INDIA VENTURE CAPITAL REPORT 2020

Perspectives on the Funding and Start-up Ecosystem

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Executive Summary

Despite the global economic uncertainty, 2019 was the second most active year globally for venture capital (VC) investments in dollar value. It was a milestone year for the Indian VC industry too, with $10 billion in capital deployed: the highest ever and about 55% higher than 2018. In addition, India also witnessed a 30% increase in deal volume over 2018, as well as larger average deal sizes across all stages. Despite substantial capital deployment, dry powder availability for VC investing in India was at an all-time high of $7 billion at the end of 2019, indicating likely continued investment activity in 2020.

The Indian VC industry passed through three distinct phases in the last decade. Between 2011 and 2015, the industry experienced rapid activity growth albeit off a small base to support an evolving start-up environment. During this phase, multiple VCs entered and became active participants in India for the first time. This initial, almost euphoric, phase was then followed by moderation between 2015 and 2017. The lack of clarity around exits cautioned investors, which shifted the focus to fewer, higher-quality investments. However, over the last two years the VC industry in India has been in a renewed growth phase, buoyed by marquee exits for investors like Flipkart, MakeMyTrip and Oyo, and a strong start-up activity in new sectors such as Fintech and SaaS along with market depth in e-commerce.

About 80% of VC investments in 2019 was concentrated in four sectors—Consumer tech, Software/SaaS, Fintech and B2B commerce and tech. Consumer tech continues to be the largest sector accounting for approximately 35% of the total investments with several scale deals exceeding $150 million. Within consumer tech, verticalised e-commerce companies continued to be the largest sub-segment, but in addition, there were increased investments in Healthtech, Foodtech and Edtech as well. Both SaaS and Fintech attracted significant investor interest and activity through 2019, with several early stage and increasingly late stage deals.

The start-up ecosystem in India remains robust and is rapidly growing. Between 2012 and 2019, the number of start-ups in India increased by 17% each year, while funded start-ups increased faster at 19% CAGR in the same period. Currently, of almost 80,000 start-ups in India, only about 8% are funded, indicating room for investments. India's unicorn tribe also continues to grow with several firms in e-commerce, SaaS and Fintech currently leading the way.

While India-focused VC funds raised approximately $2.1 billion in 2019, slightly lower than 2018, the fundraising outlook for 2020 is largely positive among both Limited Partners (LPs) and General Partners (GPs), despite the global uncertainty. The dip from 2018 to 2019 was the result of marquee funds that had already raised large sums and hence did not go to the market in 2019. Several new funds also invested in India during 2019. The notable among them are Tanglin, founded by former Tiger Global executives; A91 Partners, founded by former Sequoia partners; Arali Ventures an early stage focused fund, Samsung Ventures, launched by Samsung Corporate Venture Capital; and ITI, an early-stage VC fund by Investment Trust of India.

Meanwhile, the Indian government introduced several regulatory programmes to boost the Indian start-up ecosystem. Flagship programmes like StartupIndia, Digital India, and the Alternative Investment Policy Advisory Committee (AIPAC) continue to improve the environment for start-ups and investors. India's ranking on the World Bank's Ease of Doing Business also increased significantly (from 130 in 2016 to 63 in 2019), improving investor confidence in the regulatory ecosystem.

Despite the global economic climate, India's start-up and VC ecosystems continue to thrive as investors take a long-term view based on the country's growth potential. They see the current slowdown as more cyclical than structural. We go into 2020 with record-high levels of dry powder, counter-balanced with caution and an underlying optimism in the long-term potential for the ecosystem.

1.

India venture capital landscape

- The Indian VC industry passed through three distinct phases in the last decade. Between 2011 and 2015 the industry saw a rapidly evolving start-up environment, with investors feeling positive about the expansion and scaling of first-generation start-ups. This was followed by a phase of maturity and moderation between 2015 and 2017 with fewer, but higher-quality investments. Since 2018, marquee exits have renewed investor confidence.

- 2019 was a milestone year for the Indian VC industry, with $10 billion in capital deployed—the highest ever and about 55% higher than 2018. This was primarily driven by increased deal volume, although average deal size also went up. The average deal size rose by 20% in 2019 due to the increased share of larger overall deals.

- The dry powder available for VC investing in India as well as the number of deals increased in the past year. Although the number of active VC funds didn't change much, several new funds started to invest.

