



# Maharashtra and the exciting growth of its startup ecosystem



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**Devendra Fadnavis**

**Chief Minister  
Maharashtra**



**Mantralaya  
Mumbai 400 032**

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## **FOREWORD**

India has emerged as the third largest startup ecosystem in the world. Despite a late start, India start up market is already challenging those of the U.S. and China. Startups in India have not only perfected their product-market fit within India but have proved that their business models can easily transition to a larger market outside India.

While a larger credit for reaching this achievement goes to the entrepreneurial zeal and innovative ideas of startup founders, it is also a combination of pragmatic policy-making and its focused execution that led to an accelerated startup journey in the last few years. The most noteworthy initiative has been the launch of a national policy framework for startups in February 2016 called the 'Startup India Action Plan', which has been instrumental in encouraging young minds to take up entrepreneurship.

In line with the central government's vision of strengthening the country's startup ecosystem, Maharashtra has taken giant leaps towards creating an environment that fosters an innovation led culture across the state. In an attempt to nurture entrepreneurship and build an economy that promotes new ideas, the Departments of Skill Development and Entrepreneurship launched the 'Maharashtra State Innovative Startup Policy 2018' to drive innovation, and enable a strong mechanism that would help commercialise new products and services. All these efforts, combined with the leadership quality of the people in the state, will drive innovation and provide an enabling environment for startups. Already, Mumbai is home to and birthplace of many successful companies of global scale for over 100 years; many more such hubs are likely to emerge in the state over the coming years.

I congratulate TiE and KPMG in India for championing the Entrepreneurship cause and my government will provide full support to make Maharashtra the #1 destination for startups.

**(Devendra Fadnavis)**

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# Executive summary

India

3rd  
largest  
startup  
base globally



~7,200  
tech startups are  
based in India



INR331 billion  
2014  
INR2,784  
billion



## Tech startup funding

INR665 billion  
2018 (till  
September)



Total funding raised by startups  
between January 2014 –  
September 2018

Over 50 per cent

of the funding is raised  
by e-commerce, fintech  
and transport tech sector,  
during January 2014 –  
September 2018 period



Maharashtra

Globally, Mumbai was ranked 7th  
in terms of growth in VC deals secured in 2015 – 2017,  
as compared to the 2010 – 2012 period



Ranked 1st  
in terms of number  
of startup registration  
in 2018, in India

Mumbai has  
3rd largest  
startup base in India



## Emerging startup hubs

Pune Nagpur  
Nashik  
Aurangabad

INR377 billion  
Total funding raised by  
startups in Mumbai and  
Pune between January  
2014 – September 2018



## Soonicorns

Nykaa  
Dream 11  
BookMyShow



## Enablers and drivers

- Supportive ecosystem (investors, incubators etc.)
- Huge customer base
- Geographic advantage



## Key challenges

- High real estate prices
- Limited availability of tech talent
- Transportation infrastructure issues



## Government initiatives

- Maharashtra State Innovative Startup Policy 2018
- Fintech Policy 2018
- Maharashtra State Innovation Society



## Recommendations

Skills development  
and training  
Infrastructure  
development

Policy support and  
private participation  
Social and employment  
incentives

Job creation



# Introduction

India's start-up ecosystem has undergone a tectonic shift over the past decade. The number of startups itself have grown seven fold from around 7,000 in 2008, to around 50,000 by end-2018 . These are not restricted to a few sectors and geographies but are spread across the board.

Proliferation of the internet, higher rates of literacy and a greater exposure to the outside world have fuelled sector-based innovation in IT, artificial intelligence, IoT, finance, healthcare, biotechnology, education, agriculture, and logistics, to name a few. These innovations are taking place all over the country, because every region and locality presents a unique set of problems, thereby creating the need for customised solutions. As a result, several regional startup hubs have mushroomed across India. Apart from tier I cities including Mumbai, Bengaluru and Delhi-NCR, India is also observing significant growth in the number of startups in tier II and III cities such as Jaipur, Kochi, Ahmedabad and Pune.

That said, Mumbai is undeniably the prime growth centre for

startups. Home to a number of experienced industrialists who can mentor and support startups with the right do's and don'ts, and if need be, fulfil their financial requirements as well, the financial capital of the country is the place to be for budding entrepreneurs. Many of the emerging startups such as Dream11 and Nykaa are based in Mumbai.

However, the city has its own set of challenges for startups. For instance, real estate prices in Mumbai are steep compared to most of the other cities in India. It is well known that few startups began operating out of Mumbai, but later shifted to other cities in order to sustain and expand their business. That said, Mumbai still remains a leading breeding ground for innovative minds, especially B2B startups in the fintech and enterprise tech space.

Meanwhile, the progressive policy and regulatory environment of Maharashtra has led to the emergence of many other cities in Maharashtra like Aurangabad, Nagpur, Sholapur, Nashik and Pune to emerge as new regional startup hubs. The government

of Maharashtra has taken various initiatives such as the launch of 'Maharashtra State Innovative Startup Policy 2018', 'Fintech Policy' and established 'Maharashtra State Innovation Society', providing a facilitating environment for startups. It must be noted that of the 14,565 odd startups approved under the country's 'Start-up India' initiatives in 2018, highest number are from Maharashtra .

In this backdrop, it will be interesting to look at the evolving startup landscape in the country; highlight the key legal and financial considerations when setting up startups in India; assess the various startup initiatives undertaken by the government; present success and sob stories of select startups; and above all, analyse the potential of Maharashtra to become the #1 startup state.

This thought leadership paper looks to answer a few of these questions by providing a deep-dive into the foreseeable future of startups in Maharashtra.



**Arun M. Kumar**  
Chairman and CEO  
KPMG in India



**Pradeep Udhas**  
Office Managing Partner - West  
KPMG in India



**Atul Nishar**  
President - TiE Mumbai  
Founder and Chairman -  
Hexaware Technologies



# India's startup landscape



## Overview

India's startup ecosystem can best be dated back to initial and mid-1900s when few companies started emerging, especially in the manufacturing space. Later on, in mid-80s, the services sector evolved when a handful of IT companies started emerging driven by the emergence of computer industry. After a decade, in 1995, Videsh Sanchar Nigam Limited (VSNL) started its first commercial

internet service<sup>01</sup> which led to the emergence of the dotcom era. Hence, driven by the 'world wide web' phenomenon, late-90s witnessed the inception of many dotcom startups such as BookMyShow, network management companies such as Zoho and industry portals such as AgencyFAQs.

However, the startup boom witnessed over the past decade is

commendable. Driven by various factors, the number of startups have increased from ~7,000 in 2008 to 49,000 (till October 2018)<sup>02</sup>, implying a seven-fold increase in the Indian startup ecosystem.

With this, India has emerged as the third largest startup hub in the world after the U.S. and the U.K.<sup>03</sup>

### Startup base in India – Key facts (2018)

#### Startup base

##### Startup additions in India



**7,200-7,700**  
total tech-  
startup base  
(as of 2018)



#### Job creation

- 0.16 – 0.17 million people employed by startups
- 2.5 - 3.0x indirect Jobs



01. "20 years of Internet in India: On August 15, 1995 public Internet access was launched in India", News18, 15 August 2015

02. "State of the Indian startup ecosystem", INC 42, 16 November 2018

03. "India's Startup Ecosystem Now Boasts of 7,700 Tech Startups", Entrepreneur, 26 October 2018

## Advanced technology startups

- +1,200 advanced technology startups (such as analytics, artificial intelligence, Internet of Things (IoT), etc.)
- Advanced technology startup pool has grown at a CAGR of 40 per cent, since 2013



## Unicorns

- With 24 unicorns, India ranks third in the world
  - Expected to add 10+ companies in the unicorns list, by 2020
- In 2018, 11 new companies were added in the list which is the highest in a calendar year



Source: "Indian tech start-up ecosystem – Approaching escape velocity" NASSCOM, Edition 2018; "The State of the Indian Startup Ecosystem 2018", Inc42, 2018 Edition

If we look at the inception era of Indian startups, a number of them evolved when internet packs got affordable and faster. So the growth in the country's startup base could be attributed to increasing smartphone penetration which has led to a surge in the number of consumers connected to the internet. As per Google, India is adding approximately 10 million

active internet users every month, the highest when compared to any other country<sup>04</sup>.

Another key factor is the efforts made by the government and various state agencies which provided an enabling environment to support these companies as they have the potential to become major economic and social contributors.

Here it must be noted that of the total startup base, 7,200 – 7,700<sup>05</sup> are purely tech startups, pointing towards a major digital revolution. This is primarily because India is home to a huge technology talent base which eventually is complimenting the growth of internet penetration in the country.

## Industry verticals attracting the highest number of startups

Technology-enabled startups in India have been driving innovation to meet consumer needs, address scalability issues, improve productivity and in some cases

even revolutionise the business landscape of various sectors such as healthcare, education, financial services, and logistics, amongst others. This is being done through

use of emerging technologies such as artificial intelligence (AI), machine learning, Internet of Things (IoT) etc.

### Tech-startups across key sectors in India (2018)<sup>02,06,07,08,09,10,11</sup>

#### E-commerce



- Number of startups: ~924 (12 per cent of total tech-startups)
- Key focus areas: Private labels and B2B e-commerce
- Select startups: Flipkart, Snapdeal and ShopClues
- Opportunities: Indian e-retail market is expected to grow 250% by 2020 (from 2017)

#### Healthcare



- Number of startups: ~616 (8 per cent of total tech-startups)
- Key focus areas: Online pharmacy and healthcare IT (information management)
- Select startups: Practo, 1mg, Portea, and Netmeds
- Opportunities: India's healthcare expenditure contributes only 1.2 per cent to the GDP compared with 5.5 per cent in China and 17 per cent in the US

#### Financial Services



- Number of startups: ~1,078 (14 per cent of total tech-startups)
- Key focus areas: Mobile payments, consumer finance and investment tech
- Select startups: PhonePe, BankBazaar and Razorpay
- Opportunities: Fintech software and services market in India is expected to increase 1.7 times by 2020 from INR542.7 billion (USD8 billion) in 2016

04. "India is adding 10 million active internet users per month: Google", Business Standard, 27 June 2018

05. "Indian tech start-up ecosystem – Approaching escape velocity" NASSCOM, Edition 2018

06. "E-retail market size to rise 2.5x in 3 years", Crisil, February 2018

07. "Healthcare Industry in India", IBEF, October 2018

08. "Fintech in India – Powering a digital economy", KPMG, September 2018

09. "Online travel could make up 43% of total market by 2021: Praxis", Live Mint, 28 April 2018

10. "Online Education in India: 2021", KPMG and Google, May 2017

11. "Food-tech among fastest growing internet industries in India", Economic Times, 04 August 2017

**Travel and Tourism**

- Key focus areas: Marketplace, budget accommodation and hotel searches
- Select startups: Oyo, Yatra, Goomo, Ixigo and a Gurugram based online travel company
- Opportunities: Online travel market in India is expected to reach INR986 billion (USD13.6 billion) by 2021, from INR388 billion (USD5.71 billion) in 2015

**Education**

- Number of startups: ~462 (6 per cent of total tech-startups)
- Key focus areas: Education technology, higher education and professional courses
- Select startups: Byju's, Unacademy and embibe
- Opportunities: Online education market in India is expected to grow eight times to reach INR142 billion (USD1.96 billion) by 2021, as compared to 2016

**Consumer Services**

- Number of startups: ~231 (3 per cent of total tech-startups)
- Key focus areas: Online grocery and food tech
- Select startups: Zomato, Grofers and a Bengaluru-based food delivering company
- Opportunities: Consumer services market, which comprises primarily of food and grocery delivery startups, are forecasted to grow from INR72 billion (USD1 billion) in 2018 to INR181 billion (USD2.5 billion) by 2021

**Logistics**

- Number of startups: ~385 (5 per cent of total tech-startups)
- Key focus areas: Software solutions, freight and last mile delivery
- Select startups: Blackbuck, Rivigo and a Bengaluru based logistics company
- Opportunities: Logistics industry in India is expected to grow from INR10.2 trillion (USD160 billion) in 2017 to INR13.7 trillion (USD215 billion) by 2020

**Enterprisetech**

- Number of startups: ~1,232 (16 per cent of total tech-startups)
- Key focus areas: Software-as-a-service (SaaS) and human resource tech
- Select startups: Freshworks, Zoho, Helpshift and Browserstack
- Opportunities: India is expected to generate approximately INR725 billion (USD10 billion) by 2025 accounting for eight per cent of the global SaaS (Software-as-a-service) market

**Deeptech**

- Number of startups: 1200+ (15.5 per cent of total tech-startups)
- Key focus areas: AI and machine learning solutions, electric vehicles and smart cars
- Select startups: SigTuple, Halli Labs, Tuplejump and Qubole

India faces a varied set of challenges owing to different cultures and multilingual regions across the country, which require innovative solutions especially in the healthcare, education and infrastructure domain. Each of

these issues generate a distinctive opportunity for startups to construct a business around it.

In the field of education, for instance, many startups such as Learning Delight and Hippocampus

Learning Centres are primarily focusing on improving the quality of education in the rural parts of India through e-learning courses and mobile-based learning applications which provide personalised and adaptive learning pedagogies.

