investments in startups.

### Industry-academia partnership and incubation

**Launched Atal Innovation Mission (AIM)**
- AIM is setting up incubators in IITs and IIMs
- Also, setting up Atal Tinkering Labs (ATLs) in 941 shortlisted schools. These labs developed for students of class 6-12 to learn and develop innovative solutions using IoT devices, 3D printers, robotics, etc.

**Using private sector expertise for incubator setup**

**Setting up 7 new research parks at IITs with an investment of INR1 billion each**

**Building innovation centres at national institutes – 15 approved so far.**

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53. “Entities recognized by DIPP as startups”, Startup India, accessed on 8 October 2018
54. “Promotion of entrepreneurship under startup India scheme”, DIPP, Government of India, 28 March 2018
55. “Startup angel investors get I-T exemption”, The Times of India, 28 May 2018
With an aim to further push the startup ecosystem in India, the government in its Union Budget 2018-19 announcement increased the allocation for some of its flagship programmes under ‘Startup India’.

- **Reduction of corporate tax** to 25 per cent for companies having an annual turnover of INR2.5 billion in FY17
- INR2.8 billion has been allotted to **Investment Promotion Startup India scheme**, which aims at facilitating and supporting 1,000 startups by 2019
- INR2 billion has been allotted to **Atal Innovation Mission**, with a target of setting up 600 new **Atal Tinkering Labs (ATLs)** in 1,500 schools
- INR72 billion has been allotted to 70 technology business incubators for innovation and technology development
- To enrich the entrepreneurial talent in the country, a sum of INR878 million has been reserved for the development of an entrepreneurship scheme.

In addition, tech startups also benefit directly or indirectly from initiatives such as Goods and Services tax (GST), ‘Skill India’, ‘Make in India’, ‘Standup India’ and ‘Digital India’ initiatives. For instance, BharatNet, a project under the ‘Digital India’ initiative, plans to connect 0.25 million gram panchayats (GPs) by an optical fiber network by 2022, of which 0.12 million GPs have already been connected, as on September 2018. As most tech startups are dependent on internet consumption, such initiatives to boost internet penetration in rural areas could help these startups to enter in the rural market of India. This in turn could help the rural poor to gain access to quality healthcare and education through the healthtech and edtech startups.

The Indian Government, apart from the above mentioned initiatives, has introduced over 50 schemes in the past few years, such as Multiplier Grants Scheme (MGS), Software Technology Park (STP) Scheme, The Venture Capital Assistance Scheme, Single Point Registration Scheme (SPRS), Bank Credit Facilitation Scheme, to name a few. All these schemes are missioned towards boosting the Indian startup ecosystem. Hence, so far, the Indian Government has delivered as much as it can to enable and empower Indian startups.

However, if we go by the numbers, till January 2018 only:

- Over 460 startups have been mentored for incubation and funding support
- 768 applications have received rebate of up to 80 per cent on patent fees
- 109 startups have received funding under Fund of Funds (FFS)
- INR5.1 billion has been invested in startups under FFS
- 87 startups have been approved for availing tax benefits.

In addition, there are more than 50 startup schemes, however either the companies are aware only of a few initiatives such as Fund of Funds and tax exemption, or do not have an idea on how to avail the benefits of other schemes. The slow implementation of government initiatives and lack of awareness amongst startups is impacting the growth of the startup ecosystem in India.

Hence, although the government has taken initial steps towards the right direction, there is more that needs to be done in terms of improving the awareness and reducing the red tapism to increase the pace of policy implementation, in order to achieve the vision of ‘Startup India’.