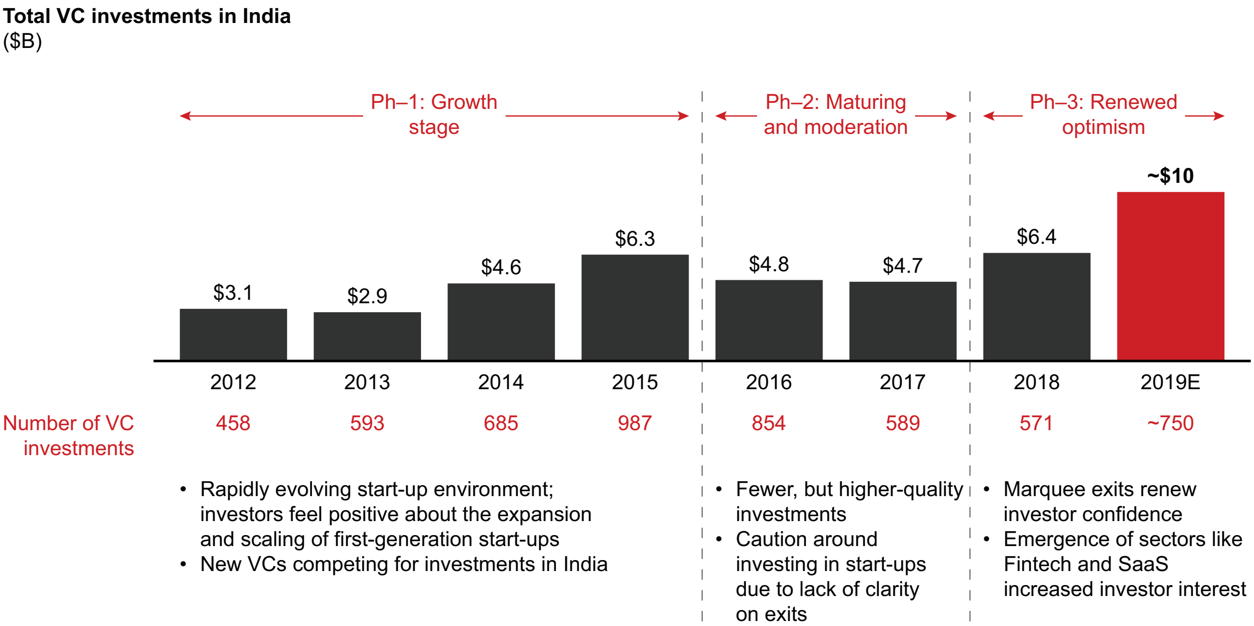
- Seed and early stage deal size also increased in 2019 due to rising competition for deals coupled with an improving quality of founding teams.

- About 80% of VC investments in 2019 was concentrated in four sectors—Consumer tech, Software/SaaS, Fintech and B2B commerce & tech with the most investment going to consumer tech.

- While India-focused VC investments raised less funds this year—approximately $2.1 billion in 2019, slightly lower than 2018, the fundraising outlook for 2020 remains positive among both LPs and GPs.

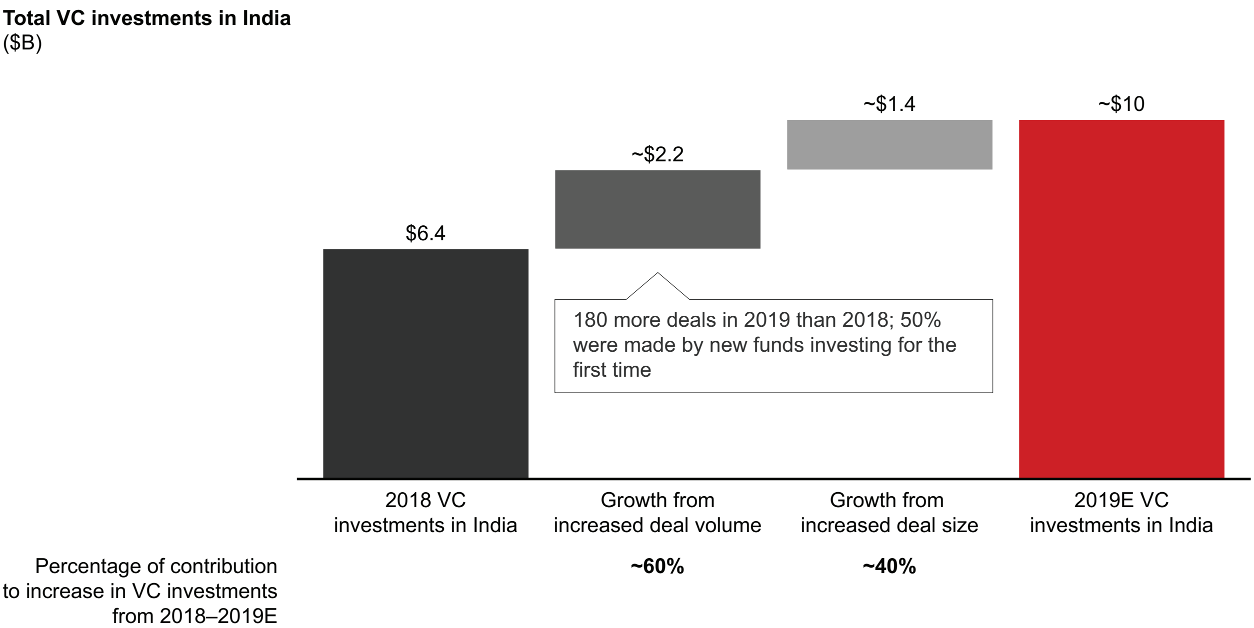
- VC exit momentum in 2019 was in line with 2018, with secondary sales leading the mode of exits in India. The average exit value was $39 million.

Figure 1: The $10 billion in deployed capital was the highest VC investment in India to date