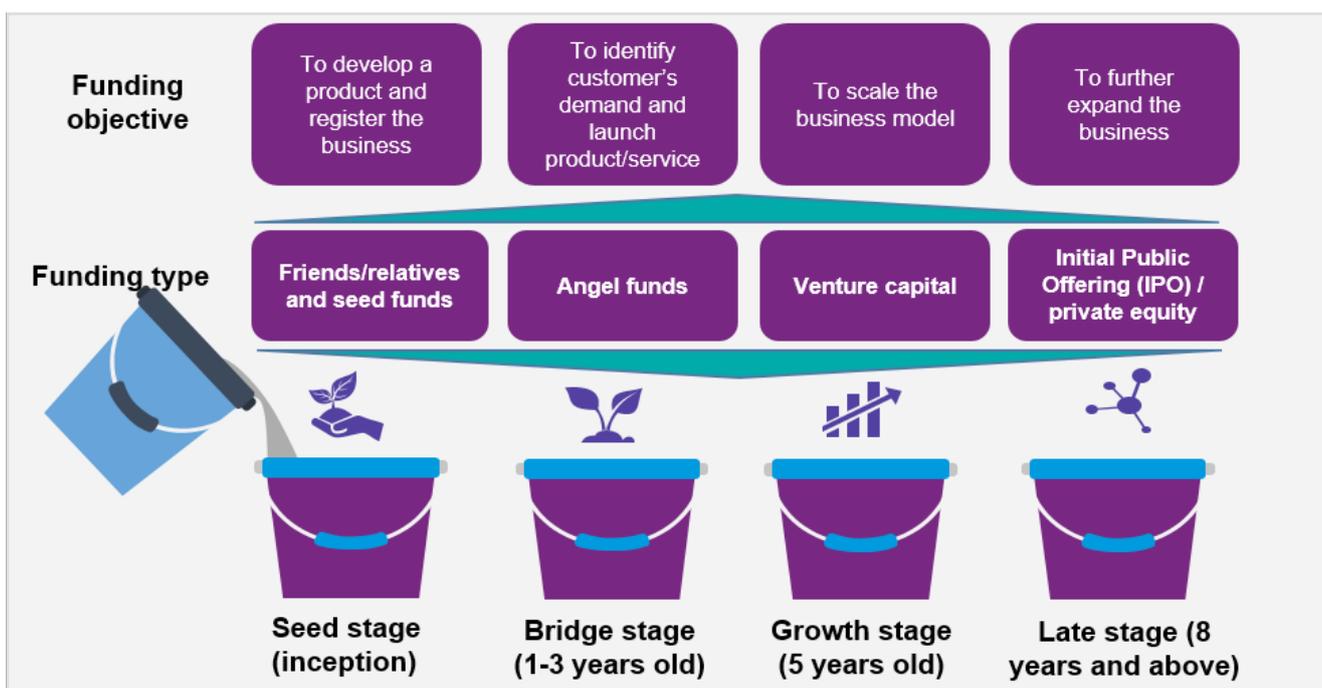
Environmental concerns have led to a number of startups in the field of electric vehicles, renewable energy and waste management. These are attracting big investors such as SoftBank Vision Fund, Tiger Global to name a few. Some of the startups in these space include:

- Electric vehicles: Ather Energy, ION Energy, Emflux Motors etc.<sup>12</sup>
- Renewable energy: ReNew Power Ventures, Nuevosol Energy, Ostro Energy etc.<sup>13</sup>
- Waste management: Saahas Zero Waste, Namu E-waste, GEM Enviro Management etc.<sup>14</sup>

# Startup funding and investment scenario

Startups in India, irrespective of the size and nature of their operations, traverse through different stages of the funding life cycle depending on the age of the firm.

## Different stages of funding



12. "Eight Startups That Are Stepping On The Gas To Drive EV Adoption In India", INC42, 6 June 2018

13. "Harnessing the sun: startups who are lighting the way ahead for India's renewable energy sector" Your Story, 25 January 2018

14. "Making the best out of waste: These 8 startups are helping Indian cities manage trash", Your Story, 8 November 2017

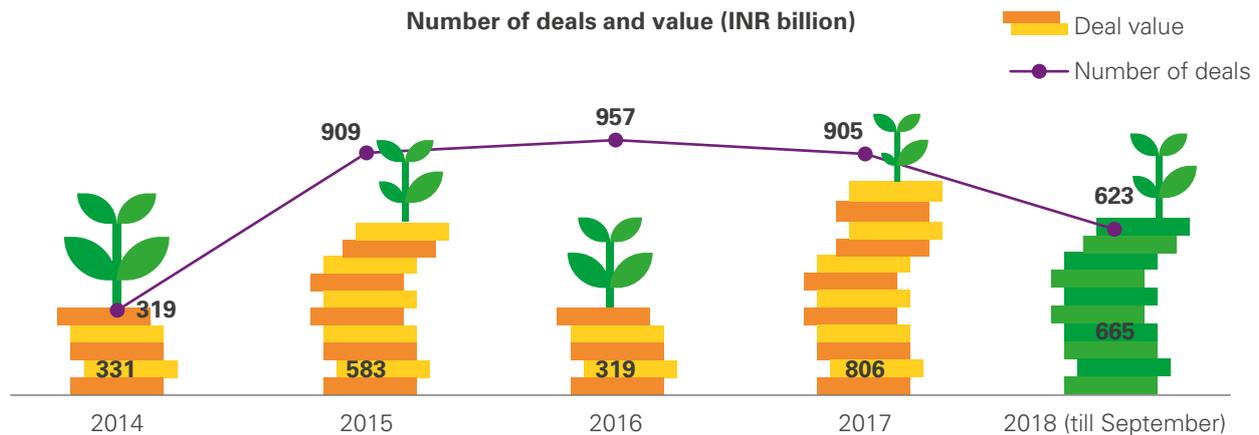
## Size and growth

Startups in India have attracted numerous investors over the years, from across the world. As per a report published by Inc42,

“The State of the Indian Startup Ecosystem 2018”, startups in India have raised nearly INR2,784 billion (USD38.5 billion) in investments

between January 2014 and September 2018, attributing to a total of 3,713 deals<sup>15,16</sup>.

### Tech startup funding trend in India



**Source:** “The State of the Indian Startup Ecosystem 2018”, Inc42, 2018 Edition

**Note:** Currency exchange rate (USD to INR) – 2014: 63.5901, 2015: 66.2025, 2016: 67.8447, 2017: 63.7148, 2018: 72.3280

The investment in startups have been continuously on a rise since 2014, except for a dip in 2016, which occurred due to market corrections leading to smaller sized deals. Consistent increase in the funding value showcases an increase in investor confidence in the Indian startup ecosystem. The funding trend, however, illustrates the fact that investors are becoming more cautious in deploying capital to firms that are expected to have sustainable and scalable business models.

## Funding breakdown and trends by stage of investment

Indian startup ecosystem observed a decline of 18 per cent in the number of deals and a 57 per cent reduction in total funding in H1 2018, as compared to H2 2017. In addition, fiscal year 2018 has witnessed a reduction in growth and late stage funding and an increase in seed-stage funding, as investors are primarily targeting innovative startups. The crunch in funding in growth stage startups during H1 2018 could be attributed to a 62 per cent decline in Series B funding, in comparison with H2 2017.<sup>15</sup> Market corrections, adjustments in investors’

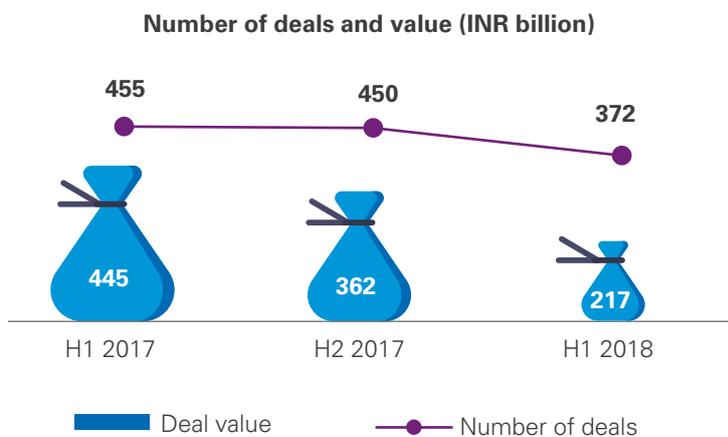
confidence to realistic levels, and shifting focus of investors towards seed-stage funding in innovative and disruptive startups have resulted in this trend.

The number of deals reduced in H1 2018 period, primarily because investors are inclining towards higher investments in less number of startups. This trend has been prevalent particularly in the seed stage funding – the number of deals in H1 2018 decreased by 30 per cent as compared to H2 2017, however, the total investment amount raised increased by 235 per cent in the same period, according to the report “Indian Tech Startup Funding Report H1 2018” published by Inc42<sup>15</sup>.

15. “The State Of The Indian Startup Ecosystem 2018”, Inc42, 2018 Edition

16. “Indian Tech Startup Funding Report H1 2018”, Inc42, 22 June 2018

## Number of deals and value (INR billion)



Source: "Indian Tech Startup Funding Report H1 2018", Inc42, 22 June 2018



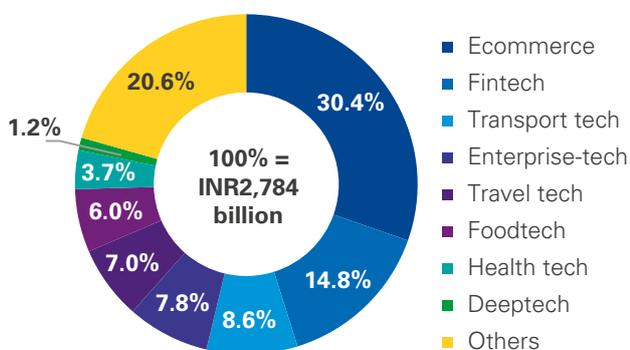
## Most sought after sectors

Internet and mobile penetration, increase in digital literacy and greater use of mobile wallets have accelerated the popularity and demand for e-commerce in India. High demand for e-commerce products has stimulated investments in the sector,

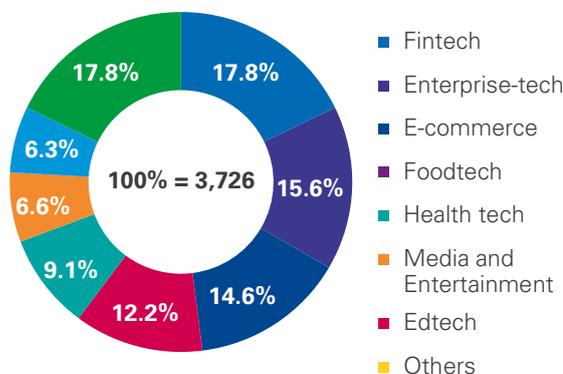
making it the highest funded sector (30.4 per cent of total funding) during the period January 2014 till September 2018. E-commerce is followed by the fintech and the transport tech sectors, in terms of the funding received.

## Tech startup funding across different sectors

Startup funding by sector (Jan 2014 - Sep 2018)



Number of deals by sector (Jan 2014 - Sep 2018)



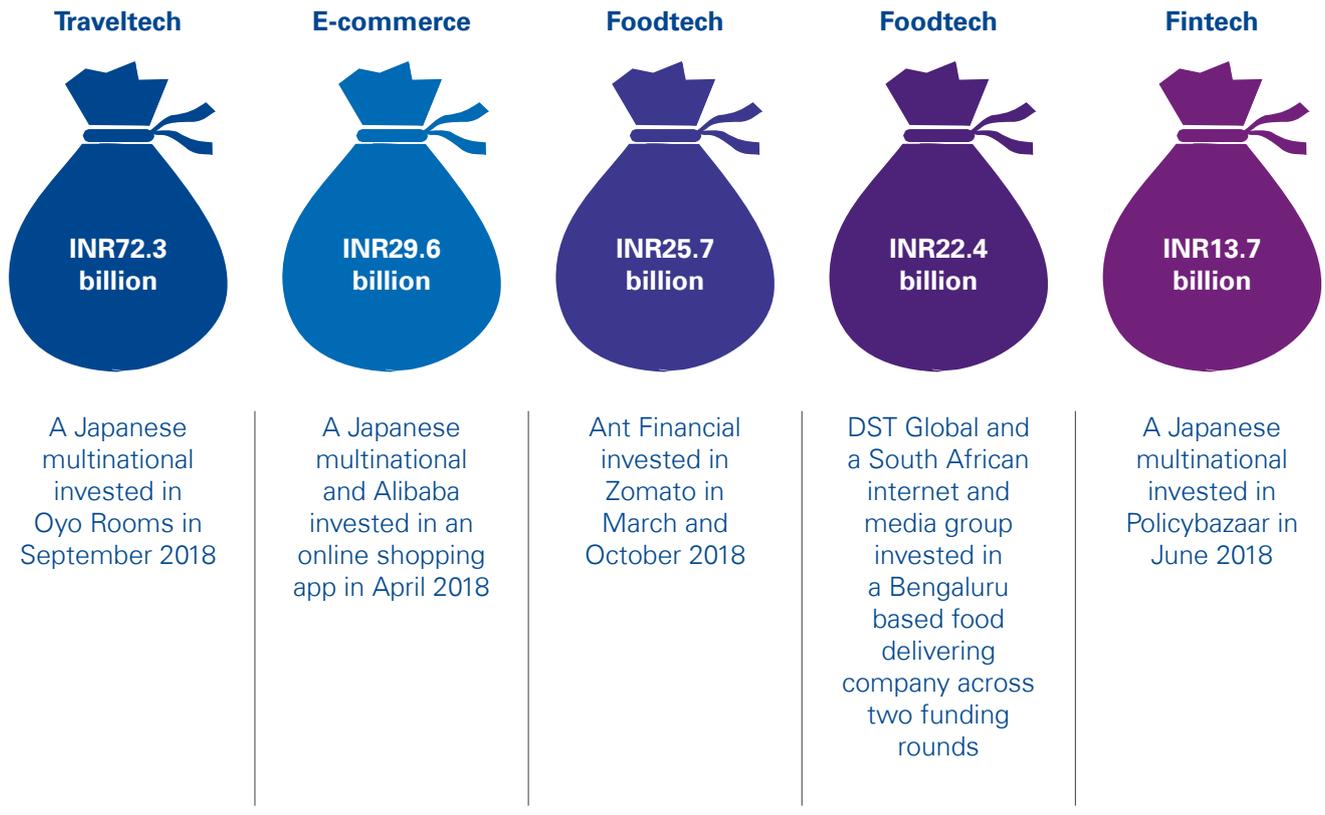
Source: "The State of the Indian Startup Ecosystem 2018", Inc42, 2018 Edition

On the other hand, fintech sector tops the chart in terms of the number of deals (662) secured between January 2014 and September 2018. The major drivers

for this trend is the increase in fintech transaction value in India, which is forecasted to grow at a CAGR of 21.1 per cent between 2018 and 2022, and high adoption of

digital payment solutions<sup>17</sup>. Fintech is followed by the enterprise tech and e-commerce sector, in terms of the number of deals secured.

### Key investments in 2018<sup>18</sup>



17. "The State of the Indian Startup Ecosystem 2018", Inc42, 2018 Edition

18. "Top funding deals of 2018", Economic Times, 19 December 2018



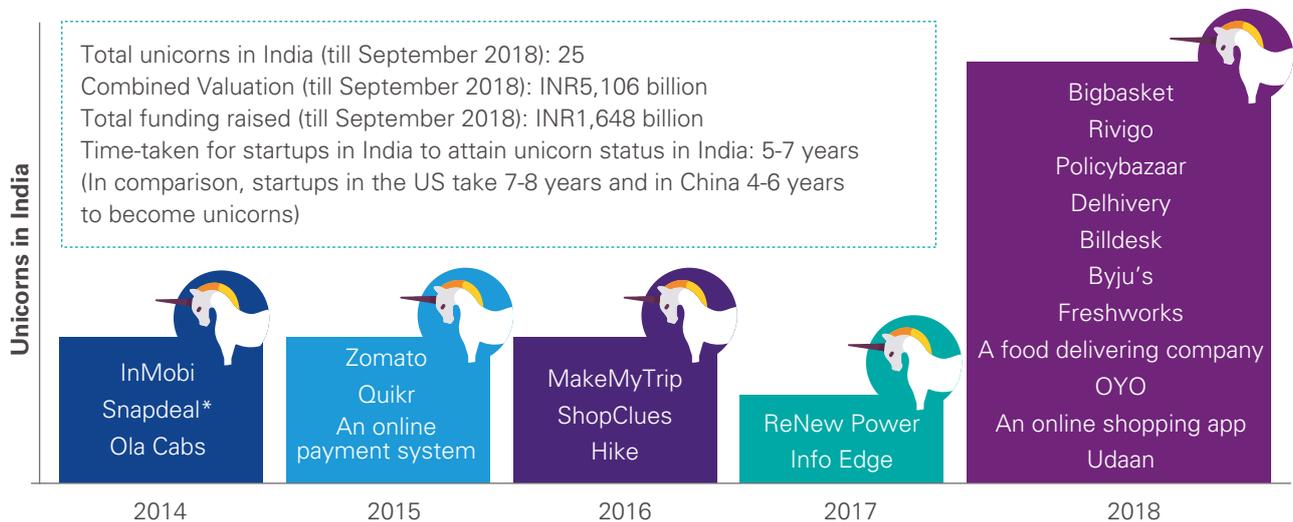
# Unicorn startups in India - An emerging trend

India has observed a significant growth in startups which have attracted capital from numerous foreign investors. Despite a decline in funding in late/growth stage in 2018, a significant chunk of investment was allocated to market leaders and high-growth innovative startups. Moreover, investors concentrated their capital

in few selected startups, instead of making thin investments across more number of deals. This has been one of the major contributing factors towards the increase in the number of unicorns in 2018, as compared to previous years. For instance, a South African internet and media group invested heavily in a Bengaluru-based food delivery

startups through three rounds of funding in 2018, which aided the food delivery company in achieving unicorn status.<sup>19</sup> The selective nature of venture capitalists (VCs) further indicates a maturing startup ecosystem in the country.

