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THE STARTUP NEWSLETTER

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A DIFFERENT PERSPECTIVE TO
INDIAN UNICORNS

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INDIA'S UNICORN STORY IN NUMBERS

38

Indian Startups turned Unicorn in 2021, surpassing the combined total up to 2020, adding \$78.86 Billion to accumulated Unicorn valuation.



over
169,000

People are currently employed by Indian Unicorns



6

months

Mensa Brands became the fastest Startup to turn Unicorn in just 6 months from its inception.



10

Only 1 out of 7 Unicorns are profitable. About 50% of the remaining Unicorns have a net margin of up to (-100%), while the remaining have a net margin lower than (-100%).



5

Unicorns are now listed, and 4 others have filed their Prospectus (DRHP) with SEBI.



20

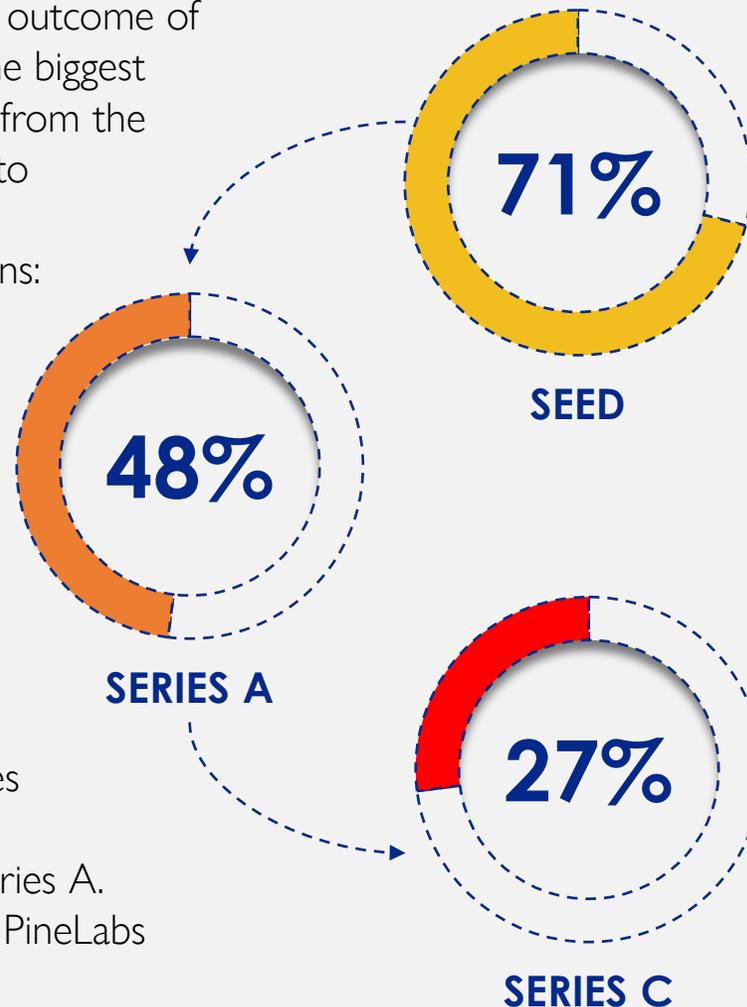
Only 20 co-founders are Women, having co-founded 18 Unicorns.



HOW MUCH STAKE SHOULD YOU GIVE AWAY?

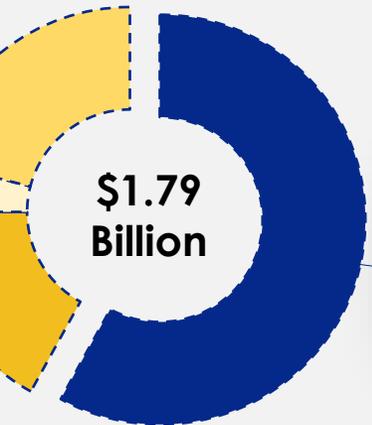
For entrepreneurs, there's a lot riding on the outcome of their negotiations with potential investors. The biggest trade off being between the funds they seek from the investors and the control that they're willing to give away in return. Here's what we found out by churning the data of India's 68 Unicorns:

- **Seed Stage** – At the end of the seed round of funding, the founders were collectively left with a median ownership stake of 71%. However, founders of BlackBuck, BharatPe and Vedantu retained over 90% stakes after the seed stage.
- **Series A** – At the end of Series A round, founders retained a median ownership stake of 48%. However, several companies like Nykaa, Upstox and Pristyn Care had founders share greater than 70% after Series A. Whereas the founders share in Zeta and PineLabs were less than 20%.