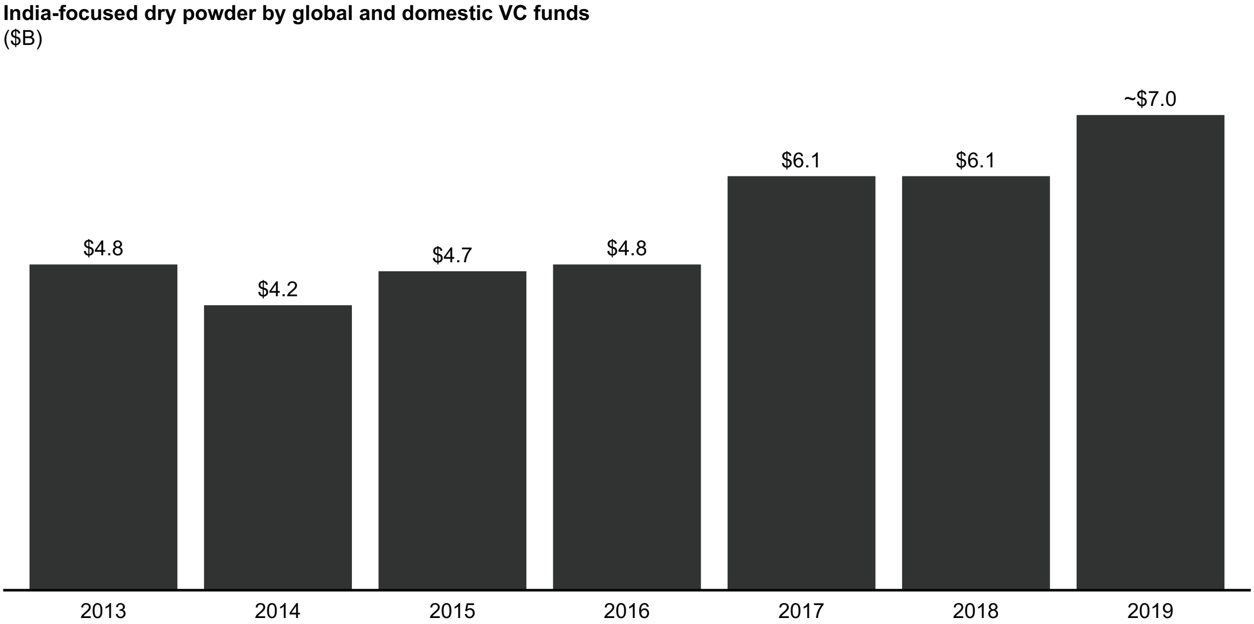
Sources: Bain VC deals database; Venture Intelligence; AVCJ; VCCEdge

Figure 2: The increased investment in 2019 is primarily due to increased deal volume, although average deal size also went up



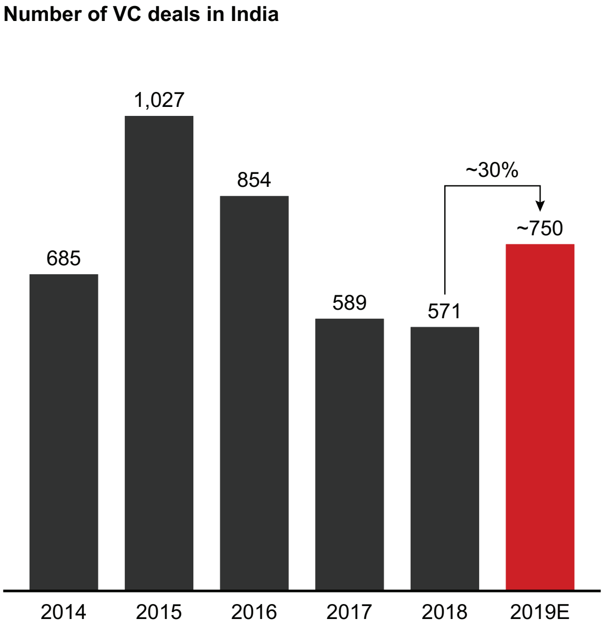
Sources: Bain VC deals database; Venture Intelligence; AVCJ; VCCEdge

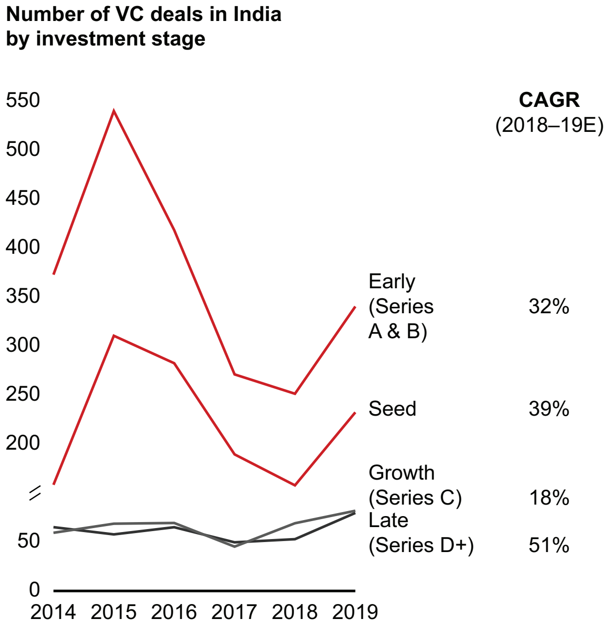
Figure 3: Despite substantial capital deployment, the dry powder available for VC investing in India is at an all-time high—a positive sign for 2020



Note: Includes only the funds that separately raise capital specifically for Indian investments and doesn't include funds which have a single fund for both global and Indian investments
Source: Preqin

Figure 4: The number of deals increased in 2019, primarily due to more seed and early-stage deals, which accounted for 70% of the deal volume increase

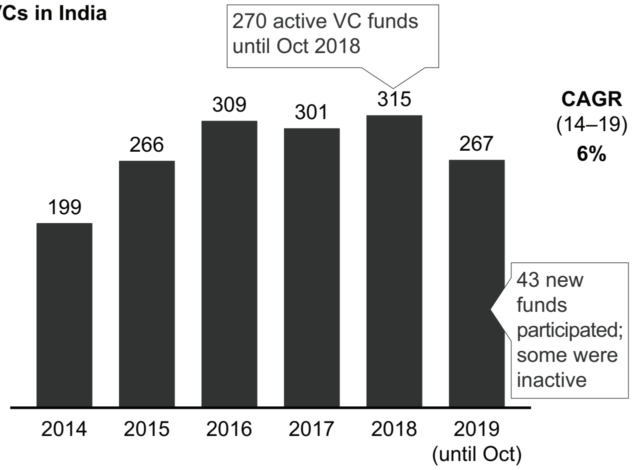




Sources: Bain VC deals database; Venture Intelligence; AVCJ; VCCEdge

Figure 5: In 2019, the number of active VC funds in India didn't change much, but some were inactive while new funds emerged