## Key unicorn startups in India



Source: "The State of the Indian Startup Ecosystem 2018", Inc42, 2018 Edition; "Indian Startup Ecosystem Report 2018", NASSCOM, 2018 Edition. \* Snapdeal is no more a Unicorn

Apart from aforementioned list of unicorns, various other companies such as, BookMyShow (valued at USD850 million)<sup>20</sup>, Droom (valued at USD750 million)<sup>21</sup> and CarDekho (valued at USD400-500 million)<sup>22</sup> are expected to become a part of the unicorn club soon.

## Notable exit: Flipkart<sup>23,24</sup>

Flipkart, which started as an online bookstore operating out of an apartment in Bengaluru in 2007, has now emerged as one of the biggest e-commerce platforms in India. The company entered into the e-commerce space soon after its inception and gained immense popularity among consumers as well as investors, majorly because of a first-mover advantage. The e-commerce firm attracted major investors such as Tiger Global; a South African internet and media group; a Japanese conglomerate and Accel Partners that poured significant amount of capital into the company. Fueled by investments from VCs, Flipkart opened offices in major cities such as Delhi and Mumbai, expanded its product catalogue and on-boarded more than 130,000 third-party sellers.

In May 2018, Flipkart was valued at INR1,417 billion (USD21 billion) by a major US-based retail company, which acquired a 77 per cent stake in the Indian e-commerce giant. The deal was recognised as one of the biggest e-commerce deals in the world. Tiger Global; a Japanese conglomerate; a South African internet and media group and Accel Partners reaped profits amounting approximately 300, 60, 257 and 587 per cent, respectively through sale of their stakes in Flipkart.

19. "Investors poured more capital in fewer Indian startups in 2018", Economic Times, 28 December 2018

20. "BookMyShow valuation soars to \$850M after the \$100M fundraise", Economic Times, 19 July 2018

21. "Droom raises \$30 million in fresh funding round", Economic Times, 05 October 2018

22. "CarDekho raises \$110 mn funding at \$400-500 mn valuation", Live Mint, 4 January 2019

23. "Here are the big winners from Flipkart's \$16 billion deal with Walmart", Recode, 09 May 2018

24. "Africa's Biggest Company Made \$1.6 Billion on Flipkart Deal", Bloomberg, 09 May 2018

# Key challenges faced by startups

As per a study by a leading institute for Business Value and Oxford Economics "Entrepreneurial India - 2017", 90 per cent of startups fail within the first five years of

inception, major reason being the lack of innovation<sup>25</sup>. The maximum number of shutdowns were observed in consumer services, e-commerce and the fintech sector

between 2016 and 2018<sup>26</sup>. There are several reasons for this failure and some of these are highlighted as follows:

## Possible causes of failure<sup>27,28</sup>

			
<p><b>Lack of innovation</b></p>	<p><b>Lack of skilled manpower</b></p>	<p><b>Lack of legal support</b></p>	<p><b>Inadequate infrastructure</b></p>
<p>Replication of business models from already established global startups is a major reason why startups fail to receive follow-up funding in India.</p> <p>Inability to develop market relevant product/service further leads to customer churn. Moreover, some startups also fail as they focus more on innovation rather than driving value.</p>	<p>According to a study by IBM "Entrepreneurial India", 70 per cent of VCs highlight talent acquisition as a significant challenge for Indian startups. Moreover, there is a shortage of skilled manpower especially in the case of advanced-tech startups, and many experts in IT prefer moving to other global markets for better opportunities. Limited access to necessary skills cripples the growth of startups.</p>	<p>Despite developing a market relevant business model, some startups fail due to lack of legal guidance leading to non-compliance issues. As the business grows of a startup, it tends to get exposed to more number of laws and regulations. Non-compliance to regulations leads to imposition of heavy fines and penalties, which might result in failure of the startup.</p>	<p>The Indian government had launched the "Digital India" programme, with one of its major goals to assist entrepreneurs establish online businesses. However, inadequate digital infrastructure such as internet connectivity issues, in the country has impeded the growth of such startups.</p> <p>Inadequate infrastructure (such as online portal) for critical business requirements, for example: obtaining registrations and licenses, further acts as a hurdle for startups to flourish.</p>

25. "Entrepreneurial India", IBM Institute for Business Value, accessed 07 January 2018  
 26. "2018 In Review: 12 Of The Biggest Startup Failures In India", Inc42, 29 December 2018

27. "Despite right atmosphere, more startups failing in India due to lack of legal guidance", KNN, 16 October 2018

28. "Why PM Modi's 'Startup India' Couldn't Succeed As Expected", Indian Web2, 1 July 2017

### Case study: Snapdeal<sup>29</sup>

#### Overview

Snapdeal, founded in 2010 in Delhi, was considered as the second largest e-commerce startup after Flipkart in 2015. The company was valued at INR441 billion (USD6.5 billion) in early 2016. Snapdeal achieved the unicorn status in 2014, however, its valuation declined over time to reach INR54 billion (USD850 million) in 2017. The company decided to operate as an independent entity with a redefined strategy, post non-execution of its merger deal with Flipkart amounting approximately 300, 60, 257 and 587 per cent, respectively through sale of their stakes in Flipkart.



#### Why did its valuation go on a downward trajectory?

- Snapdeal was a little behind from its competitors in terms of mastering in a particular category/ service
- The firm tried to implement an effective omni-channel strategy, however couldn't execute it due to limited availability of a dedicated tech team
- Snapdeal launched "Snapdeal Gold" for providing "next-day delivery" services. However, its customers service and experience could have been better as compared to competitors such as Amazon Prime or Flipkart Plus
- The e-commerce firm suffered losses in FY2017, due to impairment charges arising out of non-current assets, Freecharge platform and GoJavas, in which the company held a major stake leading to a cash crunch.

29. "The seven sins of Snapdeal: how and where they lost their way", YourStory, 30 May 2017



# Maharashtra's startup landscape: A closer look



Maharashtra, with a Gross Domestic Product (GDP) of over INR28 trillion (USD390 billion)<sup>01</sup>, is the largest economy in India and contributes around 15 per cent to the country's GDP<sup>02</sup>. This has been primarily due to its strong credentials as the leading industrialised state, especially in the services and manufacturing sector. Maharashtra, the most urbanised state in India, has always been popular amongst global

companies looking to enter the Indian market.

However, this growth can be attributed to Mumbai, which has played a significant role to help achieve the state its current status. The city being the major port in Maharashtra, led to burgeoning trade and industrial development. Mumbai's history for trade and commerce dates back to 1500 AD when Portuguese established a

trading center there. Later on, it was further developed by the East India Company and by the end of 1700s it became the "Gateway of India"<sup>03</sup>. Since then, the business landscape of the city has been continuously evolving and has come a long way. Today, the city is home to the country's oldest and premier business houses and it alone contributes to more than 6 per cent of nation's GDP<sup>04</sup>.

## Startup ecosystem in the state

Maharashtra has a vibrant startup ecosystem, primarily due to increase in the number of startups. As per Department of Industrial Policy and Promotion (DIPP), Maharashtra with a total of 2,787 startup registrations (out of 14,565), was ranked first in 2018, followed by Karnataka (2,107), Delhi (1,949) and Uttar Pradesh (1,201)<sup>05</sup>. This growth in

the startup landscape could largely be attributed to Mumbai which has the third largest startup base, after Bengaluru and Delhi. Mumbai's good connectivity with other countries, presence of prominent VC firms such as Sequoia Capital and Matrix Partners, rising concept of co-working space and a huge customer base, makes the city an attractive destination for startups.

In addition, the city is home to one of the largest incubator i.e. Society for Innovation and Entrepreneurship (SINE), launched by IIT Bombay. SINE has an incubation infrastructure of ~15,000 square feet, which has the capacity to accommodate 20 startups at a time<sup>06</sup>.

01. "Maharashtra Budget Analysis 2018-19", PRS India, accessed on 19 January 2019

02. "Podcast | Deep Dive - Maharashtra pushes for \$1 trillion economic tag by 2025. Is the target achievable?", Money Control, 8 July 2018

03. "Bombay: History of a city", British Library, accessed on 17 January 2019

04. "Richest Cities Of India", Business World, 28 June 2017

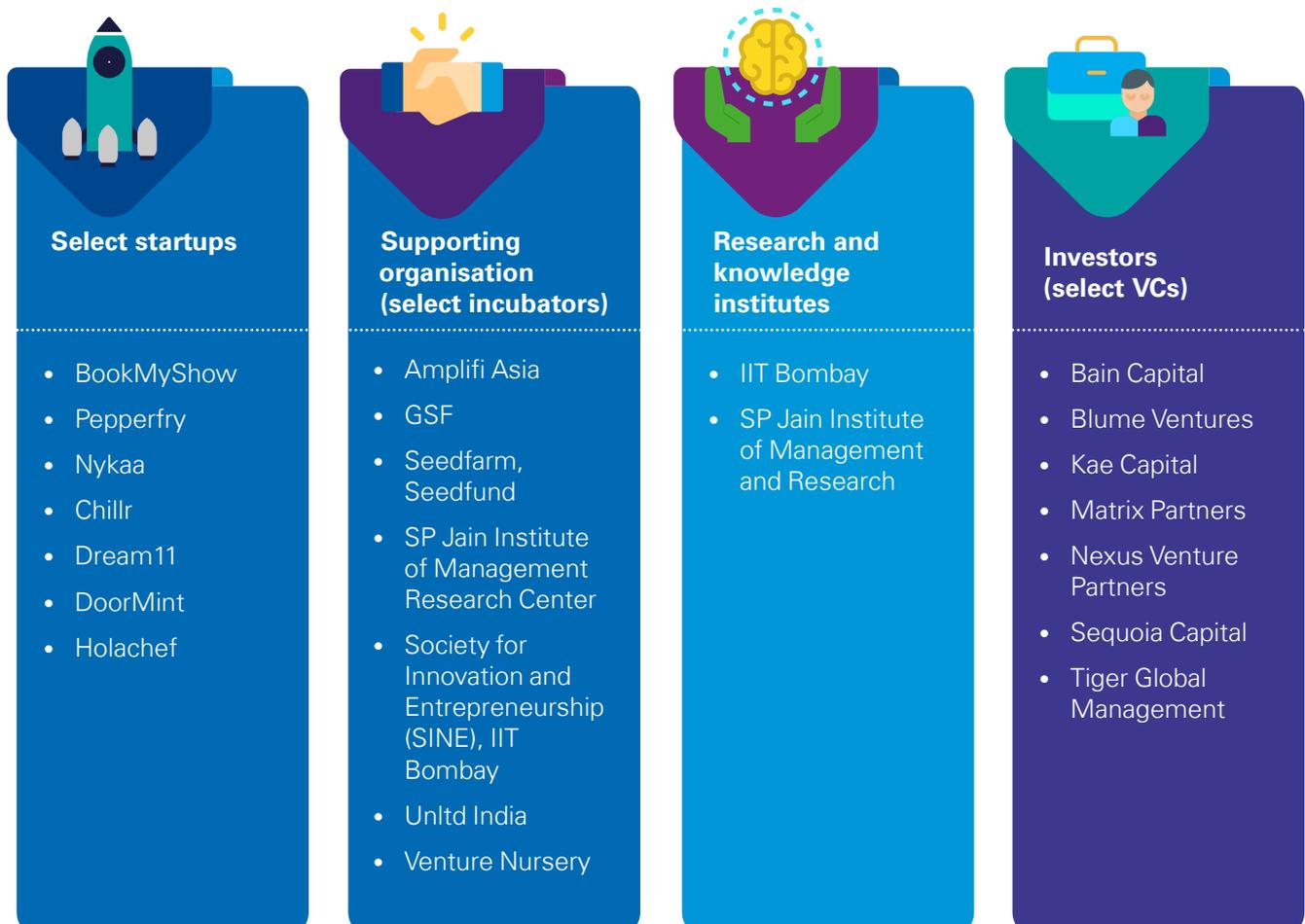
05. "Startup ranking in India: Gujarat at No. 1 spot, Maharashtra records largest number of startups", India Today, 21 December 2018

06. "The state of the Indian startup ecosystem – Annual report 2018", INC 42, accessed on 3 January 2019

The presence of IIT Bombay in Powai, which provides easy access to tech talent, has led to emergence of this locality as a startup hub in Mumbai. In addition, Andheri and Lower Parel are also some of the prominent destinations for startups in Mumbai. Andheri, which is in the heart of the city provides a better local and international connectivity (both domestic and international airports are around 3-4 km). The

region also has presence of many educational institutes which provides easy access to talent base. Lower Parel, despite of high real estate prices, is evolving as a startup hub mainly due to its good connectivity with other parts of the city, presence of educational institutes such as Indian School of Design and Innovation, and huge customer base especially in media and advertising industry<sup>07</sup>.

### Few stakeholders<sup>08,09,10</sup>



07. "Powai vs Lower Parel vs Andheri - which Mumbai hotspot will make or break YOUR startup story?", Your Story, 22 July 2016

08. "15 Enormously Successful Indian Startups that Stemmed from Mumbai", Cleartrip, accessed on 16 January 2019

09. "List of Top 35 most active VC firms in Mumbai for startups", The Hacker Street, 20 May 2017

10. "50 Amazing Startup Incubators and Accelerators in India", INC42, 14 April 2013]

On the other hand, Pune, which is just 150 km away from Mumbai is also slowly emerging as a promising destination for startups. This is primarily due to the availability of tech talent, affordable real estate prices, better climate and a lesser crowded city. In addition, the city has presence of VC fund such as Alacrity, while TiE Pune which is active in the city has assisted over 800 startups in the past six years<sup>11</sup> through its 'nurture programme'.