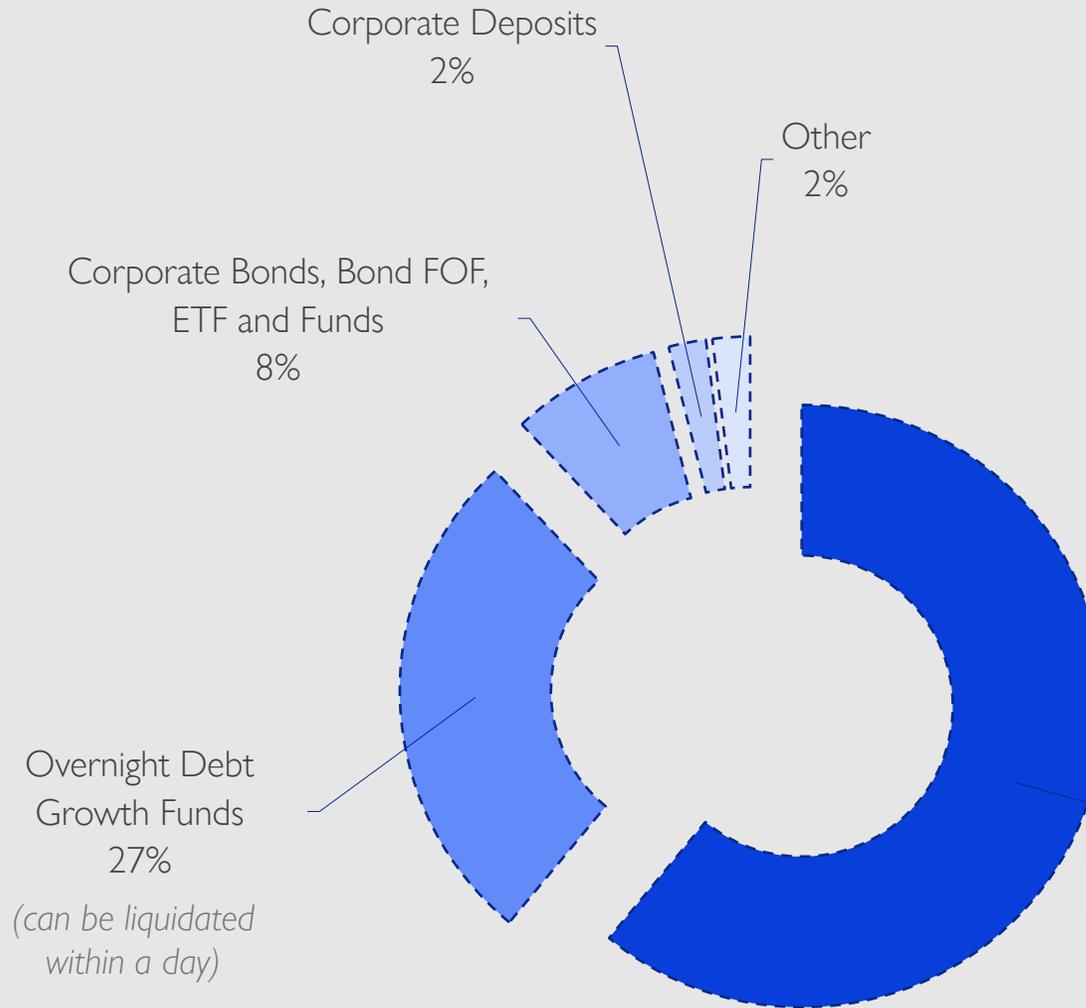
- **Series C** - At the end of Series C round entrepreneurs were left with a median ownership stake of 27%. The founders of only 1 company - Pristyn Care continued to own a majority stake (i.e. >50%) at the end of Series C.