Number of active VCs in India



	2014	2015	2016	2017	2018	2019 (until Oct)
Average deal volume per fund	3.4	2.6	3.3	2.8	1.9	2.2
Average investment per fund (in $M)	23	24	15	16	21	26

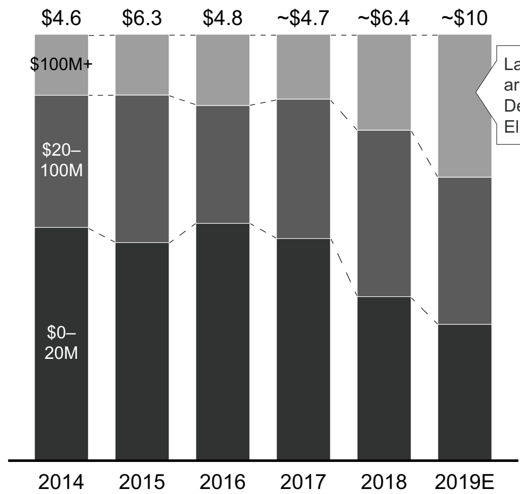
Some of the many new funds that started investing in India in 2019

Tanglin	4 investments
A91 Partners	3 investments
Arali Ventures	4 investments
Samsung Ventures	5 investments
ITI Go	5 investments

Note: Active VC funds defined as funds having made an investment in India in that year
Sources: Bain VC deals database; Venture Intelligence; AVCJ; VCCEdge

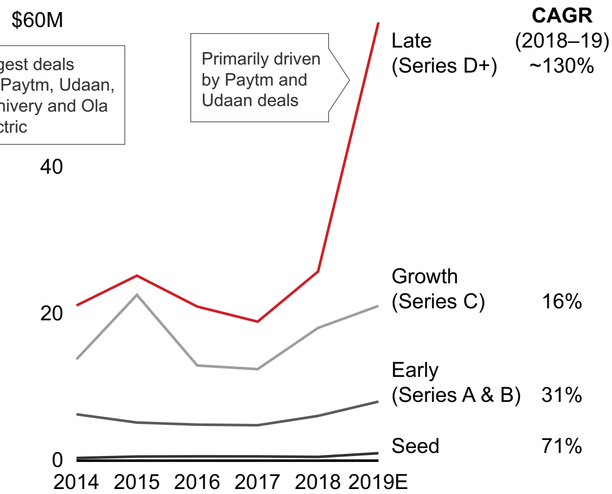
Figure 6: The average deal size increased by 20% in 2019 due to the increased share of larger overall deals

Split of VC investment by deal size



	2014	2015	2016	2017	2018	2019E
Average deal size ($M)	~7.0	~6.0	~6.0	~8.0	~11.0	~13.0

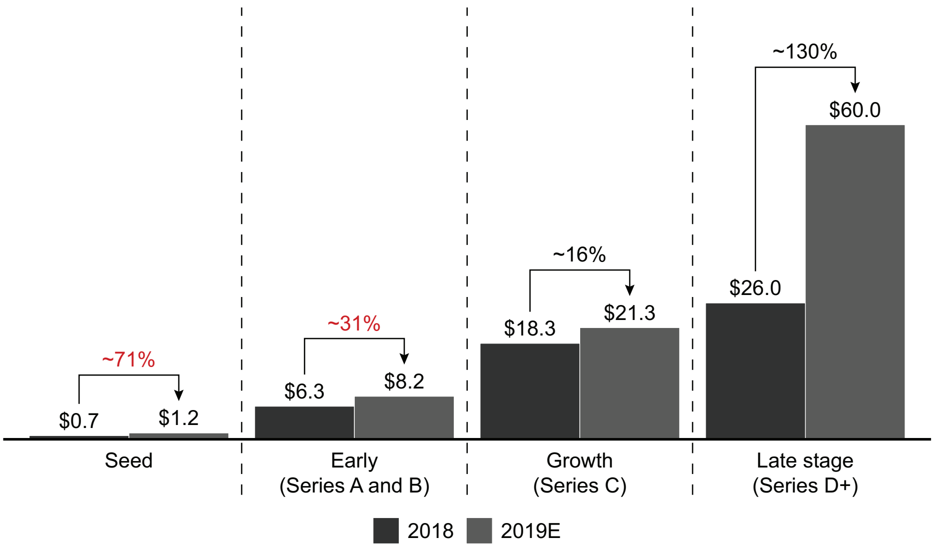
Average VC deal size by investment stage



Sources: Bain VC deals database; Venture Intelligence; AVCJ; VCCEdge

Figure 7: Deal size also increased in each deal stage in 2019

Average deal size across different stages of investment



Seed and early stage deal size increased due to:

- Increased competition for deals
- Improved quality of founding teams

Sources: Bain VC deals database; Venture Intelligence; AVCJ; VCCEdge

Figure 8: The top 20 deals include multiple scale deals and several deals of more than $150 million