Hence, increasing funding capacity and better mentoring services, coupled with favorable government policies such as 'Maharashtra Startup Policy' is driving the emergence of Maharashtra as a prominent startup hub in the country.

Powai/Andheri East area is the largest startup hub in Mumbai given the presence of IIT Bombay, other educational institutes and affordable rentals. Pune is also an upcoming hub in Maharashtra given the quality of tech talent available there. It makes more sense to develop one of these hubs, more logically Mumbai, so that tech talent can innovate in a larger market with easier access to capital to support growth.

### **Rajinder Balaraman**

Director  
Matrix Partners India



11. "Startup ecosystem takes root in Pune", Hindustan Times, 22 April 2018

## Emerging startup hubs in Maharashtra<sup>12,13</sup>

Besides Mumbai, some other prominent cities are emerging as startup hubs. While Pune is a key region for the automotive and electronics sectors, Nashik has

witnessed growth in healthcare firms, with Nagpur emerging as an ideal location for renewable energy, and Aurangabad attracting agri-business companies.

### Title

#### Nashik

##### Select startups:

- Winjit
- ESDS Software solutions
- Zabuza Labs
- SenseDose Technologies

#### Nagpur

##### Select startups:

- Kizora Software Pvt. Limited
- Foodbymoon
- Humble Khichdi
- Live Napt
- Bloom Consulting Services

#### Pune

##### Select startups:

- Vertex Software
- MindTickle
- LightVision Technologies
- Dhruva
- Sokrati

#### Aurangabad

##### Select startups:

- Deven Infotech
- Mahatrucks
- Navineo
- Elkraft Health
- Mech4you

12. "Nagpur Startups", Startup Talky, 12 November 2018

13. "After Pune, Nashik is emerging as latest hub for tech startups in India", Economic Times, 7 August 2018

## Key sectors for startups in Maharashtra

Maharashtra (i.e. Mumbai and Pune) is home to over 12,200 active startups<sup>14</sup> catering to various sectors, of which around 1,400 are tech-startups<sup>4</sup>. Although, the startups in the state have focus on varied sectors, a few verticals have been the driving force. E-commerce, fintech and consumer services are the three popular sectors in Mumbai having the highest number of startups, accounting for close to 50 per cent share.

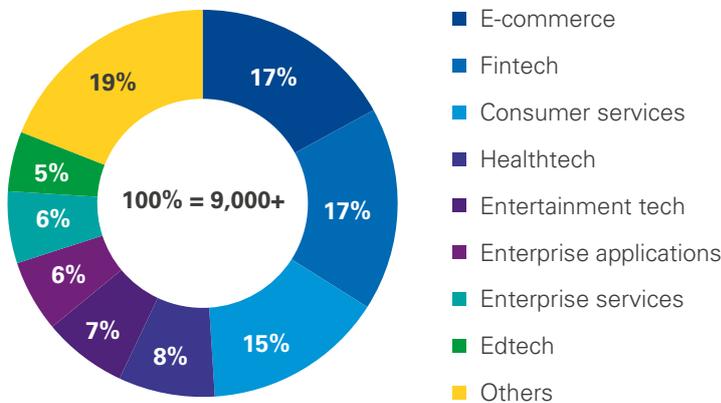
The sectoral landscape of startups in Mumbai is way different from its peers i.e. Bengaluru and Delhi-NCR. Top three sectors in Bengaluru are e-commerce, healthtech and consumer services which accounts

for only 34 per cent of the share, while in Delhi-NCR e-commerce, consumer services and fintech are the prominent sectors accounting for 42 per cent of the share<sup>37</sup>.

Although, Mumbai was slow to warm up to the entrepreneurial culture as compared to its competitors, fintech and enterprise tech are now driving its startup economy. Growth in the fintech sector is primarily due to the presence of a strong banking system in Mumbai. The city is the headquarter location for 13 public and private sector banks<sup>15</sup> as well as financial institutions such as Reserve Bank of India (RBI), National Stock Exchange (NSE) and Securities and Exchange Board of India (SEBI). The city, with a presence

of over 400 startups is now India's fintech capital<sup>16</sup>. Some of the key fintech startups in the city include Transerv, Epaylater, Neogrowth, and CreditVidya<sup>17</sup>. In addition, the city is also home to enterprise-tech which is led by the Society for Innovation and Entrepreneurship (SINE) at IIT Bombay<sup>18</sup>.

### Number of startups by sector in Mumbai (2017)



Source: "The state of the Indian startup ecosystem – Annual report 2018", INC 42, accessed on 3 January 2019

14. "The state of the Indian startup ecosystem – Annual report 2018", INC 42, accessed on 3 January 2019

15. "Headquarters of Public and Private Banks in India – Complete List", Day Today GK, accessed on 3 January 2019

16. "Mumbai has emerged as the hub of B2B startups in India, but talent still in short supply", Your Story, accessed on 3 January 2019

17. "City of dreams - evolution of Mumbai startup ecosystem", Your Story, 8 July 2016

18. "Mumbai has emerged as the hub of B2B startups in India, but talent still in short supply", Your Story, 12 March 2018



## Unicorn landscape

Mumbai has been home to some of the biggest startups of the country, with the most prominent and recent one being Ola. However, the irony is that Ola achieved its unicorn status after migrating to Bengaluru.

Certain startups such as Housing.com had a promising start and were able to attract investors in the early stages, but could not achieve the unicorn status. While the city continues to wait for its first billion-

dollar company, there are several startups which are soon expected to attain the unicorn status in the near future.

### Select Mumbai-based Soonicorns set to transition to Unicorns<sup>19,20,21</sup>



#### BookMyShow

BookMyShow, founded in 1999, is an online entertainment ticketing platform

In July 2018, the company in its latest round of investment, led by TPG, raised INR7.2 billion (USD100 million). It is expected to raise company's valuation to **USD850 million**.

#### Dream11

Dream11, founded in 2012, offers its users fantasy gaming in sports such as cricket, football etc.

In September 2018, the company raised INR7.2 billion (USD100 million) in a Series D funding lead by Tencent and other investors such as Kalaari Capital and Multiples Alternate Asset Management. It is speculated to raise company's valuation at **USD750 million**.

#### Nykaa

Nykaa, founded in 2012, is an online retailer of fashion and beauty products.

In October 2018, the company was in talks with a Japanese multinational to raise INR10.8 – 14.5 billion (USD150-200 million). This funding, if it materialises, is likely to take the company's valuation to anywhere between **USD700 – 800 million**.

19. "BookMyShow valuation soars to \$850M after the \$100M fundraising", Economic Times, 19 July 2018  
 20. "Tencent Leads \$100 Mn Series D Funding In Dream11 To Enter Indian Gaming Industry", INC42, 7 September 2018

21. "Nykaa in early talks with SoftBank to raise up to \$200 million", Live Mint, 10 October 2018

# Key enablers and growth drivers

Various factors have led to the growth of startups in Maharashtra, but it is the existence of supportive ecosystem, proximity to potential

financiers and mentors, presence of a huge customer base and the geographic advantage that have led to the emergence of Mumbai and

Pune as the two biggest startup hubs in the state.



## Supportive ecosystem

- **Investors:** Mumbai has presence of multiple VCs, while Pune has presence multiple angel investors
- **Incubators/accelerators:** While Mumbai is home to some of the largest incubators such as SINE, Pune has presence of TiE chapter, who are supporting the startups during their initial phase
- **Talent base:** Mumbai, being the financial capital of India, has abundant talent pool for financial services. While Pune has presence of abundant tech talent due to presence of various IT firms.



## Huge customer base

- Mumbai has a huge customer base, owing to its large population. In addition, the city is home to multiple banks and financial institution, making it a startup hub for fintech players
- The city is also a hub for Media and Entertainment industry
- While Pune has a huge population of millennials which are concentrated in a few areas, making it an attractive market for startups. In addition, the city is an automotive hub which provide opportunities for startups operating in these space.



## Geographic advantage

- Mumbai's good connectivity with other parts of the world provide it a competitive advantage over other cities
- In addition, the city has availability of good logistics infrastructure making it an attractive destination for startups, especially e-commerce
- Pune, which is in close proximity to Mumbai, provides it a geographic advantage vis-à-vis other startup hubs. In addition, the city has benefit of better climate and lesser crowd.

Mumbai being the financial hub of the country, access to financial services institutions and talent is much higher, thereby creating better prospects for Fintech startups in the city.

**Subhadeep Bhattacharyya**  
Co-founder and CEO  
Jubi.ai



Getting funding in Mumbai is easy due to presence of multiple VCs and exposure to international investors. Also, retention of tech talent working in Mumbai is comparatively easier, given that cities such as Bengaluru, have far more tech opportunities.

**Allwin Agnel**  
Founder and CEO  
Pagalguy.com



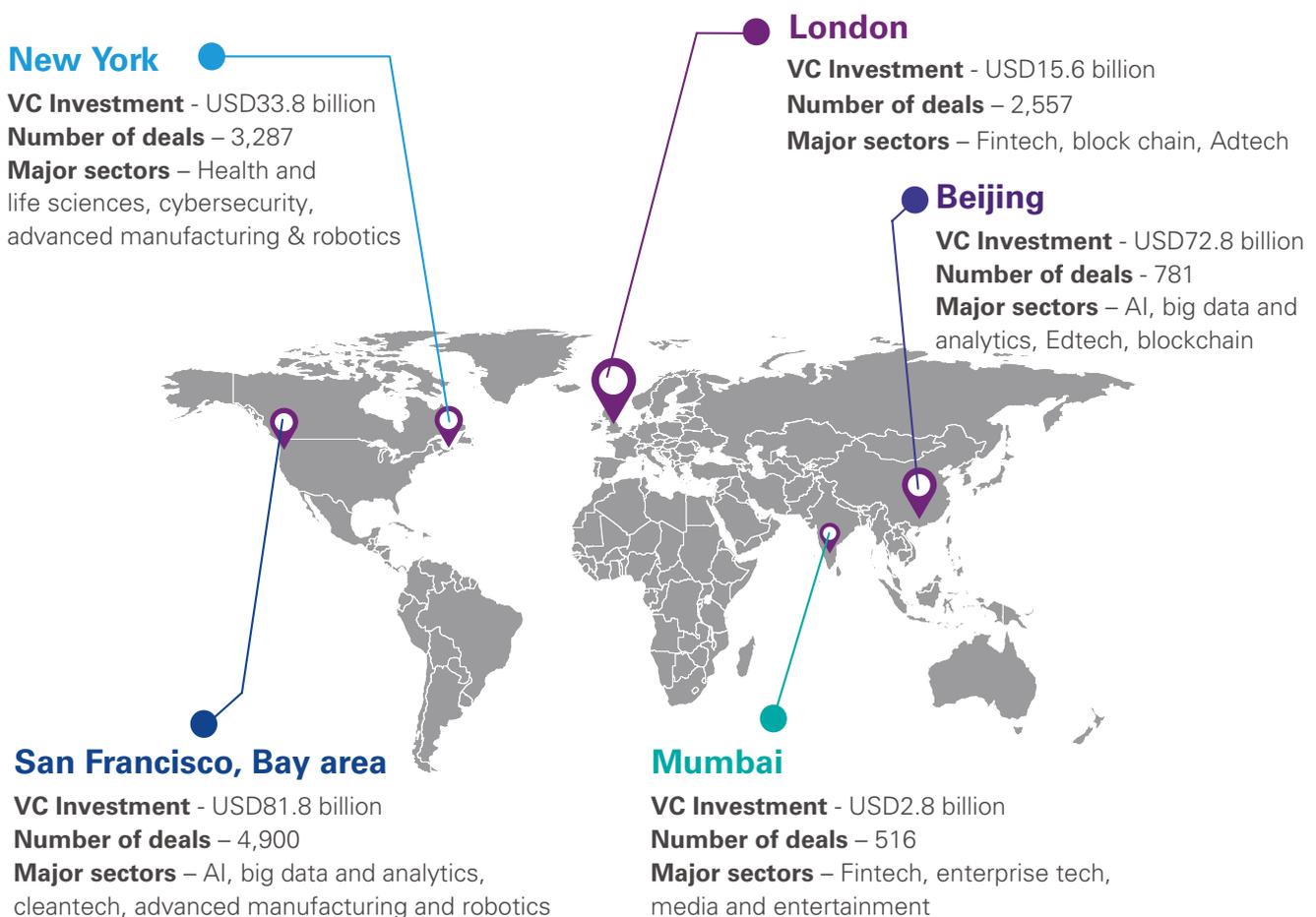
# Mumbai versus the rest of the world

According to the Centre of American Entrepreneurship's report, "Rise of the Global Startup City", between 2015 and 2017, Mumbai ranked 19th, globally, in terms of the total number of deals

secured and 28th in terms of total VC investment. However, Mumbai with a growth rate of 288 per cent, was ranked seventh in terms of the growth in VC deals secured in 2015 – 2017, as compared to the

2010 – 2012 period<sup>22</sup>, indicating the expansion of startup ecosystem in the city. In addition, driven by large venture capital investment, Mumbai is also emerging as a prominent startup location within Asia.