57. “Let’s Zoom In On Union Budget 2018 For Tech Startups”, INC42, 2 February 2018
58. “Status of BharatNet”, Bharat Broadband Network Limited, accessed on 9 October 2018
59. “50+ Startup Schemes By The Indian Government That Startups Should Know About”, INC42, 30 June 2017
3. China’s role in Indian startups
To facilitate investments from across the globe, the Indian Government has set-up an agency – ‘Invest India’ to encourage companies to invest in the country. This initiative, coupled with a large consumer base and conducive business environment has attracted numerous investors from around the world, with China being one of the leading participant. Several sectors including real estate, electronics, renewable energy, textiles, automotive and finance, have gained traction in terms of investment from Chinese investors. In addition, out of all the investment proposals under the ‘Invest India’ programme, nearly 42 per cent of the proposals are from China. Hence, it is clearly visible that India is gradually becoming a favourable investment destination, especially for Chinese companies.

3.1. Investments outline

Over the years, India and China have witnessed growth in their economic ties, despite some bilateral and geopolitical differences. Various commonalities such as a huge domestic market, competitive labour cost, growing economies, etc., is driving the cooperation amongst both the countries. For China, investing in India gives it an opportunity to leverage the country’s competitive edge in terms of information technology and software, while for India, China remains one of the fastest growing sources of FDI. During April 2000 to March 2018, FDI inflow from China grew at a CAGR of 23 per cent to reach INR123.6 billion.

Figure 16: Classification of incubators/accelerators and key services offered (2017)

India has always been an attractive investment destination for China, however from 2015 onwards, the country has witnessed significant increase in investments from Chinese firms, primarily in startups and technology platforms. In 2017, Indian startups received INR129 billion (USD2 billion) from China, thrice as much when compared to the previous year.65 The surge in investments indicates an inclination of Chinese companies to shift or expand out of China to leverage the benefits of cheaper labour, new markets and less domestic vulnerability.

In terms of investments in Indian startups, Chinese firms have predominantly focused on e-commerce, followed by transportation and fintech, with majority of the biggest deals in late-stage ecommerce sector. Some of the major investors in the Indian startup ecosystem include Alibaba, Ctrip and Tencent.

Source: “Fact Sheet on Foreign Direct Investment (FDI)”, DIPP, accessed on 16 October 2018

2. “Fact Sheet on Foreign Direct Investment (FDI)”, DIPP, accessed on 15 October 2018
3. “Look East: the new direction for Indian startups raising funds”, Your Story, 25 June 2018
Although, some of the Chinese giants have already tested the water, it is expected that in the coming years, Small and Medium Enterprises (SMEs) of China are also likely to explore growth opportunities in India, especially in the digital sectors, which is primarily controlled by domestic companies’ or MNCs in China. While for India, getting investments from China does not only involve getting money, but also includes the knowledge and expertise that investors bring in, which help startups save time and effort in building everything from scratch.

Figure 18: Key investments by Chinese firms in India’s tech-startups

Beijing Miteno Communication Technology
Alibaba
Alibaba (with Foxconn Technology and a Japanese based investment company)
Tencent
Tencent
ByteDance

Chinese investor
Indian startup
FDI (INR billion)
Year

Media.net
An Indian e-commerce payment system
Snapdeal
Hike
A healthcare startup
Dailyhunt

61.2
45.0
33.1
11.9
6.0
1.7

2016
2015
2015
2016
2015
2016

“Look East: the new direction for Indian startups raising funds”, Your Story, 25 June 2018
### 3.2. Growing interest of Chinese players

Ranging from mobile phones to telecom equipment, Chinese players are showcasing their strong presence in India with high-value added products. Several players including Alibaba, Tencent and Xiaomi have grown from zero to billions of dollars in India within a few years.

#### 1. Alibaba

The China-based e-commerce company, which began its investment journey in India with an Indian e-commerce payment system in 2014, has created a significant presence in the country through various strategic startup investments. Unlike its business portfolio in China, the company has invested not only in e-commerce and allied companies in India, but has also invested in diverse sectors including food discovery, media, logistics, etc. As of February 2018, Alibaba’s investment in Indian startups reached nearly INR123.3 billion (USD1.7 billion).