Asset	Key investors	Stage of funding	Industry	Month (2019)	Deal value (in $M)
Paytm	T. Rowe Price, Ant Financial Services Group, SoftBank, Discovery Capital	Late stage	Fintech	November	~1000
Udaan	Tencent Holdings, Citi, Lightspeed Management Company, Altimeter Capital Management, GGV Capital, Hillhouse Capital, Footpath Ventures	Late stage	B2B Commerce & Tech.	October	~585
Delhivery	SoftBank, The Carlyle Group, Fosun International	Late stage	Logistics	March	~420
Ola Electric	SoftBank	Late stage	Consumer tech	July	~250
Zilingo	Sequoia Capital Operations, Temasek Holdings, Burda Principal Investments, Sofina, EDBI, GIC Private Limited	Late stage	Consumer tech	February	~226
PharmEasy	Temasek Holdings, CDPQ, LGT Capital Partners, KB Financial Partners, Bessemer Venture Partners, Orios Venture Partners, Eight Roads, Fundamentum	Late stage	Consumer tech	November	~220
Grofers	SoftBank, Tiger Global Management, Sequoia Capital Operations, KTB Ventures	Late stage	Consumer tech	February	~220
Blackbuck	The Goldman Sachs Group, Accel, Sequoia Capital Operations, IFC Asset Management Company, B Capital Group, Light Street Capital, Wellington Management Company, Sands Capital Management	Late stage	Logistics tech	March	~150
Firstcry	SoftBank	Late stage	Consumer tech	January	~150*
Policybazaar	Tencent Holdings	Late stage	Fintech	November	~150
Freshworks	Accel, CapitalG and Sequoia Capital Operations	Late stage	Software/SaaS	November	~150

* Tranche of $150M invested out of a reporting round of $400M
Sources: Bain VC deals database; Venture Intelligence; AVCJ; VCCEdge

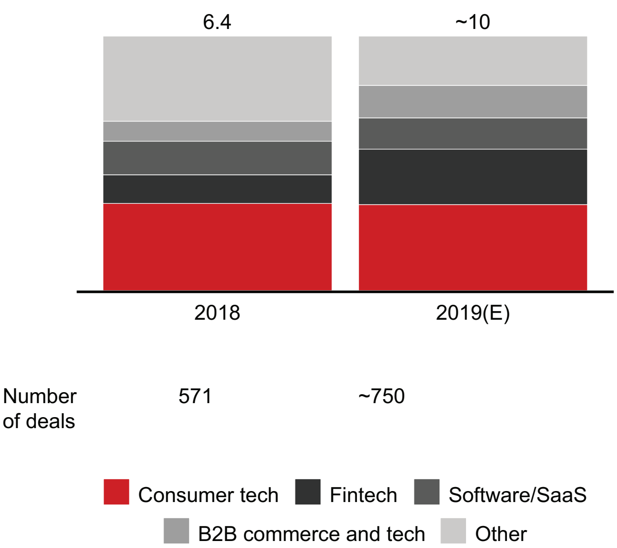
Figure 9: And many of the top 20 deals were in consumer tech

Asset	Key investors	Stage of funding	Industry	Month (2019)	Deal value (in $M)
Bounce	B Capital Group, Accel	Late stage	Consumer tech	November	~150
Byju's	Qatar Investment Authority, Owl Ventures	Late stage	Consumer tech	July	~150
Big Basket	Alibaba Group Holdings, Mirae Asset Global Investments, CDC Group	Late stage	Consumer tech	March	~150
Faasos	Coatue Management, Gojek, The Goldman Sachs Group	Late stage	Consumer tech	August	~130
Druuva	Nexus Venture Partners, Riverwood Capital, Tenaya Capital, Neuberger Berman Group, Atreides Management	Late stage	Software/SaaS	June	~130
Meesho	Sequoia Capital Operations, SAIF Partners, Venture Highway XI, Naspers, Shunwei Capital Partners, RPS Ventures	Late stage	Consumer tech	August	~125
Aptus	Steadview Capital Management, Sequoia Capital Operations, Westbridge Capital, Malabar India Fund	Late stage	BFSI	September	~123
CureFit	Accel, Chiratae Ventures, Kalaari Capital, Oaktree Capital Management, Innoven Capital	Late stage	Consumer tech	May	~120
Cred	Sequoia Capital Operations, Ribbit Capital, Tiger Global Management, Dragoneer Investment Group, General Catalyst	Late stage	Fintech	August	~120
Icertis	Eight Roads, Greycroft Partners, Ignition Partners, B Capital Group, Meritech Capital Partners, Cross Creek Advisors, PremjiInvest, PSP Capital Partners	Late stage	Software/SaaS	July	~115

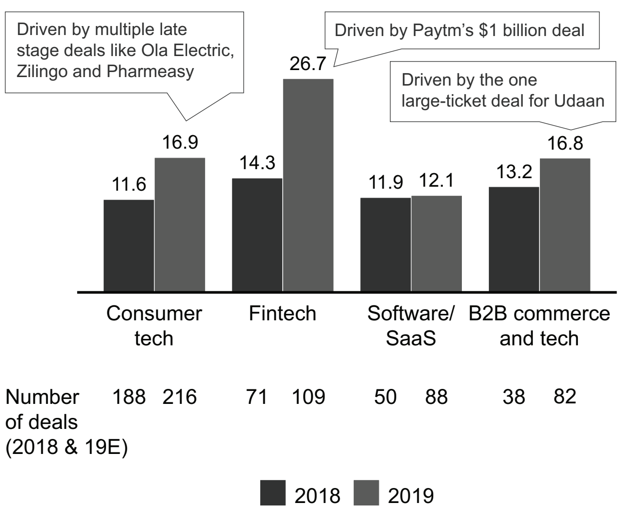
Sources: Bain VC deals database; Venture Intelligence; AVCJ; VCCEdge

Figure 10: In 2019, four sectors received 80% of VC investments, with the most investment going to consumer tech