So now you have a robust benchmark to beat. If you're diluting less than 29% in the seed stage, for example, you know you're better than an average Unicorn. Now, on that note, let's revise this lesson from the book 'Venture Deals' by Brad Feld and Jason Mendelson – *A few compromises are just a part of the game, but be sure you know exactly what you want when it comes to money and influence. Moreover, set your own limits and know when to walk away from the negotiation table.*



Current Investments
58%

Here's how current investments were allocated among different kinds of instruments



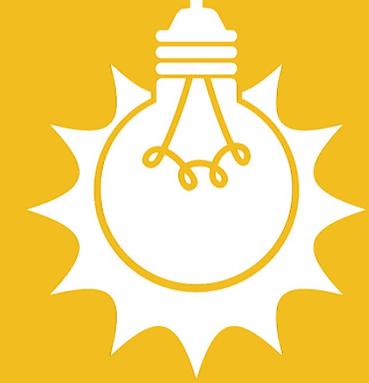
In most cases it is observed that within a particular category of investment, Startups choose to **diversify across 5-7 funds**. For e.g. the 61% allocated to Debt Funds is invested in 5 different funds like ICICI Prudential, HDFC Debts Funds, etc.

Liquid Debt Growth Funds
61%

UNICORN TRIVIA

Let's see how well you know your Unicorns:

1. This co-founder of an Indian Unicorn dropped out of school at the age of 14 years
(disclaimer: not to be practiced at home)
2. These 5 Indian Unicorns are co-founded by ex-Flipkart employees
3. This ex-Indian Unicorn was stripped off its Unicorn status after instances of fraudulent reporting practices surfaced
4. This Indian Unicorn has cut down its employee strength by 83% (from 19,100 to 3,100) since the onset of the Pandemic, and is now coming up with an IPO
(hint: the name's a palindrome)
5. This Unicorn legit took its name from a famous Indian Bollywood song that resonates with the neglected section of the society



ANSWERS

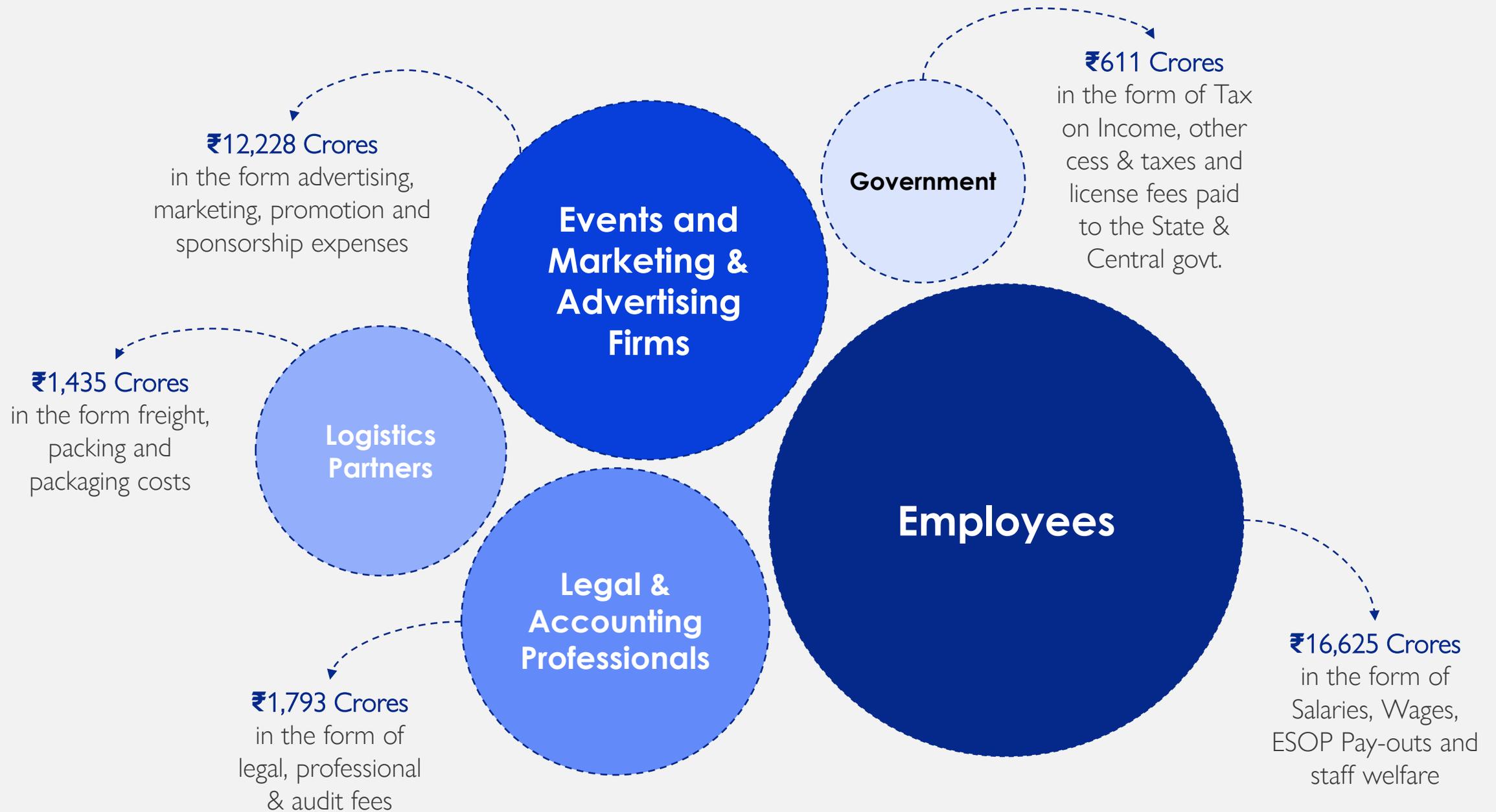
DID THE UNICORNS ACTUALLY ADD VALUE?