We want to take a very patient approach... our strategy is to look at high-frequency use cases and build ecommerce business on top of that... we have an investment in an Indian e-commerce payment system ... we are involved in a grocery company because grocery is almost daily.”

- Joe Tsai, Executive Vice Chairman, Alibaba

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**Figure 17: Alibaba’s investments in startups by industry verticals**

<table>
<thead>
<tr>
<th>E-commerce</th>
<th>Food delivery</th>
</tr>
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<tbody>
<tr>
<td>An Indian e-commerce and payment system and Snapdeal</td>
<td>Zomato</td>
</tr>
<tr>
<td>• In March 2015, acquired 25 per cent stake in an Indian e-commerce payment system parent One 97 Communications</td>
<td>• In 2018, Alibaba's Ant Financial invested INR14.5 billion in Zomato, an online food ordering application</td>
</tr>
<tr>
<td>• During the same year in August, Alibaba led a INR33.1 billion</td>
<td>• Zomato has its own food delivery operation which is likely to have synergies with the logistics operations of Alibaba</td>
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<td>(USD500 million) fund raise in Snapdeal</td>
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<tr>
<th>Logistics</th>
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<tr>
<td>XpressBees</td>
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<tr>
<td>• In 2018, the company invested INR14.5 billion in a grocery delivery startup</td>
</tr>
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<table>
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<tr>
<th>Grocery delivery</th>
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<tbody>
<tr>
<td>An online grocery startup</td>
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<tr>
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</tr>
<tr>
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<tr>
<th>Media</th>
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<tr>
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</tr>
<tr>
<td>• In March 2015, acquired 25 per cent stake in an Indian e-commerce payment system parent One 97 Communications</td>
</tr>
<tr>
<td>• During the same year in August, Alibaba led a INR33.1 billion</td>
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<th>Tickets</th>
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<tr>
<td>Ticketnew</td>
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<tr>
<td>• In 2018, Alibaba’s Ant Financial invested INR14.5 billion in Zomato, an online food ordering application</td>
</tr>
<tr>
<td>• Zomato has its own food delivery operation which is likely to have synergies with the logistics operations of Alibaba</td>
</tr>
</tbody>
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5. "Alibaba deepens roots in India – what it means for the Indian startup ecosystem", Your Story, 5 February 2018

6. "6 Startup investments with which Alibaba is looking to dominate India’s online space", Office Chai, 14 June 2018
2. Tencent

In addition to Alibaba, Tencent has also made significant investments in Indian startups which stands at INR91.1 billion (USD1.3 billion), as of March 2018. The company’s portfolio in India includes Flipkart, Ola, Hike Messenger, Gaana, and a healthcare startup. Having focused on late stage investments, the China-based conglomerate is now modifying its strategy in India by focusing on relatively young ventures. In April 2018, the company announced its plans to invest about INR350.3 million – INR1,051 million (USD5-15 million) in early-stage startups in India. Additionally, there are speculations that the company, in collaboration with a Japanese investment company, is planning to infuse INR560.5 billion (USD8 billion) in Grofers, an online grocery delivery service in India.

<table>
<thead>
<tr>
<th>Tencent’s investment in India, INR billion, 2015-17</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ola (Oct 2017)**</td>
</tr>
<tr>
<td>Flipkart (Aug 2017)</td>
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<tr>
<td>Healthcare startup (Aug 2016)*</td>
</tr>
<tr>
<td>Hike (Aug 2016)*</td>
</tr>
<tr>
<td>Healthcare startup (Aug 2015)*</td>
</tr>
</tbody>
</table>

3. Xiaomi

Another China-based company, Xiaomi has showcased significant interest in the Indian startup market in the last couple of years. As of March 2018, the company had invested in 10 startups in the country. It also plans to invest INR60-70 billion in around 100 startups in India in the next five years, with the aim of strengthening its hardware and software ecosystem. Additionally, in August 2018, the company in collaboration with Google announced its plan to invest in a two-year old startup in India – Where is My Train. It is a unique train app to track live train status and real time train schedule from Indian Railways. Xiaomi has also invested (USD18.2 million) in ShareChat, a social networking app.