Split of VC investments by sector
($B)



Average VC deal size by sectors
($B)

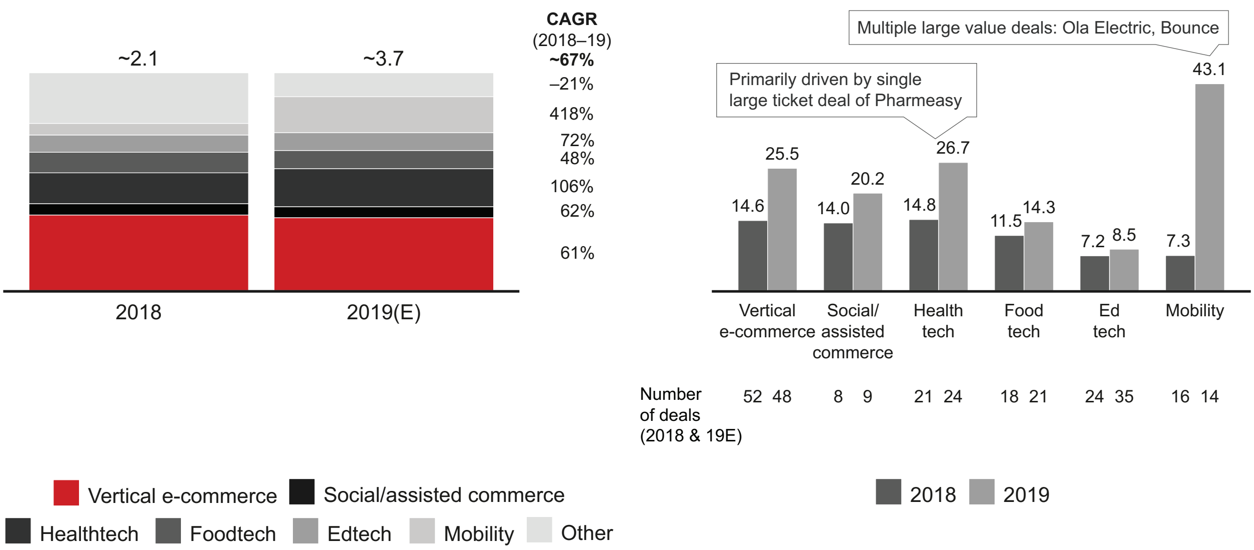


Note: Other includes BFSI, retail, logistics, hospitality and more
Sources: Bain VC deals database; Venture Intelligence; AVCJ; VCCEdge

Figure 11: Vertical e-commerce continues to be the largest segment within consumer tech, but mobility experienced significant growth in 2019

VC investments by consumer tech subsegment
($B)

Average VC deal size for consumer tech segments
($B)



Sources: Bain VC deals database; Venture Intelligence; AVCJ; VCCEdge

Figure 12: E-commerce shifted from broad-based horizontal and vertical commerce to newer models like social and assisted commerce

2010–2015	**2016–2018**	**2019 onwards**
Rise of broad-based, horizontal e-commerce	**Emergence of vertical e-commerce**	**New e-commerce models emerge**

2010–2015: Rise of broad-based, horizontal e-commerce

- Growth of traditional horizontal e-commerce model in India with Flipkart, Snapdeal, Shopclues – all attracting significant investments
- Horizontal e-commerce players focussed on categories like mobiles, fashion and electronics to expand rapidly

2016–2018: Emergence of vertical e-commerce

- Consolidation within horizontal e-commerce by Flipkart and Amazon
- Rapid expansion of e-commerce consumer base as a result of smartphone penetration in Tier-2-plus geographies and increased reach of third-party e-commerce logistics providers
- Growth in categories with limited horizontal e-commerce player focus, especially niche and high-engagement, high-frequency categories like beauty and grocery

2019 onwards: New e-commerce models emerge

- Social commerce and assisted commerce using newer sales models to penetrate the Tier-2 and Tier-3 customer base
- Horizontal e-commerce majors expanding focus across categories and challenging vertical-focused players

Source: Bain & Company

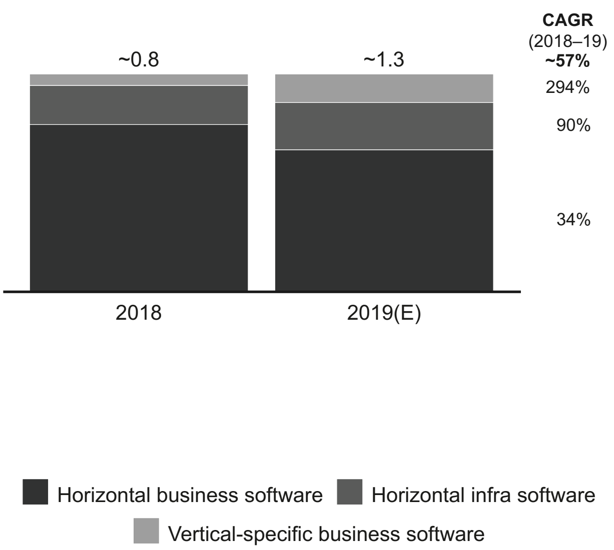
Figure 13: In addition to e-commerce, investments move toward FoodTech, HealthTech, EdTech and Mobility in 2019

Foodtech	Shift in investment activity from online food ordering to cloud kitchen brands like Rebel Foods, Box8 and InnerChef
Healthtech	Activity across wellness and health platforms, e-pharma and some telemedicine-focused players, albeit early stage
Edtech	Online learning platforms focused on different segments (Unacademy for competitive exams, BYJU's for K12 education and Eruditus for executive education) are attracting investments
Mobility	Activity primarily in electric vehicles (Ola Electric) and two-wheeler-based models–both vehicle rentals and ride-hailing services