## Startup ecosystem in major cities (2015-17)<sup>23,24</sup>



A common factor across the major startup hubs is that the respective governments have been promoting entrepreneurship by including innovation in their five-year plans,

along with adequate financial support, administrative assistance and partnerships with universities and incubators.<sup>25,26,27,28,29,30</sup>

22. "Global Startup City", Center for American Entrepreneurship, accessed on 18 January 2019

23. "The New Map of Entrepreneurship and Venture Capital", Center for American Entrepreneurship, October 2018

24. "Global Startup Ecosystem Report 2018", Startup Genome, accessed on 18 January 2019

25. "China's State-Backed Start-up Push", The Diplomat, published on 17 February 2018

26. "Aggressive tax cuts aim to improve fortunes of small businesses", China Daily, published on 18 January 2019

27. Start-up loans, accessed on 18 January 2019

28. Use the Seed Enterprise Investment Scheme to raise money for your company, Gov.uk, published on 12 October 2018

29. "Government backed schemes and initiatives promoting new business startups, ENT Magazine, accessed on 18 January 2019

30. "U.S. Government Support for Entrepreneurship in America and Around the World", Global Entrepreneurship Summit 2017, accessed on 18 January 2019

China	United States	United Kingdom
<ul style="list-style-type: none"> <li>• The State Administration of Taxation eased 70 per cent of the tax burden on investment in technology start-ups</li> <li>• The Government has been primary funder of startups and also supports start-ups with housing, office space, and salaries, along with subsidies for tech firms based in Special Economic Zone (SEZ).</li> </ul>	<ul style="list-style-type: none"> <li>• The U.S. Government has formulated State Angel Investor Tax Incentive Programmes, which cover tax credit policies for angel investors, promoting funding for start-ups</li> <li>• The Department of State's Bureau of Educational and Cultural Affairs (ECA) provides platform for entrepreneurs across the World to exchange best practices.</li> </ul>	<ul style="list-style-type: none"> <li>• The British Government has launched training schemes focused on enhancing technical and marketing expertise for startups, such as Business Bootcamps</li> <li>• The government has issued Start Up loans scheme, and provides tax reliefs to individual investors under Seed Enterprise Investment Scheme (SEIS).</li> </ul>

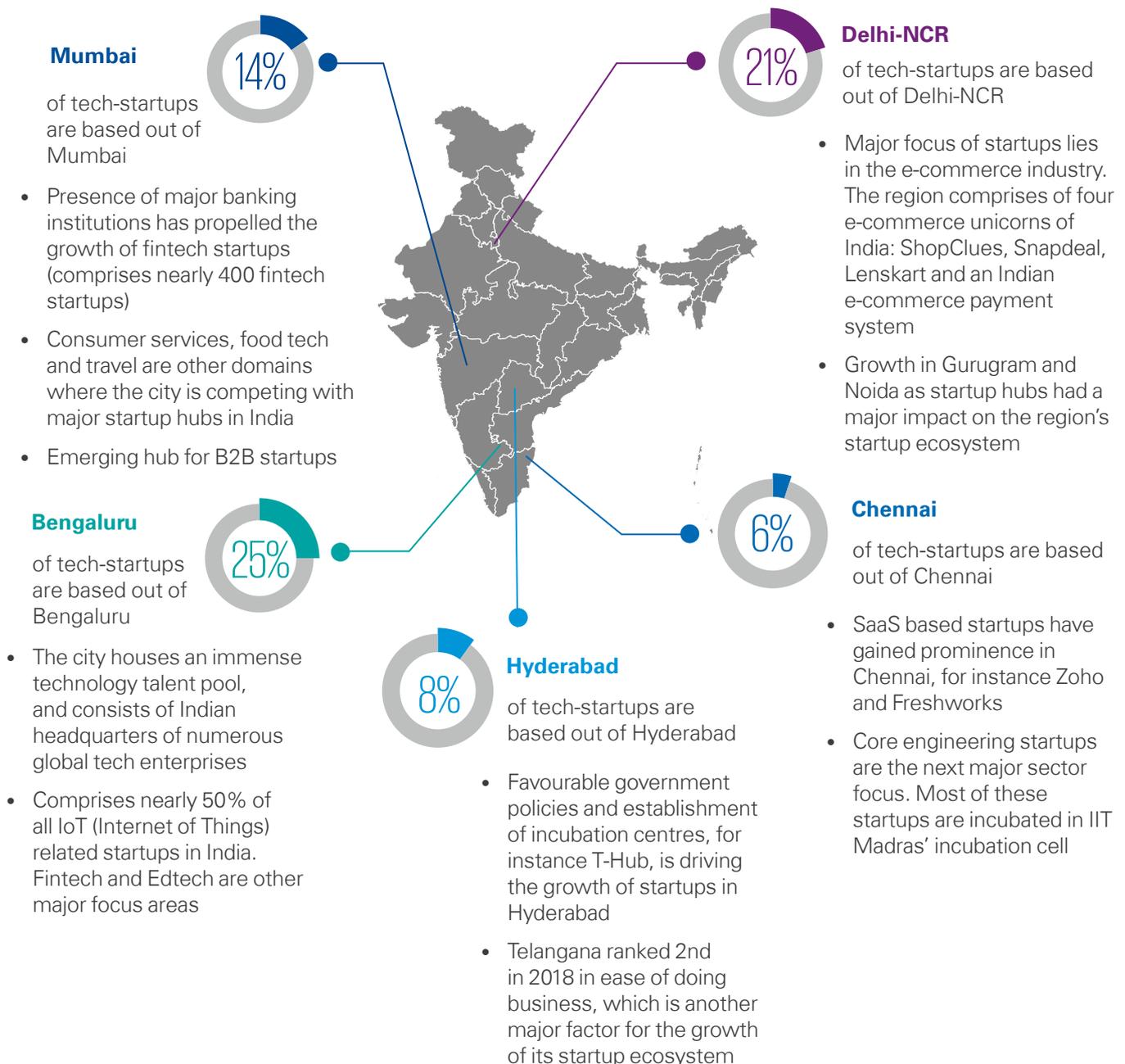
In order to stay competitive, the government of Maharashtra could take ideas from its global peers and implement some of the supportive policies in the state to enhance the startup landscape, which in turn would drive the economic growth in the state.



# Maharashtra versus the rest of India

Bengaluru, Delhi-NCR and Mumbai form the top three startup hubs in India, accounting for approximately 60 per cent of the tech-startups in India. Each of these has their own set of USPs. Other cities, such as Hyderabad and Chennai are also emerging owing to low operating costs and availability of talent pool.

## Major startup hubs in India (2018)<sup>31,32</sup>



31. "Indian Start-up Ecosystem 2018: Approaching Escape Velocity", NASSCOM, Edition 2018

32. "India's Startup Landscape", Yes Bank, August 2017

Bengaluru, which boasts of a tech-startup base of over 1,900 companies, has a large technology talent base along with presence of headquarters of major technology companies, such as Microsoft, Infosys and Wipro. The city is also home to few of the largest unicorns in India such as Flipkart, Inmobi and Ola.

Delhi-NCR, on the other hand, has started gaining prominence in the overall startup ecosystem of India and this can be substantiated by the fact that the region houses many large startups, particularly in the online retail segment, such as Snapdeal and an Indian e-commerce payment system. Another significant reason for the growth of startups in this region is the existence of a strong network

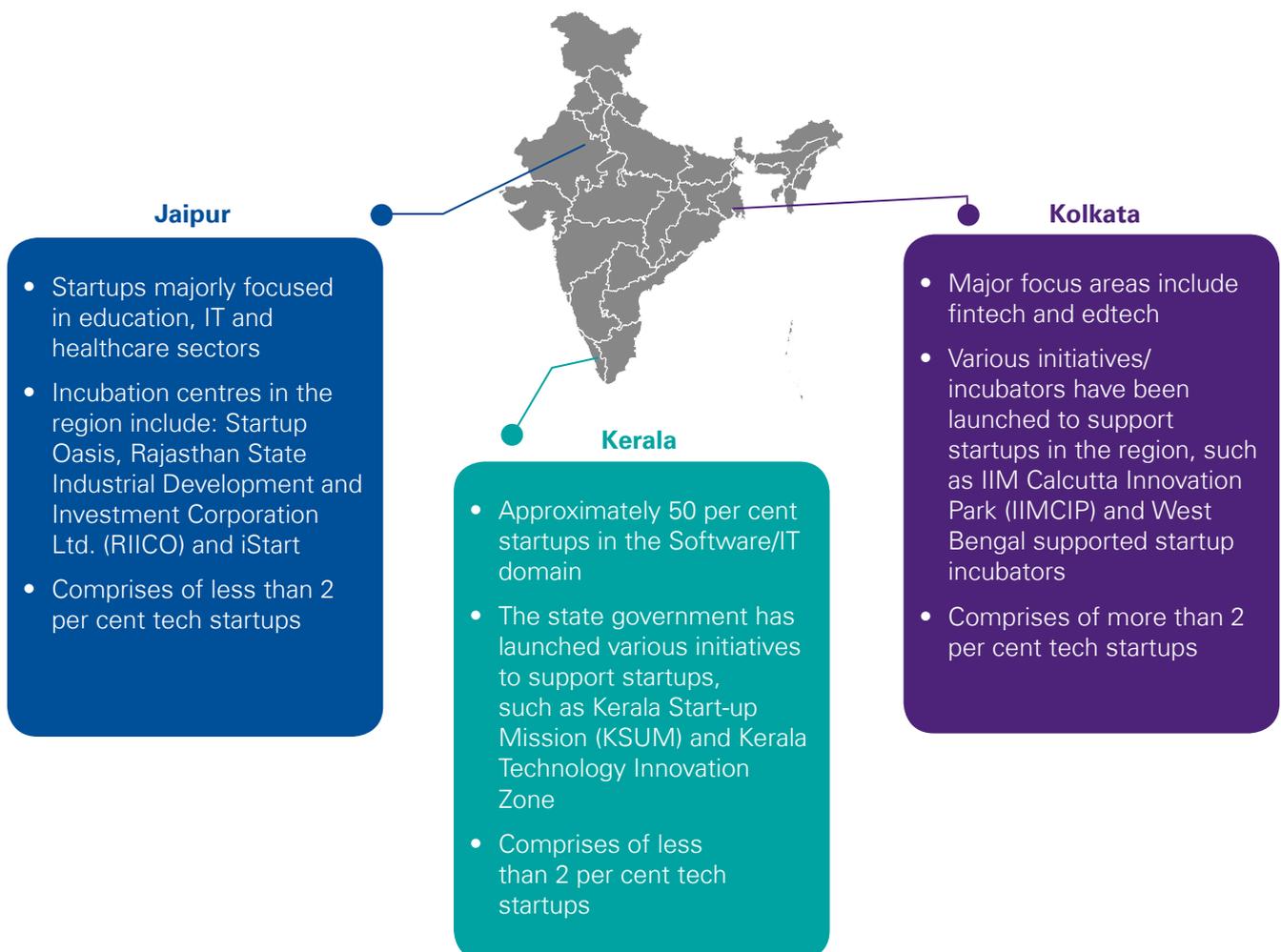
of incubators, such as Indian Angel Network (IAN) Incubator, Technology Based Incubator (TBI), amongst others. Major aim of these incubators is not only to promote technology related ideas, but also to expand the scope to other verticals such as financial services and consumer services.

Mumbai, although the city consists of large enterprises and financial institutions, houses fewer startups as compared to Bengaluru and Delhi-NCR. This can be attributed to the high real estate prices as compared to the other two cities. For example, a few of the startups from transportation and fintech sector began operating out of Mumbai, but later shifted to other cities in order to sustain and expand their business. Despite this,

various startups have emerged in Mumbai, especially B2B startups in the fintech and enterprise tech space, driving growth of the startup ecosystem in the city.

Presence of financial institutions such as banks, insurance companies, NBFCs (Non-banking financial institutions), mutual funds, brokerages etc., has allowed fintech startups in Mumbai to have relatively easier access to gain access to a large pool of customers. Apart from fintech, enterprise/SaaS-based solutions, retail, edtech and healthtech are major sectors in which startups operate in Mumbai. Existence of numerous financial institutions, further provides startups a better access to investors.

### Emerging startup hubs in India (2018)<sup>33,34,35</sup>



33. "Kerala Startup Ecosystem Report", INC42, November 2018

2016

34. "Extraordinary Journey Of Jaipur From Pink City To Startup City", INC42, 15 November

35. "India's Startup Landscape", Yes Bank, August 2017

Besides, India is also observing significant growth in the number of startups in tier II and III cities such as Jaipur, Kochi, Ahmedabad and Pune. Percentage of startups operating in tier II and III cities have witnessed an increase from 35 per cent in 2017 to 40 per cent in 2018<sup>62</sup>. Major growth drivers for this trend are favourable state government policies and increase in the number of government/university backed incubators and accelerators. Startups in these states focus more on local problems across sectors such as healthcare, agriculture and education, as compared to the emergence of more number of B2B startups in Mumbai. Startups in tier II and III cities across Maharashtra have also developed their forte in various sectors, such as Nashik majorly comprises of healthcare startups, Aurangabad consists of agritech startups and Nagpur has a major focus on clean energy startups. Favourable startup policy coupled with factors such as incubation support, funding support and simplified regulations have helped in developing a conducive

environment for startups to grow in these cities. Other major factors such as availability of technology talent at low cost, as well as low operating costs have contributed towards the growth of startups in tier II and III cities.

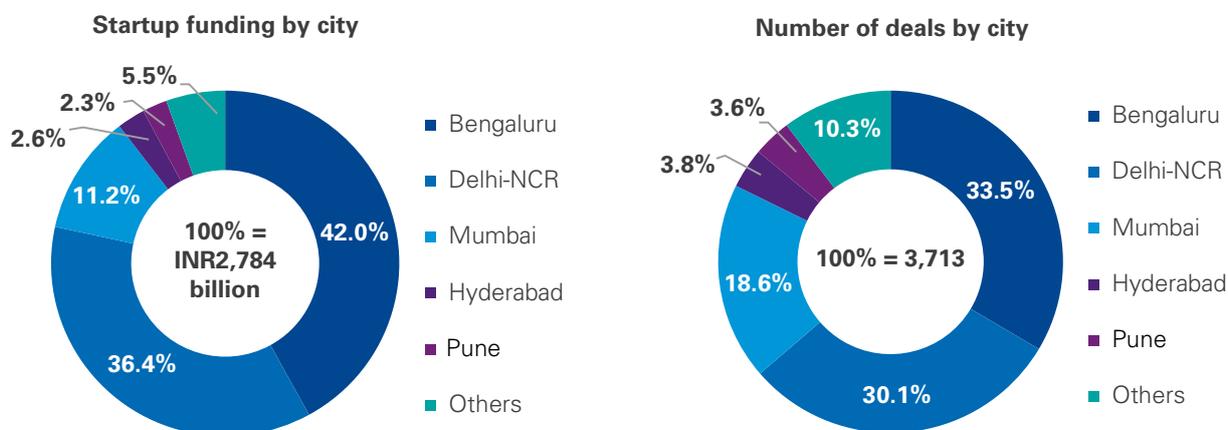
### Funding scenario

India is home to over 2,000 active investors<sup>36</sup>, who are investing in the ideas of budding entrepreneurs of India, thereby nurturing the startup ecosystem of the country. These investors, in the last five years (January 2014 to September 2018), have invested a total of INR2,784 billion (USD38.5 billion)<sup>37</sup>, of which Maharashtra (i.e. Mumbai and Pune) received around 13.5 per cent share. Both the cities have a good network of investors, for example, Mumbai has over 650 active investors who own more than 800 funds<sup>37</sup>. The city might be third largest in terms of number of startups, however it has the highest number of active investors as compared to Delhi-NCR (462 investors and 515 funds<sup>38</sup>) and

Bengaluru (292 investors and 431 funds<sup>39</sup>). This could largely be attributed to the presence of various financial institutions, VCs/PEs and high net worth individuals (HNIs) in the city. Some of the VC investors in Mumbai include Bain Capital, Blume Ventures, Matrix Partners, Sequoia Capital, Tiger Global Management, amongst others.

While on the other hand, Pune is home to Alacrity, a Canada-based fund which has allocated INR723 million (USD10 million) for the city<sup>40</sup>. However, the city has several angel investors which are helping expand the startup ecosystem in the city. In the last five years (January 2014 till September 2018), startups in Pune have received a total of INR65.3 billion (USD0.9 billion) in funding, across 133 deals<sup>37</sup>. Amongst key funding in the city, acquisition of Praxify (a health app maker) by Athenahealth for INR4 billion (USD63 million)<sup>41</sup> and INR9.8 billion (USD145 million) fund raise by CarTrade<sup>42</sup>, really stood out in 2017 and 2016 respectively.