“Till 2017 the net investment of the company was INR30 billion. In the next five years we will invest INR60 billion to INR70 billion in around 100 startups in India.”

- Manu Kumar Jain,
  Managing Director and Vice President,
  Xiaomi India

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7. “Tencent’s billion-dollar India bet”, Live Mint, 13 October 2017
8. “Tencent looks for early-stage startup bets, likely to invest $5-15 million”, The Economic Times, 5 April 2018
9. “Tencent looks for early-stage startup bets, likely to invest $5-15 million”, The Economic Times, 5 April 2018
10. “Softbank and Tencent eye up to Rs 800 cr investment in Grofers”, ENTracker, 23 January 2018
11. “Xiaomi to invest Rs 6000-7000 crore in 100 Indian startups”, the Economic Times, 27 March 2018
Fosun International Limited

Fosun International, a China-based conglomerate and investment company, has made several mid-to-late-stage and public equity investments in India over the years. The company’s portfolio in India includes startups such as logistics, travel, and fintech ventures.

In June 2018, the company announced its plan to focus on early-stage startups in India.12 The reason behind this changed approach could be to pick companies operating within the startup landscape known for its outsized valuations. Another driver could be to follow an integrated approach, which would primarily mean attempting to create an ecosystem where its portfolio companies get an opportunity to work with each other. However, the company will continue to focus on mid to late-stage deals with a major focus on seed and angel round investments.

New Chinese investors entering the Indian startup market

After receiving billions of dollars in investment from players such as Alibaba, Tencent and Xiaomi, India continues to witness the entry of new players within the startup market. OPPO, a China-based electronics company, announced its first investment in India by funding a women-centric digital media startup, POPxo. The smartphone maker along with the investment arm of Doosan Corporation invested INR370 million (USD5.52 million)13 in the startup.

In addition, Cyber Carrier, a venture capital fund of Yeahmobi, a Chinese intelligent mobile advertising platform, invested in a healthcare startup in India, MyDermacy. The company acquired close to 15 to 18 per cent stake13 in the startup in 2017. The VC fund entered the Indian market in 2017 by raising funds for Krazybee, a loan platform for students. The company has also invested in startups such as Zoomcar, a car rental platform and IndiaLends, a lending platform.

Moreover, apart from Chinese corporations, venture capital funds from China are also planning to make a mark in the Indian startup ecosystem across sectors such as financial and education technology, e-commerce, content and online classifieds. Several venture capital firms are already looking to buy stakes in startups in India since the beginning of 2018.15 Few of these firms are willing to invest in Series B and C stage specifically in companies that have an established business model and that need capital for rapid business growth. The investors expect the Indian startup market to witness tremendous growth in the coming 8 to 10 years.

12. "Fosun to focus on early-stage deals in India, plans to up investment pace", Economic Times, 14 June 2018
13. "China’s Oppo makes first India investment with funding of digital media startup POPxo", Indiantelevision.com, 26 August 2018
15. "Chinese Venture Capital funds rush to buy stakes in Indian startups", Economic Times, 12 June 2018
3.2. Growing interest of Chinese players

Over the years, investors from China have shown tremendous interest in Indian startups with large number of deals getting executed. For Chinese investors, the Indian startup ecosystem provides a pool of opportunities. Familiar and previously tested business models has increased investors’ confidence in the Indian market. In addition, the growing Indian economy has a competitive edge in terms of information technology and software which act as an advantage for the investors. While, back in China, a slowing economy and paucity of investment opportunities is making the investors move towards neighbouring countries. India provides a host of opportunities to investors and such investment deals could help both countries to further strengthen their ties.