In FY20, India's 68 Unicorns spent cash of over **₹138,000 crores**, posting a total net loss of over **₹41,000 crores**. Now before you write off all these expenses as “*cash burnt*”, let's zoom out and look at the bigger picture.

Think of it this way, money spent by one Startup is creating a market for another. So, the huge amounts of money spent by Startups is brewing up an economy in itself comprising of stakeholders ranging from digital marketing to data security firms, from Logistics to SaaS companies, and so on. Here are a few examples to explain this better:

- With the rise in the volume of **D2C** and **Ecommerce** players, a bigger market is getting created for **Logistics** companies (as their services will be sought to make deliveries to customers) and for **Digital Marketing** firms (as they tend to spend heavily on marketing).
- A rise in Delivery & Logistics Startups in turn has created a massive **gig economy** in our country, one which was almost non-existent 5 years ago.
- A general increase in the volume of Startups in the country has created a huge market for **SaaS**, **Enterprise Tech** and **Data Security** firms.
- And above all, India's tech ecosystem has created top quality job opportunities for a generation that loves to be challenged, pushing them beyond their limits and inspiring them to innovate in every step of the way.

You get the idea right? So we disintegrated the ₹138,000 crores into expenses that generated opportunities for these stakeholders. Have a look →

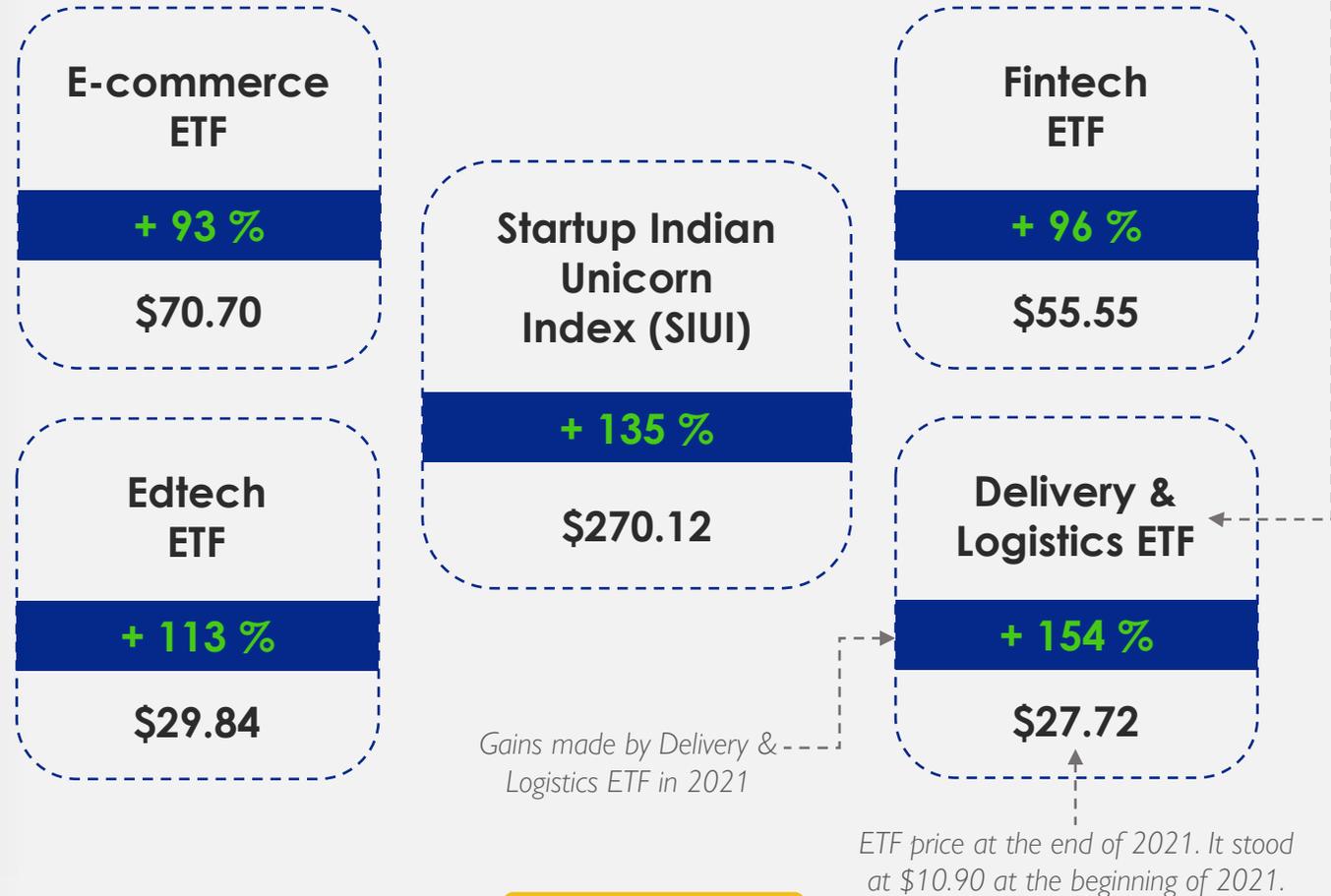


WHAT IF YOU HAD INVESTED IN INDIAN UNICORNS?

At the inception of 2021 we started keeping track of the valuation of all Unicorns in India, subsequent funds raised and the hike in valuations, Startups that emerged as Unicorns during the year and those who lost the coveted status. To share our work with you in a fun and interactive way, we launched our own fantasy investing platform by the name of **SIVM**. Now that the year has come to a wrap, the numbers have come out beautifully – refer the cards to the right.