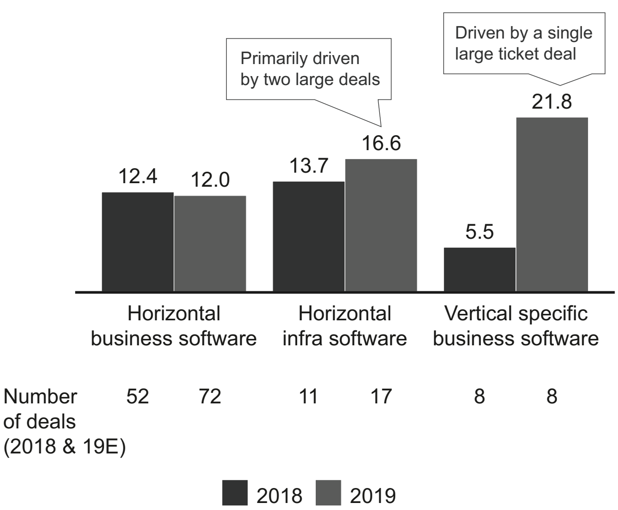
Sources: Bain VC deals database; Venture Intelligence

Figure 14: Investments grew across all subsegments of SaaS in 2019

Software/SaaS VC investments by subsegment
($B)



Average VC deal size for enterprise software subsegments
($B)



Sources: Venture Intelligence; Bain VC deals database; VCCEdge

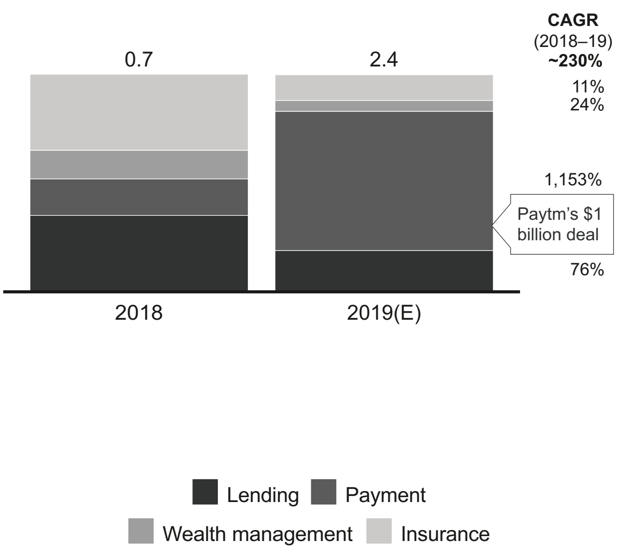
Figure 15: Investors use these markers to evaluate SaaS companies for investment

- **Playing in a large, target market** (typically $1B+), with a focus on niche, underpenetrated verticals and a differentiated, horizontal software offering
- **Established proof of concept** (minimum scale of ~$1M ARR) with robust growth of typically 100%+ annual ARR
- **Strong customer retention** (annual revenue churn of <10%) resulting from positive customer feedback and significant end-client data migration to switch
- **Diversified customer base** (typically top 10 contribute <50%) with limited concentration of start-ups or customers with high insourcing risk
- **High level of product standardisation** makes it easier to scale
- **Success selling software solutions to stable, large customers in competitive and quality conscious global markets**, especially the US
- **Using high-quality, India-based STEM talent** to increase cost competitiveness against global peers

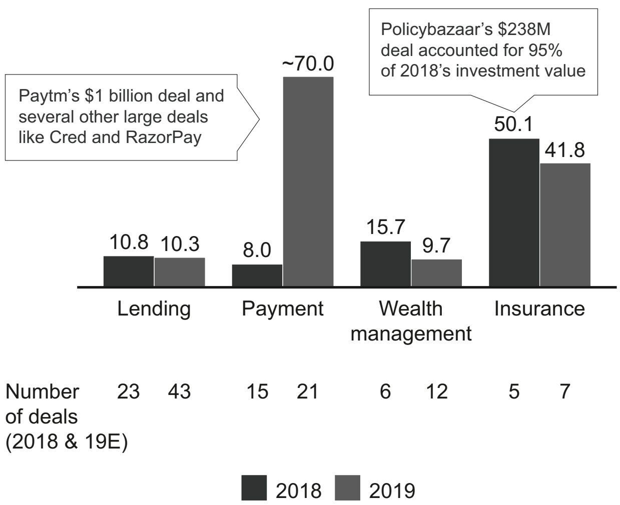
Source: Bain & Company

Figure 16: An investment surge took place in 2019, primarily a few large deals especially in payments

Split of Fintech VC investments by subsegment
($B)



Average VC deal size for key Fintech subsegments
($B)



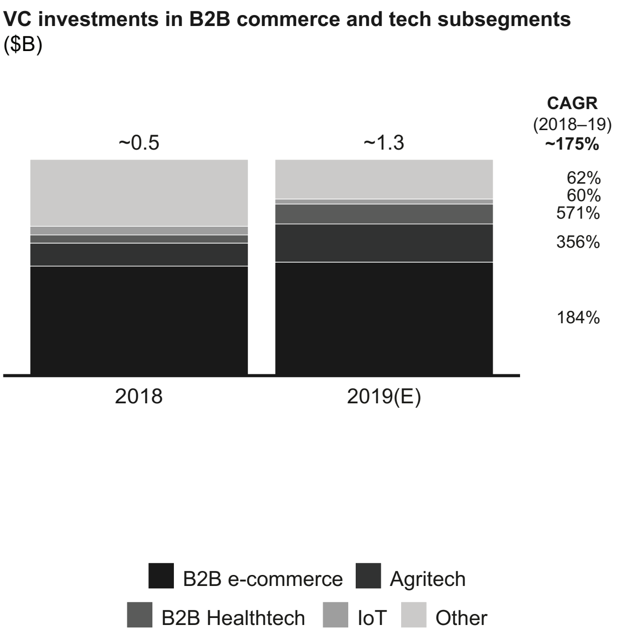
Sources: Venture Intelligence; Bain VC deals database; VCCEdge