Few of the prominent factors that attract investors from China to invest in India include:

1. **World’s fastest growing economy**
   - According to IMF, India is one of the fastest growing economies in the world, thereby, representing immense opportunities for global investors to invest in the country
   - As per the World Bank, India is likely to witness growth of 7.5 per cent in 2018 and 7.7 per cent in 2019

2. **Access to highly qualified workforce**
   - Top tier academic institutions such as IITs and IIMs have included incubation programmes to motive budding entrepreneurs
   - Additionally, the academic exams within the science & technology and management domain are extremely competitive, specifically the graduate and post graduate courses

3. **Rising global competitiveness**
   - India reached the forty-fourth position in IMD’s World Competitiveness Ranking 2018, which was up one rank from the previous year
   - India’s improved rank can be attributed primarily to an improvement in infrastructure

4. **Largest youth population**
   - India is a young country with more than 60 per cent of its population aged under 35 years and about half of the population aged under 25 years
   - According to the United Nations Population Fund, India is expected to have the world’s largest youth population by 2020

5. **Huge domestic market**
   - The country has a huge consumer base which is expected to be led by its 129 million urban mass consumers
   - Rising per capita income is the key driver of increasing consumption in India

16. "Why India", Invest India, accessed on 15 October 2018
Startup ecosystem in India – Growing or matured?
Ease of doing business in India
Over the years, the Indian economy has become increasingly supportive towards initiating business in the country. The fact can be validated by referring to the 2019 Ease of Doing Business ranking released by World Bank wherein, in a total of 190 countries are assessed on various parameters. As per the rankings, India made significant improvement by reaching the seventeenth position from hundredth in 2018. Several parameters witnessed improvement including starting a business, dealing with construction permits, trading across borders, getting electricity and getting credit.

India’s ease of doing business ranking in 2019 versus 2018

<table>
<thead>
<tr>
<th>Parameters</th>
<th>Rank in 2019</th>
<th>Rank in 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Starting a business</td>
<td>137</td>
<td>156</td>
</tr>
<tr>
<td>Getting credit</td>
<td>22</td>
<td>29</td>
</tr>
<tr>
<td>Trading across borders</td>
<td>80</td>
<td>146</td>
</tr>
<tr>
<td>Dealing with construction permits</td>
<td>52</td>
<td>181</td>
</tr>
<tr>
<td>Protecting minority investors</td>
<td>7</td>
<td>4</td>
</tr>
<tr>
<td>Getting electricity</td>
<td>24</td>
<td>29</td>
</tr>
<tr>
<td>Enforcing contracts</td>
<td>163</td>
<td>164</td>
</tr>
<tr>
<td>Paying taxes</td>
<td>121</td>
<td>119</td>
</tr>
<tr>
<td>Resolving insolvency</td>
<td>108</td>
<td>103</td>
</tr>
<tr>
<td>Resolving insolvency</td>
<td>166</td>
<td>154</td>
</tr>
</tbody>
</table>

From the ten parameters that were assessed, India improved its ranking in six sub-categories and became the fifth best performing country in reforming the business environment. During the year, the country witnessed a huge jump in ‘Trading across borders’ driven by initiatives such as implementation of a risk management system at ports, launch of E-Sanchit mobile app etc. In addition, in ‘Dealing with construction permits’, India surged 129 places to reach at 52nd spot. This was mainly due to improved transparency and streamlined procedures. On the contrary, despite moving from one hundred and sixty-fourth position last year to one hundred and sixty-third this year in the field of ‘enforcing contracts’, the field remained a low performing one for the country, thereby indicating a significant scope of improvement. Additionally, the country needs to pay attention to few other parameters including starting a business, enforcing contracts, paying taxes and registering property to be able to reach the top 50 list of the worldwide ranking in the coming years, which is in line with the vision of the Prime Minister of India.