Here's a way to understand these cards: Movement in the **Nifty 50 index**, which gained 24.1% in 2021, is often considered as representative of how the Indian markets performed during the year. Similarly, we created the **Unicorn Index** that represents how the startups performed overall, while the **sectoral ETFs** show how the specific sectors performed in 2021. For eg, the Delivery & Logistics ETF shows that the Startups in this sector grew by a whopping 154% in 2021. You get the idea right?

The sector on which the ETF has been created.
Like this one comprises of Delivery, Rivigo, Swiggy, Zomato, Blackbuck, Licious & Blinkit.



[EXPLORE SIVM](#)



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SHOULD 'UNICORN' BE A MEASURE OF SUCCESS?

1. Is the Unicorn tag a mark of success?

First, let's look at some examples of Unicorns that failed to concentrate on the bigger picture and ultimately lost their prowess:

- Ecommerce Startup **ShopClues**, that turned Unicorn in 2016, was ultimately sold off at less than \$100 Million in 2019, having failed due to heavy competition... [Read More](#)

2. What is it that entrepreneurs should rather pursue or aspire to achieve?

- a. Positive Unit Economics over mindless Blitz scaling – To understand this point, here's a perfect lesson from a Startup that lost its Unicorn status, but eventually picked itself back up – **Snapdeal**. Backed by marquee investors like SoftBank, Sequoia, Tamasek, Ant, eBay, etc., this ecommerce startup was valued at \$6.5 Billion at the peak of its fortunes. However, after a failed merger with Flipkart in 2017, its funds dried up and existing investors refused to infuse fresh funds...