### Tech startup funding across different cities (January 2014 till September 2018)



Source: "The state of the Indian startup ecosystem – Annual report 2018", INC 42, accessed on 3 January 2019

36. "Investors Active in India", Crunchbase, accessed on 5 January 2019  
 37. "Investors Active in Mumbai, Maharashtra", Crunchbase, accessed on 5 January 2019  
 38. "Investors Active in Delhi", Crunchbase, accessed on 5 January 2019  
 39. "Investors Active in Bengaluru, Karnataka", Crunchbase, accessed on 5 January 2019

40. "Startup ecosystem takes root in Pune", Hindustan Times, 22 April 2018  
 41. "Athenahealth pays \$63 million to acquire health app maker Praxify Technologies", Healthcare IT News, 9 June 2017  
 42. "CarTrade raises \$145M from Temasek, others", VCCircle, 13 January 2016

Bengaluru with a total funding of INR1,169 billion (USD16.2 billion) and 1,244 deals stood first, followed by Delhi-NCR which received a total funding of INR1,012 billion (USD14.0 billion) in 1,119 deals.

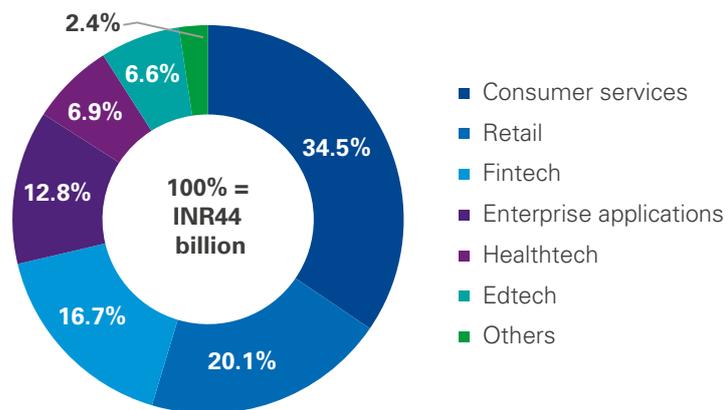
Mumbai, received a total funding of INR312 billion (USD4.3 billion) during January 2014 till September 2018 period<sup>37</sup>, with fintech being the second most-funded sector after consumer services<sup>64</sup>. In 2017, the sector received a total funding of INR7.4 billion (USD116 million)<sup>64</sup>. Fintech sector in Mumbai is evolving rapidly mainly due to the presence of the banking system which provides a mature talent pool in the financial sector. India's fintech market is expected to grow at a rate of 7.1 per cent per year to reach an estimated value of INR3,264 billion (USD45 billion) by 2020<sup>43</sup>. To tap the

growing market, investors from all around the world are pouring in big money with a recent one being the acquisition of Chillr, a multi-bank payments app, by Truecaller<sup>44</sup>.

Other top funded sectors include e-commerce, enterprise tech, healthtech and edtech. Some of

the recent fund raising (H1 2018) in these sectors include Nykaa (INR2.6 billion), BrowserStack (INR3.6 billion), PharmEasy (INR2.2 billion) and Toppr (INR167 million), respectively<sup>45</sup>.

### Startup funding by sector in Mumbai (2017)



Source: "Mumbai has emerged as the hub of B2B startups in India, but talent still in short supply", Your Story, 12 March 2018

## Government funding

In addition to the private sector/corporate funding, some startups across different states have access to government funding during various stages of growth. The Maharashtra government, for instance, under the ambitious "Maharashtra State Innovation and Start-Up Policy", plans to disburse INR50 billion by 2022 to build 10,000 startups and generate 500,000 direct and indirect jobs<sup>46</sup>. In line with the policies formulated by other states, Maharashtra government is also planning to keep 50 per cent of the fund for entrepreneurial development while the remaining would be used for venture capital funding for startups. Below are the different funding initiatives taken by various state governments<sup>47,48,49</sup>.

#### Karnataka

- Seed funding: Idea2POC fund provide early stage funding of INR5 million to startup ideas
- Venture fund: Fund of funds of INR2 billion for various sectors
- Grant: Grant of INR5 million for startups providing solutions for rural development in the state

#### Kerala

- Seed funding of up to INR1 million per startup through a review mechanism
- Venture fund: Plan to launch a fund of funds with a corpus of INR5 billion

#### Gujarat

- Venture fund: Created 'Gujarat Venture Fund Limited (GVFL) Startup Fund' of INR2.5 billion

#### Haryana

- Seed funding created with a corpus of INR150 million
- Venture fund: Plan to set up a fund of funds with a corpus of INR1 billion to be invested in the next 5 years

43. "Make Mumbai the financial hub of the country", The Economic Times, 3 August 2017

44. "Truecaller acquires payments app Chillr", VCCircle, 13 June 2018

45. "Delhi-NCR beats Bengaluru to emerge top funded city for startups in H1 2018", Your Story, 9 July 2018

46. "Maharashtra gov announces a slew of initiatives for startups, including Rs 5,000 Cr

investment", Your Story, 24 January 2018

47. "Seed Funding Support", Startup India, accessed on 8 January 2019

48. "Karnataka Government announces Rs 50 lakh grant for startups", Money Control, 3 September 2018

49. "Angel and Venture Funding", Startup India, accessed on 8 January 2019

### Uttar Pradesh

- Venture fund: Established a fund of funds with a corpus of INR1 billion

### Bihar

- Seed funding of up to INR1 million per startup as an interest free loan for 10 years
- Venture fund: Plan to set up a VC fund of INR5 billion

## Spotlight on regulations

The government of Maharashtra in the past has launched various policy initiatives and extended regulatory support to the startups. The Maharashtra State Innovative Startup Policy is in line with the policies of other states and

focuses on allowing local laws to be examined with a view of relaxing certain norms to allow easy compliance. In addition, with the intention of letting startups focus on their businesses, the state plans to ease the regulatory regime

and keep compliance costs very low. The policy mentions that all necessary steps shall be taken to ensure regulations are simplified and startup-friendly.

### Regulatory policies for startups: Maharashtra versus other states

Parameter	Maharashtra	Karnataka	Gujarat	Haryana	Uttar Pradesh
<b>Single window clearance</b>	Yes	Yes	Yes	Yes	Yes
<b>Modified power tariff</b>	-	Yes	-	-	Yes
<b>Self-certification and guard against inspections</b>	Yes	Yes	Yes	Yes	Yes
Years of relaxation after incorporation	up to 7 years	up to 5 years	up to 5 years	up to 7 years	-
<b>Three shift working (with women staff)</b>	Yes	Yes	-	Yes	Yes
<b>Plug and play infrastructure</b>	Yes	Yes	-	Yes	-
<b>Alternate Investment Options*</b>	Yes	-	-	-	-
<b>Relaxations in case of government tenders</b>	Yes	Yes	Yes	Yes	-
<b>Subsidies and incentives</b>					
Lease rental subsidy	-	-	Yes	Yes	-
Stamp and registration duty	up to 100% (in first 3 years, drops to 50% for next 3 years)	up to 75%	up to 100%	-	Yes

Parameter	Maharashtra	Karnataka	Gujarat	Haryana	Uttar Pradesh
Interest subsidy	-	-	Yes (interest subsidy at 9% p.a. for 2 years, with a capping of INR0.2 million per annum)	-	Yes
PF/ESI (up to 2 years)	Yes	Yes	-	-	-
Marketing incentives	-	30% of International Marketing Costs subject to maximum of INR0.5 million per annum	Yes (subject to a maximum of INR0.1 million per annum)	-	up to INR1 million (one time)
Patenting & IPR Protection (National)	up to INR0.2 million	up to INR0.2 million	up to INR0.4 million	up to INR0.2 million	up to INR0.2 million
Patenting & IPR protection (International)	up to INR1 million	up to INR1 million	up to INR1 million	up to INR0.5 million	up to INR1 million
Standardisation/Quality testing	up to 80%	up to 50%	-	Clubbed with subsidy for patenting	Yes (up to INR2.5 million per unit for IT/ITES sector)
Tax (SGST) reimbursements	Yes	Available only in case of incubated startups	Yes (up to 80% of VAT)	-	-
Sponsorships for event participation	Yes	Yes	Yes	-	Yes
<b>Startup Portal</b>	Yes	Yes	Yes	Yes	Yes
<b>Incorporation with residential address</b>	Yes	Yes	Yes	Yes	Yes

**Note:** The above table has been prepared basis the information availability on government policy documents

\* An Alternative Investment Market would be established in Maharashtra which would allow startups to float their shares in more flexible ways that may enable investments in various modes, scales and lock-in periods.

**Source:** "Maharashtra State Innovation and Start-up Policy-2017", Skill Development and Entrepreneurship Department, Maharashtra State, 8 May 2017; "Maharashtra State Innovative Startup Policy", Startup India, 2018; Entrepreneur and Startup Policy 2017, Government of Haryana, accessed on 18 January 2019; Electronics & IT/ITeS Start-up Policy for the State of Gujarat (2016-21), Government of Gujarat, accessed on 18 January 2019; Uttar Pradesh Information Technology & Start-Up Policy 2017-2022, Government of Uttar Pradesh, accessed on 18 January 2019; Karnataka Startup Policy 2015-2020, Government of Karnataka, accessed on 18 January 2019; Karnataka i4 Policy, Government of Karnataka, accessed on 18 January 2019

# Startup ecosystem concerns

Some of the major concerns of the startup ecosystem, revolve around the following factors:



## Real estate prices

- High real estate prices lead to migration of startups to other cities such as Bengaluru, in order to scale their businesses
- High demand for salary due to high rental cost, which puts cost pressures on startups.



## Availability of tech talent

- Availability of more opportunities related to the IT domain in cities such as Bengaluru and Pune, prompts entrepreneurs to shift from Mumbai
- High real estate prices intrinsically affect the availability of talent pool.



## Connectivity infrastructure

- Longer time to commute from one place to another and overcrowded public transport system in Mumbai negatively affects the go-to-market strategy of startups.

Overall operational cost for startups in Mumbai is more due to high real-estate prices, leading to high rentals. This in turn increases the cost of talent acquisition in the city. Additionally, Mumbai, with its vast geographical spread coupled with transportation infrastructure issues, leads to challenges in scheduling meetings with clients and stakeholders, and increases operational difficulties.

**Snehaal Dhruv**  
Co-founder  
Superfan.ai



Mumbai faces the issue of limited-availability of tech talent, as most of the potential employees shift to cities such as Bengaluru due to more opportunities, especially in the IT/ITES sector. However, talent which stays back, demands higher package, which escalates the cost base, creating a challenge for the startups to scale.

**Vijay Talreja**  
Co-founder & Director  
Adapty



# State government push



In an effort to boost the startup ecosystem in the state, the government of Maharashtra has taken various policy initiatives in the past, which mainly revolve around providing infrastructure support, funding and fiscal incentives.

## Dedicated programmes for startups

### The Maharashtra State Innovative Startup Policy<sup>01,02</sup>

was launched in February 2018 and is focused on achieving specific targets by 2023. They include attracting angel and seed stage investment of INR50 billion, developing at least 15 incubators in collaboration with industry/academia, facilitating incorporation of at least 10,000 startups and creating 500,000 direct and indirect employment opportunities.



#### Progress so far

- Establishment of 16 incubators have already been sanctioned
- Grants of INR50 million have also been announced for each of these incubators.

**FinTech Policy 2018<sup>03,04,05</sup>:** The government of Maharashtra has established a fintech policy to promulgate the state as one of the top five fintech hubs globally. Specifically, the policy aims at incubating at least 300 startups by 2021, attract funding of at least INR2 billion as well as establishment of co-working spaces and making them available for fintech startups at reasonable rates.



#### Progress so far

- The state announced 13 fintech startups under its 'FinTech Accelerator Programme'
- In June 2018, the State announced a "sandbox" provision to aid the development of fintech startups.

01. "Maharashtra State Innovative Startup Policy", Startup India, 2018

02. "Maharashtra Sanctions 16 Startup Incubation Centres with ₹5 Cr Grant to Each", Indian Web2, 4 October 2018

03. "FinTech Policy 2018", Maharashtra Government, 2018

04. "Maharashtra government picks 13 start-ups in push to Mumbai fintech hub", The Indian Express, 5 December 2018

05. "Maharashtra government unveils 'sandbox' to aid startups", The Economic Times, 2 June 2018

**Governance:** The state government has established Maharashtra State Innovation Society (MSIs) to foster the implementation of sector-specific initiatives related to innovation. MSIs further provides policy guidance to the governing council and publish amendments, if required, to the policy with respect to encouraging innovations in the startups ecosystem. MSIs also organises the Maharashtra Startup Week, which provides a platform for startups to demonstrate their business ideas to the government of Maharashtra.

Presence of IIT Bombay and high real estate prices in other parts of the city, have led to the development of Powai as a startup hub. However, to further boost the startup ecosystem in this area, the government could develop low cost residential complexes (similar to T-hub), thereby reducing the cost of living.

**Sushanto Mitra**  
 Founder & CEO  
 Lead Angels Network



## Fiscal incentives and regulatory support<sup>81</sup>

Maharashtra government is working towards implementing various initiatives, designed to promote an environment of innovation and entrepreneurship in the state, provide the much needed infrastructure to startups, and simplify the regulatory framework to ease compliance.

### Fiscal incentives



As per the Maharashtra State Innovative Startup Policy 2018, the state government is focusing on easing the regulatory norms for startups -

- Reimbursement for State Goods and Service Tax (SGST) incidence borne by startups which cannot be transferred to their customers
- Startups are provided compensation of 80 per cent of patent filing costs up to INR0.2 million and up to INR1 million for international patents
- Compensation of 100 per cent stamp duty and registration fee for the first three years of renting an office space.

### Relaxation of norms



- Procurement policy is expected to be relaxed in favour of startups, for instance by eliminating the clause of having prior experience or a minimum turnover amount, while ensuring the level of quality and other related parameters.
- The Maharashtra Shops and Establishment Act is expected to be relaxed for startups operating with an asset-light model, which would allow startups to be incorporated at residential address
- Online and mobile-based self-certification feature to be provided to startups. Further, inspections will not be conducted regarding compliance for a period of seven years.

The Maharashtra State Innovative Startup Policy will also allow local laws to be examined with a view of relaxing certain norms to allow easy compliance. Gradually, the state is expected to progress

towards full-fledged relaxation of norms. Additionally, with the intention of letting startups focus on their businesses, the state plans to ease the regulatory regime and keep compliance costs very

low. The policy mentions that all necessary steps will be taken to ensure regulations are simplified and startup-friendly.

## Other policy initiatives

In line with the central government's 'Startup India Hub', a virtual online platform, Maharashtra is planning to set up the 'Leapfrog Maharashtra' portal<sup>81</sup> to connect entrepreneurs, investors, mentors, industry players and academic institutions and foster knowledge exchange. The online portal seeks to help establish

associations between startups and relevant stakeholders in the startup ecosystem. Through these associations, the state government aims to provide mentorship and incubation support to startups in the state. Moreover, the state plans to collaborate with Indian and global industry bodies in order to develop market exchange

initiatives to expose startups to the international market. The portal would also allow startups to attain necessary clearances and approvals which would simplify the process of registration, enabling them to commence operations of their business in a timely manner.