1. “India jumps 23 spots to 77 in World Bank’s ease-of-doing-business rankings”, Business Standard, 1 November 2018
Key initiatives implemented in India

Over the years, the Government of India has undertaken several initiatives to improve the ease of doing business in the country. Few of the popular announcements include – introduction of National Intellectual Property Right Policy and abolishing the Foreign Investment Promotion Board. Another landmark change was the introduction of insolvency and bankruptcy code, which has come up as an excellent approach for resolving insolvencies thereby, eliminating a lengthy process. Additionally, bringing in the concept of GST in India was an example of tightening the taxation system in the country.

Basis the parameters analysed in the Ease of Doing Business report, below are the major initiatives undertaken by the Government of India:

- Implemented Income Computation Disclosure Standards (ICDS) to streamline the process of computing taxable income. Additionally, introduced electronic platform to make payments to the Employee Provident Fund in a convenient manner.
- Introduced a new insolvency and bankruptcy code to come up with reorganisation procedure for corporate debtors.
- Implemented an online system to streamline the process of obtaining a building permit at the Municipality of New Delhi and Municipality of Greater Mumbai.
- Introduction of insolvency and bankruptcy code resulted in improved interest in entrepreneurship and easier access to credit.
- Improved the online application system and merged the applications for Permanent Account Number (PAN) and Tax Account Number (TAN).
- Introduce National Judicial Data Grid to allow case management reports to be generated on local courts, in turn making the process of enforcing contracts easier and Municipality of Greater Mumbai.
- Eliminated merchant overtime fees and increased focus on electronic and mobile payments to comply efficiently with import and export regulations. This was implemented in Delhi and Mumbai.
- Securities and Exchange Board of India (SEBI) implemented governance reforms. Additionally, asked companies to formulate and disclose dividend distribution policy.

Tax policies in relation to startups

The government launched the ‘Start-up India’ initiative in January, 2016 with an objective to provide a supportive ecosystem for growth of start-ups in India which lack resources and eventually taper. This adds to the slack in economic growth and wealth creation and increased unemployment. To tackle nuances faced by nascent businesses, the Department of Industrial Policy and Promotion (DIPP), Ministry of Finance, designed an action plan focusing on three broad areas, namely:

- procedural simplifications for setting of entities;
- providing tax and regulatory relaxation as part of ongoing compliances and operations; and
- providing incubation and funding assistance

Since 2016, the government is continuously taking steps to relax the tax and regulatory regime to foster a strong start-up ecosystem. Key developments are as follows:

Fund raising initiatives

- Accessibility to raise funds through External Commercial Borrowings (ECB)/Foreign Direct Investment (FDI):

  The GoI has allowed startups to raise Indian national rupee or foreign currency denominated ECBs without any restrictions on fund utilisation, interest pay-out caps, type of security to be provided for availing loan. The FDI policy also permits issuance of convertible notes (which are repayable at the option of the holder or convertible into equity shares of the startup within a period of five years) by a startup.

- Conversion of hybrid securities into equity (section 47(xb)):

  Risk averse investors typically provide funding to startups in the form of hybrid instruments such as convertible preference shares. Such instrument is a lucrative form of fund raising for a startup as it does not attract any fixed cost and provides security to investors as their investment is not faced with risk attached to equity shares. Conversion of preference shares into equity has been made tax neutral. This has helped startups to raise fund through issuance of hybrid instruments.

- Capital gain exemption on investment in start-ups (section 54GB):

  To boost the investment in eligible start-ups, GoI introduced a new exemption scheme wherein subject to specified conditions, a taxpayer (an individual or HUF) can claim exemption from long-term capital gains arising from the transfer of residential property, if he/she invests the net consideration from the aforesaid transfer in equity shares of an eligible startup and the startup utilises the proceeds for procuring new assets within one year from subscription of shares by the taxpayer.