[Read More](#)

3. So what's a better metric to measure good fundamentals?

Let's do some math – When you read someone's valuation, here's what it basically means:

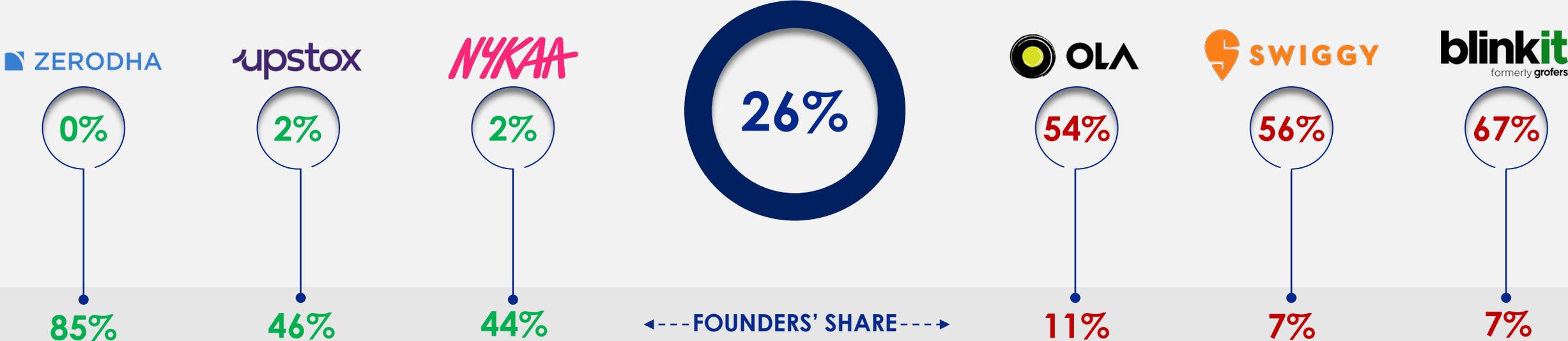
Startup's Headline Valuation = Value of future potential + Funds raised from Investors today

- For example, when **GlobalBees** raised \$110 Million at \$1.1 Billion valuation, it means that the future potential of the Startup is worth \$990 Million and its present cash in hand is worth \$110 Million which it gets from the investors.
- Now consider another example - A Startup raises \$1.1 Billion as soon as it is incorporated. Now this Startup's headline valuation will also be \$1.1 Billion and it will also be called a Unicorn (going by the same formula). But, did it really create any value?

This means, that a Startup is actually gaining in wealth only when its valuation rises more than the money that it gets from its investors.

We got curious to find out how much of the valuation of Indian Unicorns is actually fueled by the cash pumped in by the investors. So, we took out the Total Funding raised to the Present Valuation (TFPV) ratio of each of the 68 Unicorns. Here's what we have:

AVERAGE OF
68 UNICORNS



The average ratio of 68 Unicorns comes to 26%. This means that if a Startup is valued at \$1 Billion, its normal to have invested funds of up to \$260 Million in the Company. The ratio is also found to have a strong negative correlation with the Founders' shareholding of the Startup. That means, the higher the TFPV ratio, the lower will be the founders' shareholding and vice versa.

A low TFPV ratio and high founders' shareholding are also a good indication of stronger fundamentals and greater stability. **Zerodha**, for example, has raised NIL external funds till date and its founders hold

85% of the shares. It's also the only Indian Unicorn that has recorded a positive Net Profit for the last 5 years. **Blinkit** (formerly Grofers), on the other hand, is currently valued at \$1 Billion out of which as much as \$668 Million is fuelled by cash pumped in by Investors like SoftBank, Tiger Global and Sequoia. Its founders own a little under 7% of the Startup. Both of these signs of poor fundamentals make it easier to understand now as to why the company had to undergo a major rebranding exercise and a complete overhaul of business strategy very recently.

IS EDTECH SOLVING INDIA'S EDUCATION PROBLEMS?

In Oct'21 Azim Premji, founder of Wipro, wrote in Economic Times on 'Why and How India is facing its most dire education emergency'. In his article he highlights how attempts at online classes were **unsuccessful** during the Pandemic, due to **inaccessibility** to internet and smartphones, resulting in 1.5 years of **no education** for the underprivileged. Mind you, Premji pointed this out when India's Edtech was witnessing its most celebrated surge in userbase. This made us ask:

Has India's Edtech actually been solving the education problems of India?
Or

Has it simply mastered a new mode of education, without effectively solving any problem per se? After all, at the heart of any good Startup idea is the problem that it plans to solve right?