## PPP partnerships - For excellence in various fields

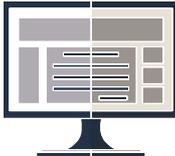
Under the Maharashtra State Innovative Startup Policy 2018, the state government is likely to extend collaboration with academic institutes, research and development institutions and the corporate sector through private public partnerships (PPP). Further, the state will partner with accelerators and incubators globally in order to develop facilities and facilitate knowledge exchange with the global startup ecosystem.

### Establishment of incubation facility through PPP model



**Private incubators:**  
Enterprises and industry associations will be provided support from the State to establish incubators pertaining to their domain.

Further, enterprises in the private sector will be supported to develop industry agnostic co-working facilities.



**Maharashtra virtual incubation center:**  
The state government will establish virtual incubation centers for offering services such as legal, finance, mentorship support etc. to aid startups across the state.

Server databases, co-working spaces, and licensed software for business functions such as human resource and accounting are some of the other services which will be provided to the startups.



**Academic incubators:**  
The state government will identify and collaborate with academic institutions that have already showcased or launched various innovation initiatives, in order to establish business incubators within these institutions.

The state will also establish three Centers of Excellence (CoEs) within certain research institutes in Maharashtra. Further, they shall leverage global partnerships in order to provide best-in class infrastructure and services for startups to flourish.

In addition to the incentives and subsidies, the government may also work closely with private investors, which could evaluate promising startups and support the government in identifying the funding requirements of these startups.

**Dr. Apoorv Ranjan Sharma**  
President and Co-founder  
Venture Catalysts



Government is providing various support to the incubators and accelerators via grants, tax incentives etc. However, to further enhance the efficacy of these benefits, the government could customise it based on the growth potential and stage at which these incubators and accelerators are.

**Poyni Bhatt**  
CEO  
SINE IIT-Bombay



## Recommendations

While the government of Maharashtra has been taking several initiatives to provide an encouraging environment for startups, there are additional steps that need to be taken for an all-round development of the ecosystem. For instance, developing specialised skill and infrastructure as well as facilitating fund availability for new and innovative business ideas will help minimise the costs of failure and hence encourage potential entrepreneurs to take risks. Here are some ideas and recommendations that the government and industry bodies could consider to further develop the startup ecosystem in Maharashtra.



**Skills development and training**



**Infrastructure development**



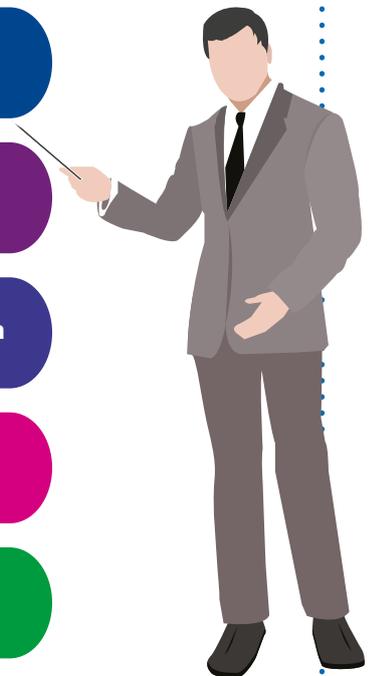
**Policy support and private participation**



**Social and employment incentives**



**Job creation**



## Skills development and training



### Nurturing talent focused towards entrepreneurship and innovation

- **Focus on digital literacy:** Developing a curriculum focused on technical knowledge in state-driven education boards and create a skill pool at the schools/colleges. This could be done by:



Mandating computer science as part of the core curriculum which would include advanced courses such as computational thinking, interface design, data analysis, machine learning, cybersecurity, networking and robotics



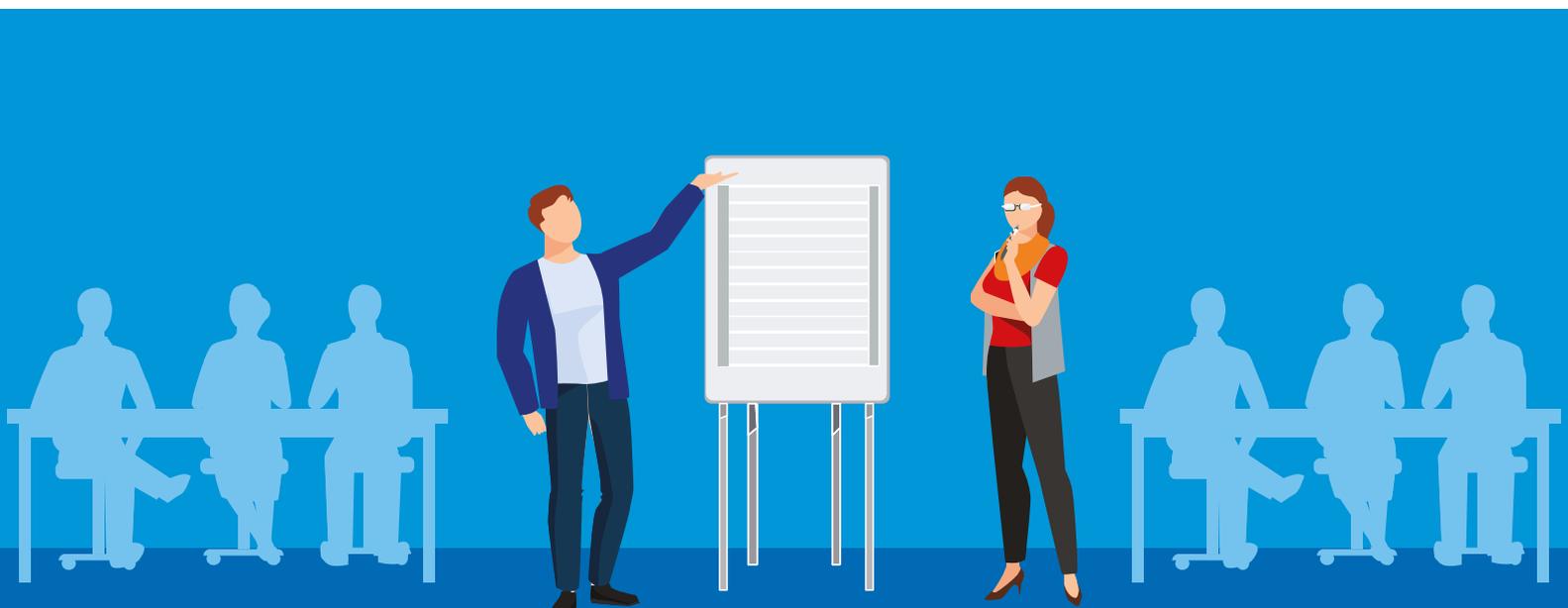
Distributing and training students from higher/senior secondary schools on Raspberry Pi kits, circuit builder kits, etc., similar to the Kerala government initiatives



Incubating advanced technologies such as AR, VR, IoT etc. in the curriculum –similar to the “Master of Data Sciences” course in the Mumbai University; and establishing advanced technology labs:

- These labs could collaborate with leading institutes from India and globally and multinationals such as Google and Facebook
- Labs could be made accessible for students and startups at subsidised costs

- Additionally, the government could look at introducing a program (through online courses, video training etc.) in Tier I and II cities and villages, focused around gaining English proficiency.



## Infrastructure development



### Easing up logistics and strengthening connectivity



#### Providing digital infrastructure

Government, in association with telecom companies and internet service providers (ISPs), could focus on providing high speed broadband service to the startups at reasonable prices. This could be done by:

- Partnering with telecom companies or ISPs to provide subsidized high speed broadband to the startups. For example, ACT partnered with the Karnataka government to provide broadband facility for startups in the state.



#### Mumbai Innovation Central

Building up or converting abandoned spaces (within the city to) into startup campuses to support budding entrepreneurs, such as Station F in Paris. These campuses could encompass:

- Co-working and integrated low cost living spaces
- Common testing labs and tool rooms, enterprise software and shared hardware, etc.



#### Developing sector hubs

We acknowledge the fact that government has taken various steps to develop various sector hubs across the state. The government could offer further boost to the startups in these sectors and regions by:

##### Fintech

Major financial institutions, government and academia could come together to build a self-sustainable 'Fintech Village' in Mumbai, similar to the 'Fintech Valley' in Vizag

##### Autotech

Establishing Pune as an automotive hub by building a shared 'Center of Innovation' with plug and play infrastructure facilities, where startups can develop and showcase next-generation technologies (such as electric, autonomous etc.) and solutions for automotive stakeholders



##### Agritech

Setting up an innovation hub (similar to Telangana) in Aurangabad, Nagpur, Nasik where agricultural tech startups, scientists and technology experts can work together to develop cutting edge solutions for the entire whole agriculture value chain

##### Media-tech

Making Mumbai a media-tech hub by establishing a programme where startups in media sector can showcase and collaborate with media and entertainment leaders on products and services

- This programme could be built in partnership with the National Broadcasters Association and major media players of the country

## Policy support and private participation



### Bringing out regulatory mandates and increasing private participation

#### Provide update on policy benefits/amendments and help startups with their regulatory issues, by:

- Setting up a call center/cell, which could act as a one stop shop for any regulation specific query
- Establishing a shared services center which would provide accounting, technology, patents etc. related solutions
- Easing out registration and fund disbursement process and lead time.

#### Involve private players/startups/ industry experts in policy formulation and implementation. This could be done by:

- Enabling better collaboration and interaction between the startups, the government and industry experts, by introducing an online participation forum called Startup iConnect.



#### The government together, with industry bodies and consulting firms, could support startups during the initial idea and growth stage to help them achieve scalability. This could be done by:

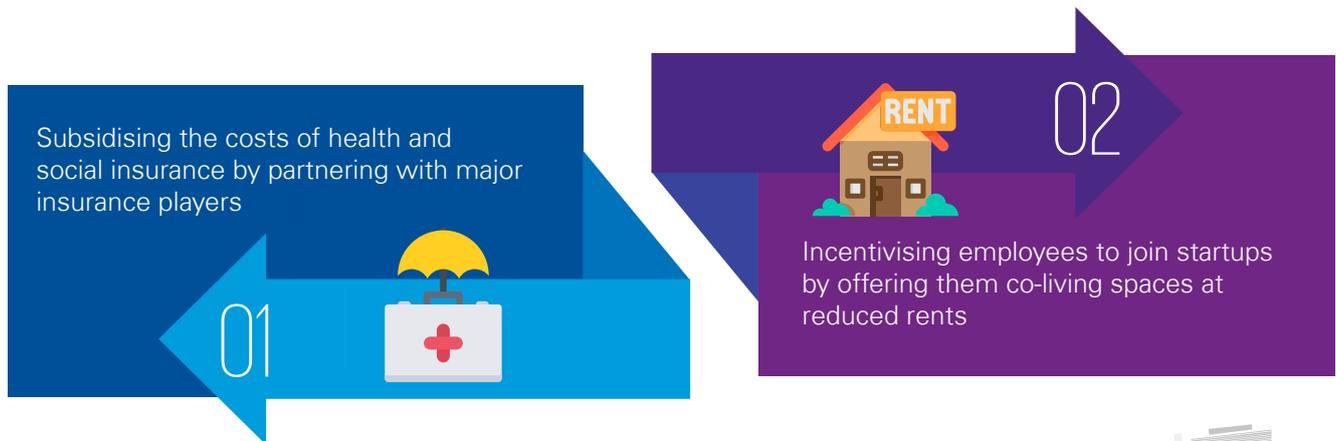
- Setting up 'Startup Clinics', for entrepreneurs, to understand their idea better and identify budding prospects
- Providing opportunities to work on government projects or with PSUs, by opening up some government tenders only for startups or working directly without any tendering (similar to Rajasthan's government 'Challenge for Change' initiative).

## Social and employment incentives



### Encouraging high-skilled talent to join startups

**Employment perks:** A startup is expected to spend most of their time and investment during the company's initial growth phase, in hiring new employees. These companies have very few competitive advantages against big players who can offer not only higher salaries, but also other benefits to its employees. The government can boost startup hiring by:



## Job creation

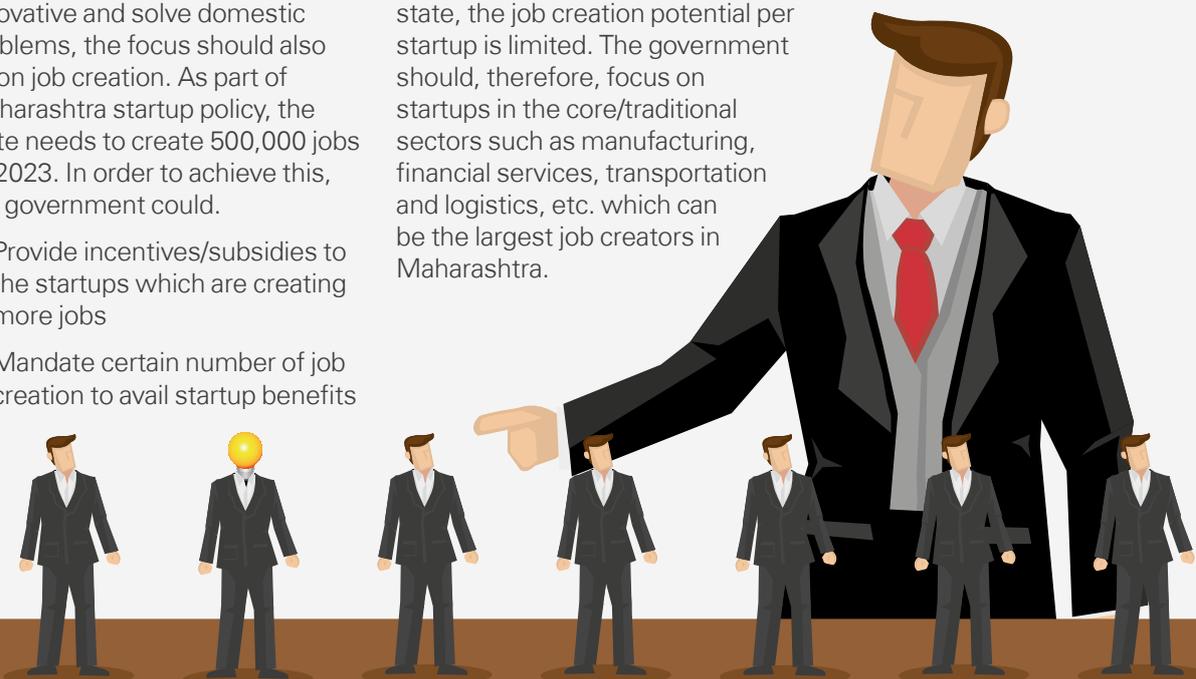


### Creating jobs for the masses

Although, the government is pushing the entrepreneurs to be innovative and solve domestic problems, the focus should also be on job creation. As part of Maharashtra startup policy, the state needs to create 500,000 jobs by 2023. In order to achieve this, the government could.