- Relaxation on setting off of initial year(s) tax losses, in case of change in shareholding (section 79):

  Eligible startups are allowed to carry forward losses incurred during the initial seven years starting from the year of incorporation even if there is a change in its voting rights exceeding 49 per cent, provided shareholders who held shares carrying voting power on the last day of the year in which the loss was incurred continue to hold those shares on the last day of the previous year in which the losses are to be set-off. This has been done to enable startups to raise funds in form of equity shares without any adverse income-tax consequences.

- Lower taxation on patent income (section 115BBF):

  To promote development and registration of patents in India, a simplified scheme has been introduced for taxing royalty income from patents which are developed and registered in India. Such royalty income will attract tax at a reduced rate of 10 per cent.

- Simplified taxation regime for specified business (section 44AD):

  The Indian income-tax laws provide for a simplified mechanism of income computation at 8 per cent of gross receipts for small businesses (owned by individuals, HUF or partnerships excluding LLPs) with a turnover up to INR20 million. To further fuel growth of small and medium businesses in the country, 6 per cent of gross of income shall be construed to be income in case of receipt of proceeds through banking or electronic clearing systems. Such income computation mechanism reduces tax complexities and will benefit startups once tax holiday period has expired.

Tax initiatives

- Tax holiday (section 80-IAC):

  To provide impetus to new entrepreneurial ventures, business profits earned by eligible start-ups set-up between April 2016 to March 2021 will not be taxable for a period of three running years out of the block of initial seven years.

- Lower taxation on patent income (section 115BBF):

  To promote development and registration of patents in India, a simplified scheme has been introduced for taxing royalty income from patents which are developed and registered in India. Such royalty income will attract tax at a reduced rate of 8 per cent.

- Simplified taxation regime for specified business (section 44AD):

  The Indian income-tax laws provide for a simplified mechanism of income computation at 8 per cent of gross receipts for small businesses (owned by individuals, HUF or partnerships excluding LLPs) with a turnover up to INR20 million. To further fuel growth of small and medium businesses in the country, 6 per cent of gross of income shall be construed to be income in case of receipt of proceeds through banking or electronic clearing systems. Such income computation mechanism reduces tax complexities and will benefit startups once tax holiday period has expired.

Valuation initiatives

- Permissibility of issuance of shares in excess of fair market value (section 56(2)(viib)):

  Income-tax regime has been further eased for eligible startups by providing relaxation from tax imposition on premium received on issuance of equity shares in excess of fair value of shares. This is subject to conditions and obtaining additional specific approval from Inter-Ministerial Board of Certification.
Trading/e-commerce sector initiatives

- Relaxation of FDI norms

With a view to facilitate foreign investment influx in e-commerce undertakings, the FDI norms have been eased to permit 100 per cent investment under automatic route in the following:

a. Entities engaged in single brand retail trading – 30 per cent local sourcing requirement to be met if FDI exceeds 51 per cent. Further entities operating through a physical presence may undertake sales through online mode.

b. Entities engaged in wholesale trading – However, such trade to group companies should not exceed 25 per cent of the turnover of the wholesale venture.

c. Entities engaged in multi-brand trading (upto 51 per cent FDI under approval route) - minimum amount to be brought in by the foreign investor is INR6.4 billion (USD100 million) and 30 per cent of purchased products shall be sourced from specified Indian micro, small and medium industries amongst other conditions.

d. Entities operating a market place for sale – cannot hold inventory being sold or provide warranty/ guarantee for products sold.

Repatriation of funds

The Indian government defines several ways in which funds can be sent back from India thereby making it easier for companies to operate in the country. There are various strategies to repatriate funds from one country to another, however it involves various risks such as foreign exchange, regulatory and tax risks. This makes selecting the right strategy to repatriate funds which is an important step. A correct strategy can enable companies and investors to reduce tax burden, thereby leading to an increase in net profit.