So, we took up the 3 most dire problems faced by the Indian Education sector (refer to the 3 points on the right) and looked into Indian Edtech's efforts to solve each one of them.

HERE'S what we found out.

1

Inaccessibility to quality education by the underprivileged



2

Teachers are often **underpaid**



3

India's age old **textbook oriented** education system



Much to our surprise we saw tremendous efforts made by some Edtech Unicorns to address the **first** problem. Here are some of their initiatives:

- In Nov'20, **Byju's** launched the '**Give**' initiative, under which it takes donation of old phones and tablets and gives them free of cost to the underprivileged children after refurbishing and loading them with it's content. In Sep'21, Byju's partnered with NITI Aayog to provide children from **112 aspirational districts** of **free access** to Byju's high-quality and tech-driven learning programs.
- **WhiteHat Jr.**, owned by Byju's, launched the **WhiteHeart** initiative in Jun'21, to conduct live sessions for children from **underprivileged communities**, free of cost.
- In May'21, **Vedantu**, launched the **Help India Learn** initiative, pledging **₹15 Crores** to impact **12,000 students** who lost one or both of their parents during the Pandemic. Just like Byju's 'Give' initiative, Vedantu is also inviting partners that can **sponsor digital devices** for the underprivileged children.

“
...we understood that after a few years, for-profit edtech, despite innovations, will not be able to reach the segment of the society who have absolutely no means to devices or the internet. That is when we thought about doing something to create equal opportunities for all children.
”

~ Pulkit Jain, co-founder Vedantu



WHY IS THERE SO MUCH HYPE ABOUT D2C ENABLERS?

Imagine that you have a moment of reckoning and decide to set up a business with that one big idea. You soon realize that it's a capital-intensive business so knocking you go at your investor's doorstep asking for a \$250 Mil cheque!
That's not possible right? Who would give INR 1,875 Crore for an idea?
Now imagine your investor agreeing to it and writing that cheque for you. Promises, promises. Not gonna happen unless you're Ambani or Bezos, you must be thinking.
The sweet part here is that this has happened, and the protagonists in this story are Thrasio-styled startups, **Mensa Brands** and **GlobalBees**. Within 6-7 months of being founded, Mensa Brands has raised a total of \$218 Mil while GlobalBees has raised \$290 Mil. Not only that. While the average time to achieve unicorn status by an Indian Startup is approximately 6.5 years, these 2 Startups have thrashed the statistics by achieving the status in just 6-7 months only!

The big question: Why are the VCs betting such **HUGE** sums on roll-up startups? **HERE'S** our take.

Number of acquisitions made by D2C Enablers →

3

10club

3

Powerhouse91

8

Upscalio

11

GlobalBees
(Unicorn)

16

Mensa Brands
(Unicorn)

the betterHOME

eye
YELLOW CHIMES

The Butternut Co.

MLOSH
STRAUSS
GO.PLAY.