- Provide incentives/subsidies to the startups which are creating more jobs
- Mandate certain number of job creation to avail startup benefits

While tech companies comprise majority of the startups in the state, the job creation potential per startup is limited. The government should, therefore, focus on startups in the core/traditional sectors such as manufacturing, financial services, transportation and logistics, etc. which can be the largest job creators in Maharashtra.



# Case studies



## Pepperfry

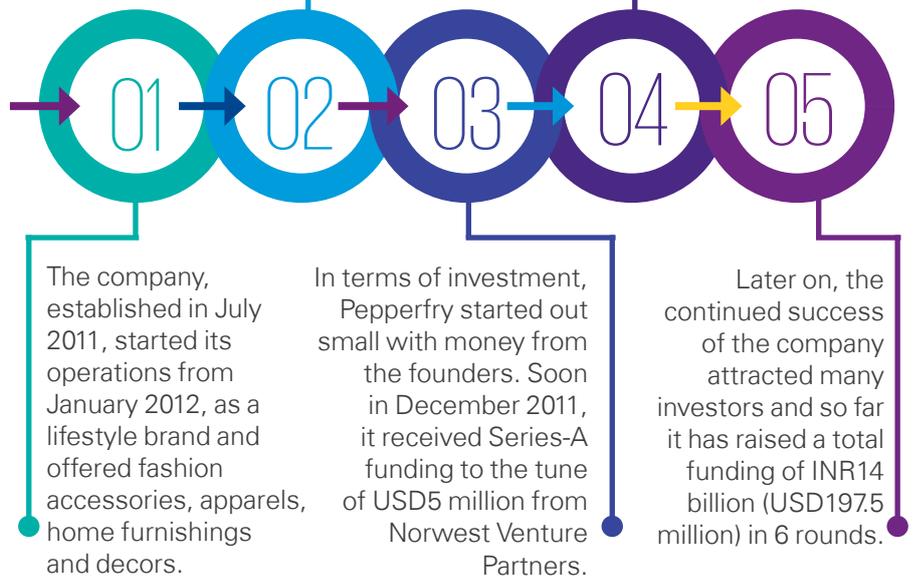
TrendSutra Platform Services Pvt. Ltd, better known as Pepperfry was established in July 2011 and started operations in January 2012, based out of Vikroli, Mumbai. Ambareesh Murty and Ashish Shah, the founders of Pepperfry are seasoned veterans in the e-commerce marketplace. After pursuing his MBA from IIM Calcutta, Ambareesh Murty, worked as a Marketing Manager in Britannia Industries, Country Manager for eBay India, Malaysia and Philippines. Ashish Shah, on the other hand, pursued a Diploma in Materials Management from the Institute of Management Technology, Ghaziabad and gained significant experience in the online marketplaces, both B2B and B2C, as well as the liquidation industry.

Having worked with eBay and other e-commerce companies and given the huge opportunities in the Indian ecommerce market, motivated them to establish Pepperfry.

### Key milestones<sup>01,02,03</sup>

However, later it focused its attention towards home furnishing and decors which was a growing market in India and thereby contributed majority of the company's revenue

To establish omni-channel presence and differentiate itself from its competitors, the company opened first 'Pepperfry Studio', an offline store, in Mumbai, in 2014.



Hence, an innovative idea, a brilliant business model and support from investors led to the development of the largest online retailer of furniture in India.

01. "Pepperfry's recipe for success", Livemint, 28 November 2017

02. "Ashish Shah", Yo Success, 21 August 2015

03. "Pepperfry", Crunchbase, accessed on 18 January 2019

## Advantage Mumbai

Murty and Shah started Pepperfry from Mumbai as it was a familiar market for them. In addition to a huge customer base, the city offered various benefits that helped the company grow, such as:

### Funding



Being the financial capital of India, the city has presence of number of VC investors which provides easy access to capital.

### Talent pool



The city has availability of young artists and designing professionals, along with the presence of premier institutes such as IIT Bombay which provides good quality tech talent.

### Geographical advantage



The company source most of its products from Rajasthan which is in close proximity with Mumbai, thereby providing advantage of low logistics cost. In addition, Mumbai is well connected with other countries and the presence of port in the city allows Pepperfry to import products easily.

## Challenges faced by the company

The company, being into e-commerce business is susceptible to several infrastructure and supply chain related challenges:

Despite GST being in place, trucks in India are moving at 1/3 speed when compared to global peers, leading to an increased lead time and creating logistics and supply chain related issues.



Internet speed, the backbone of e-commerce, in India is slow vis-à-vis other global startup hubs.



Startups are spending undue amounts time keeping pace with a rapidly changing regulatory landscape. The sudden changes in policies brings in a lot of uncertainty, at time bearing an impact on the costs of the company.



To further enhance the state's startup ecosystem, the government could:

Provide clarity on regulatory policies such as angel tax, which would minimise the risks and challenges for startup and would help them focus more on business expansion.

Develop telecom and transport infrastructure, such as better internet network and speed, and reduced logistical lead times, would smoothen the business operations, thereby positively impacting the topline and bottomline of startups

In addition to incentives and grants, the government could help startups in scaling up by providing government contracts or allowing them to work with PSUs etc.

**Neelesh Talathi**  
CFO  
Pepperfry



# Nykaa<sup>04</sup>

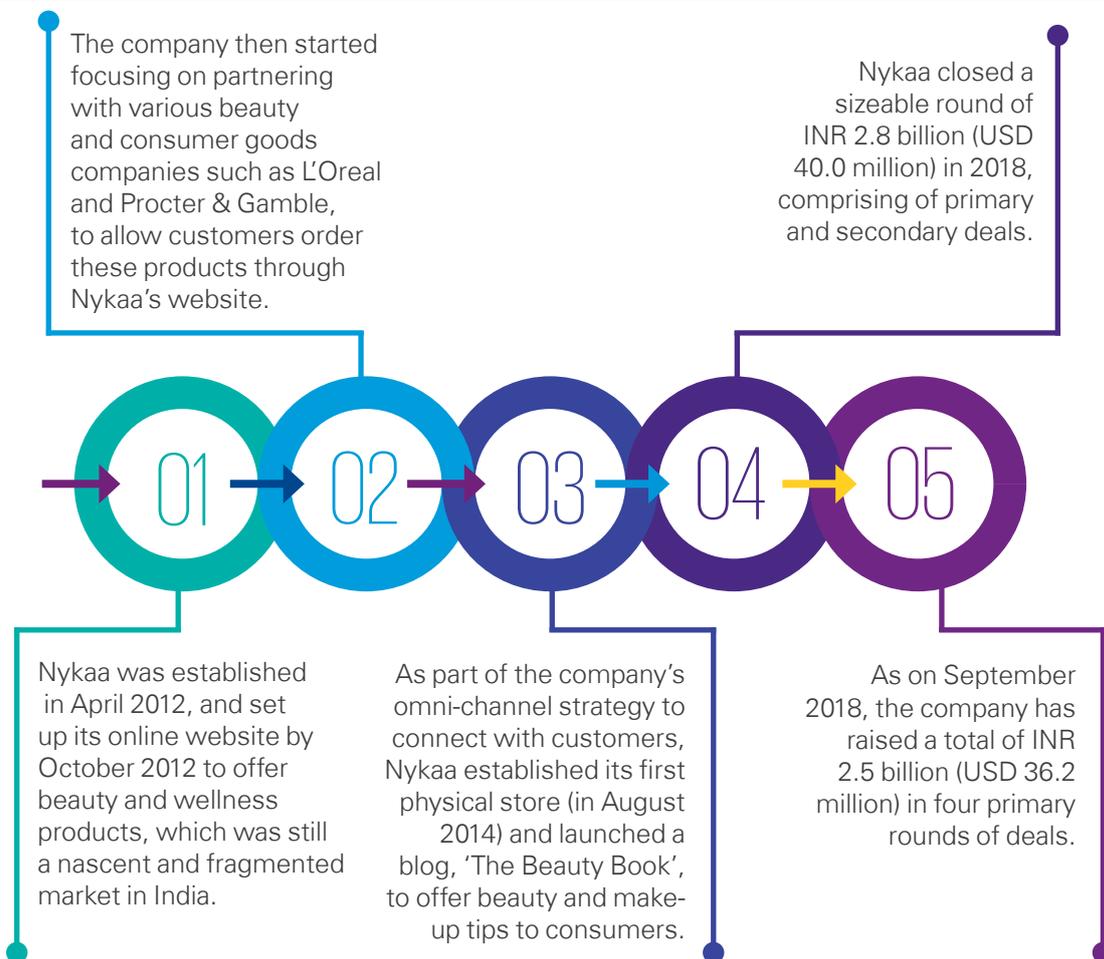
Nykaa was founded by investment-banker-turned entrepreneur Falguni Nayar, who at the time was the Managing Director of Kotak Mahindra Capital Company. After pursuing her MBA from IIM Ahmedabad, Falguni Nayar, worked as a broker and an investment banker for the Kotak Mahindra Group for 19 years. Within Kotak

Mahindra Group, she gathered experience in the company's international operations across the UK and the US, and also lead the Institutional Equities segment of the company.

While searching for various business options, she noticed the demand for beauty products

in India and lack of proper retail format in the segment. Given the huge opportunity in this space, she launched Nykaa with an aim to target three types of customers: online shoppers, beauty experts and makeup/beauty beginners.

## Key milestones



Currently, the company offer more than 120,000 products across 1,000 brands on its online portal. It also has about 32 offline stores (as on December 2018) and owns inventory space of more than 200,000 square feet across Mumbai, Delhi, Bengaluru, Kolkata and Pune.

04. As per discussion with Nykaa, dated 30 January 2019

## Advantage Mumbai

### Talent pool



The city has availability of young artists and cosmetic professionals, along with the presence of premier institutes such as Pearl Academy Mumbai, VLCC Institute of Beauty, which provides good quality talent.

In addition, Mumbai is also home to various bloggers which makes it easier for Nykaa to attract talent for building its content such as 'Beauty Book'.

### Access to major brands



Major beauty retail brands such as Lakme, L'Oréal and Nivea have head offices in Mumbai, enabling the company to develop and expand business partnerships because of close proximity to beauty retail brands.

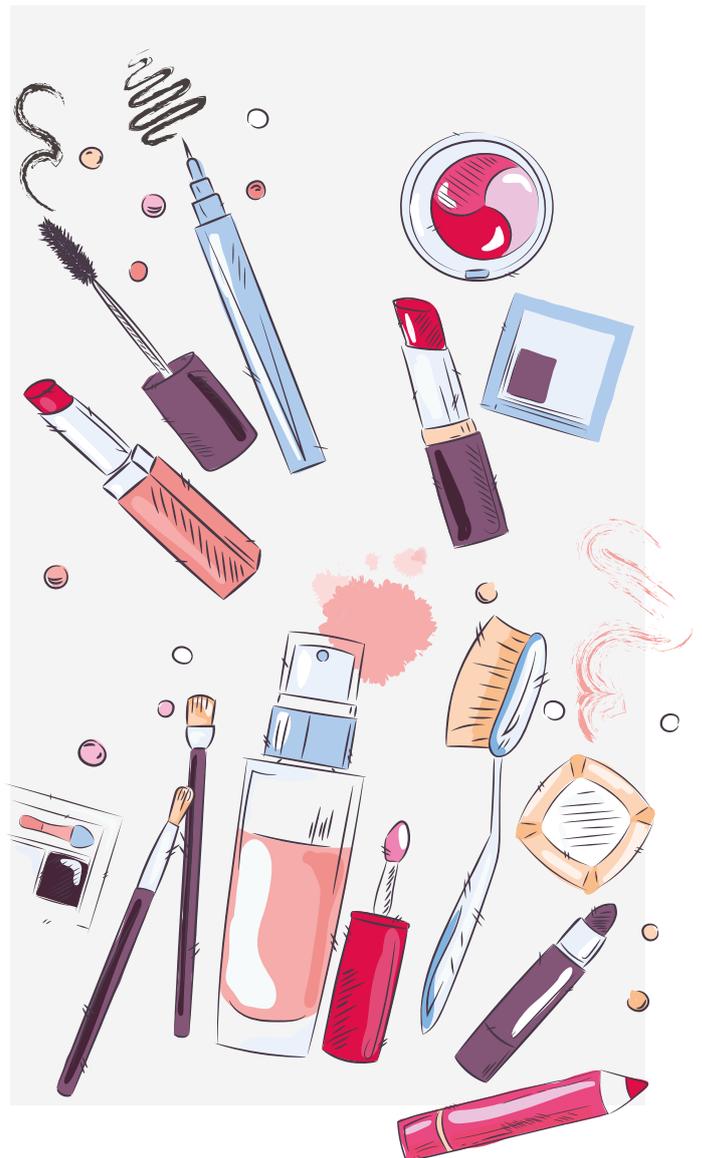
### Availability of capital



The city is home to many financial institutions and HNIs providing the startups an easy access to capital.

Lack of adequate infrastructure facilities in the city creates transportation related challenges for the company as it has stores and warehouses at different locations. Going forward, the government may focus on enhancing the transport infrastructure in Mumbai and making it comparable to cities such as London and New York.

**Falguni Nayar**  
Founder and CEO  
Nykaa



# VC firms actively working with TiE Mumbai<sup>05</sup> :

Blume ventures	blume.vc
Clear stone venture advisors Pvt Ltd	clearstone.com
Epiphany Ventures	epiphanyventures.in
Equanimity Ventures	equanimityinvestments.com
India quotient	indiaquotient.in
Kaizen	kaizenpe.com
Matrix Partners	matrixpartners.in
Mayfield Fund	mayfield.com
Nexus Venture Partners	nexusvp.com
Nirvana Venture Advisors	nirvanaventures.in
Norwest Venture Partners	nvp.com
Orios Venture Partners	oriosvp.com
Unilazer Ventures	unilazer.com

05. Provided by TiE, on 31 January 2019

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Saurabh Dhingra, Lead contributor to this report

Amrith Menon

Smita Basu

Vikas Dubey

Tijel Mahendru

Nisha Fernandes

Shveta Pednekar

Anupriya Rajput

## KPMG in India contacts:

### **Pradeep Udhas**

#### **Office Managing Partner**

West

T: +91 22 3090 1515

E: pradeepudhas@kpmg.com

### **Nilaya Varma**

#### **Partner and Leader**

Markets Enablement

T: +91 124 669 1000

E: nilaya@kpmg.com

### **Jayant Kumar**

#### **Partner**

Deal Advisory

T: +91 124 334 5115

E: jkumar@kpmg.com

## TiE Mumbai contacts:

### **Atul Nishar**

**President** - TiE Mumbai

**Founder and Chairman** - Hexaware Technologies

### **Harish Mehta**

**Founding President** - TiE Mumbai

**Co-Founder** - NASSCOM

### **Naveen Raju**

**Executive Director** - TiE Mumbai

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