Other remittances
Dividend
Pre-incorporation expenses
Share buyback
Royalty and fees for technical services
Capital reduction
Consultancy services

Share
Buyback
Dividend
Pre-incorporation expenses
Royalty and fees for technical services
Consultancy services
Other remittances
Dividends:
- The profit and dividend received from an Indian company is subject to tax payment. The funds can be repatriated after paying a tax known as Dividend Distribution Tax (DDT) which is charged at 15 per cent plus surcharges and education cess. The company that declares dividend is liable to pay DDT on the amount of dividend distributed.

Share buyback:
- In case profit is earned from an Indian company, the amount can be repatriated with the capital through buyback of shares once the buyback tax is paid. The tax is currently applicable at 20 per cent on the profits distributed by the company to its shareholders through buyback of shares.

Capital reduction:
- An Indian company can reduce its surplus cash by making cash payments to its shareholders. However, this kind of payment involves a tax implication in terms of dividend distribution tax up to the accumulated profits. In case the repayment is made over and above accumulated profits, it will be subject to capital gains tax in line with the Double Taxation Avoidance Agreement (DTAA), if required.

Consultancy services:
- In case of consultancy services obtained outside India involving a remittance of maximum to INR70.1 million (USD1 million), a prior approval from RBI is not required. The limit is set to INR700.7 million (USD10 million) in case of companies operating in specific sectors including power, telecommunications, railways, roads including bridges, sea ports and airports, industrial parks, urban infrastructure (water supply, sanitation and sewage projects).

Royalty and fees for technical services:
- As per the Income Tax Act, 1961 in case of non-resident taxpayers, royalty and fees for technical services is taxable at 25 per cent for agreements signed post 31 March 1976. In cases where applicable, non-residents are allowed to avail lower tax rates under DTAA.

Pre-incorporation expenses:
- RBI approval is not required in case where the remittance is equal to 5 per cent of the total investment made in the country or INR7 million (USD0.1 million), whichever is higher.

Other remittances:
- To remit the profits earned by the Indian branches of companies incorporated outside India to their head offices outside India, no prior approval is required. In addition, sundry remittances are allowed within prescribed limits for certain items such as gifts, repair charges for imported machinery, maintenance and legal expenses.

References:
3. “Remitting money from India – choosing the right repatriation strategy”, India Briefing, 17 August 2017
4. “Remittance of funds”, Doing business in India, accessed on 14 October 2018
5. “Repatriation of funds”, Doing business in India, accessed on 14 October 2018
5. Conclusion and Way forward

All the stakeholders including startups, investors and the government need to play a significant role to help achieve the vision of ‘Startup India’

**Startup landscape**

Increasing focus of Indian startups on advanced technologies such as IoT, ML, AI, analytics, Big Data, etc.

Fintech has emerged as the most popular sector attracting maximum investors

Tier 2/3 cities are slowly emerging, however Bengaluru and Delhi NCR continue to remain startup hubs

**Funding**

Top 10 companies, especially unicorns, continue to hold the lion’s share of funding

Developed startups continue to attract big pocket investors, however seed stage companies are also gaining attention

Time to achieve the milestone of ‘unicorn’ has significantly reduced

M&A remains the most popular exit route for investors

Global majors such as Google, Walmart are acquiring startups to enter the Indian market

**Enablers**

Increasing corporate and private incubators/accelerators

Multiple initiatives launched to develop a conducive environment for startups, led to improvement in the country’s EoDB ranking

**Chinese investors**

China is one of the leading investors in Indian startups, led by Alibaba and Tencent

Apart from Chinese corporations, VC funds are also betting big on Indian startups

E-commerce, transportation and fintech are popular sectors amongst Chinese investors

**Way forward: What can drive success in the future**

- Should focus on developing innovative products that could solve India specific challenges
- Indian startups are good at targeting local and international customers, they however need to work on gaining traction in government and public sector organisations
- Entrepreneurs need to turn into investors
Government

- Need to work on speeding up the policy implementation process
- Increase awareness amongst startups about key policies and benefits
- Need to ease exit routes for investors

Enablers

- Corporates need to play a major role – as investors, incubators/accelerators
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