anubhutee
experience craftsmanship

VILLAIN

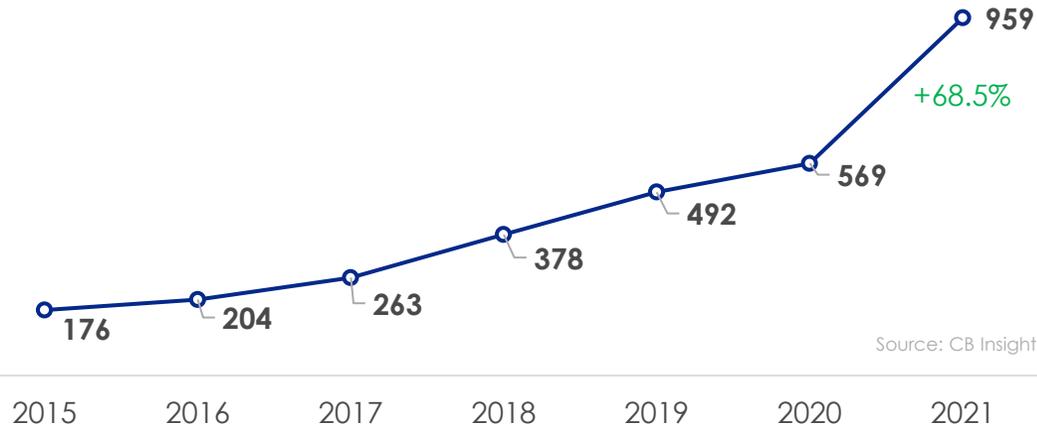


HUBBERHOLME

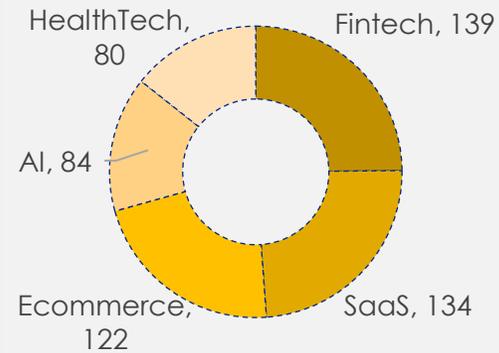
PRIYAASI

AROUND THE WORLD IN A BLINK

TOTAL UNICORNS IN THE GLOBE



MAJOR SECTORS OF GLOBAL UNICORNS



TOP 3 NATIONS BY NUMBER OF UNICORNS

1. **USA** – 487
2. **CHINA** – 254
3. **INDIA** – 68
(surpassed UK in 2021 to clinch the 3rd place)

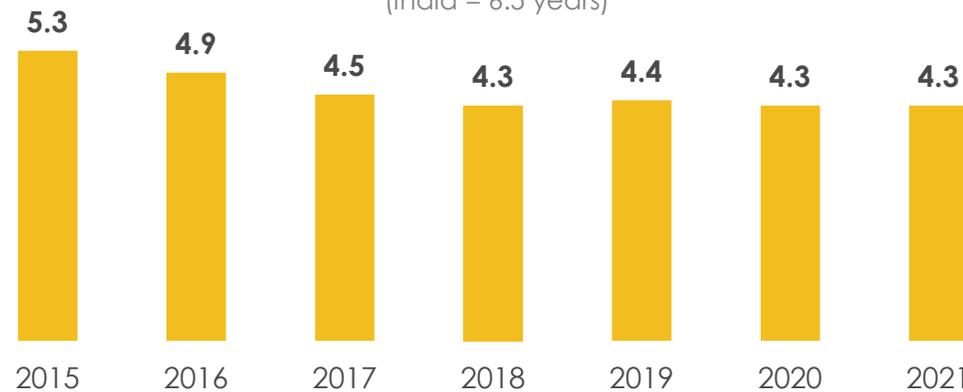
MOST VALUABLE UNICORN IN THE WORLD



The Chinese tech giant that owns TikTok overtook China's Ant Financials to become the world's most valuable Unicorn, valued at \$350 Billion.

MEDIAN TIME TAKEN TO TURN UNICORN (in years)

(India = 6.5 years)



MOST ACTIVE UNICORN INVESTORS

1. **Sequoia Capital**
(American VC, invested in % unicorns)
2. **Tiger Global Management**
(American VC)
3. **SoftBank Group** (Japanese conglomerate)

Source: Hurun Research

CREATORS AT STARTUP INDIAN

Born and brought up in one of the world's fastest growing economies, we witnessed that change is the only thing that has been constant in our young India. With that new road, that new policy, that first e-commerce site, that first app-based cab ride, the world around us kept shrinking right up to the size of our palm. Moved by this wave, we started wondering where does it all start? What are those little things that add up to the big change? What does it take to lead a change?

The more we dug deeper, the more excited we became to share with you the beauty there is, in every new dent in the universe. So here we are, a bunch of 4 enthusiasts, reading books, news, financials and reports, to tell you all that is worth your time:



 Ritwik



 Dhruvik



 Abhimanyu



 Kartik-K

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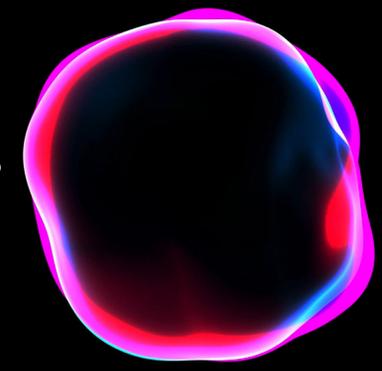
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