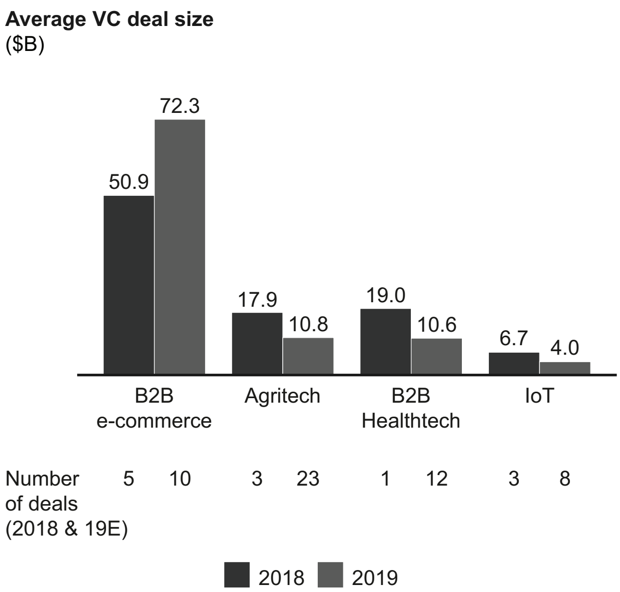
Figure 17: In 2019, payments attracted significant investments while merchants and consumers used tech to adopt lending, wealth management and insurance

Lending	• SME lending: Increasing merchants' digital footprint made it easier to get credit; growth in B2B e-commerce also led to growth in adjacent SME lending • B2C lending: Continued optimism around consumer finance players which had higher adoption due primarily to the growth in online purchases in T2+ markets
Payment	• Consumer and merchant adoption of UPI payments increased as a result of instantaneous and direct-to-bank transfers • B2C payments: Continued strong activity in line with previous years with most scale players raising large rounds; segment continues to see innovation with new models like CRED raising significant capital • B2B payments: Emergence of players enabling and simplifying B2B payments with incremental B2B accounting features
Wealth management	• Tech increased adoption in the traditionally underpenetrated markets outside of high-income groups • Investment platforms focused on financing instruments or on specific customer segments and robo-advisories
Insurance	• Innovations in manufacturing continued investments in distributors and some emerging plays with smaller distributors to co-create new products with manufacturers

Sources: Venture Intelligence; Bain VC deals database

Figure 18: Investors' interest in several subsegments increased in 2019





Note: Others category includes clean tech, 3D printing, fashion tech, real estate and robotics
Sources: Venture Intelligence; Bain VC deals database; VCCEdge

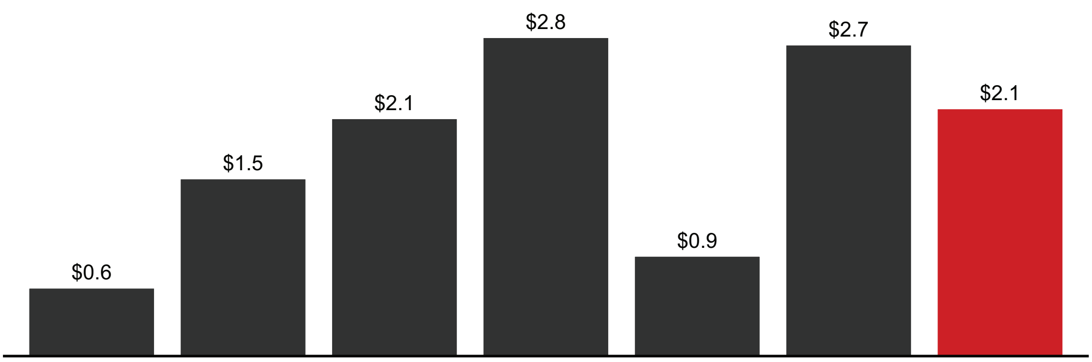
Figure 19: B2B e-commerce received the most capital, while interest emerged for Agritech, B2B Healthtech and IoT

B2B e-commerce	• Several factors contributing to B2B growth and investor interest: - Large underpenetrated market seeing increasing digital adoption from internet connectivity and post demonetisation - GST has made goods transportation between states more seamless and affordable
Agritech	• Supply chain disintermediation in agriculture is enabled by growth of smartphone penetration and digital access in rural India • Seed supply and crop advisory startups help farmers boost their yield by providing a variety of farm inputs and expertise
B2B Healthtech	• The focus on patient clinical data science shifts to improving clinical effectiveness for a range of complex chronic ailments • E-commerce models built around supplying medical devices and supplies to healthcare providers in Tier-2-plus cities at lower cost also seeing some traction
IoT	• Automotive, aviation and other industrial sectors investing in IoT in a bid to boost their digital presence and expertise • Government-led initiatives like SMART cities, draft policy for IoT, and increasing interest in the sector

Sources: Venture Intelligence; Bain VC deals database

Figure 20: At $2.1 billion, fundraising for India-focused VC investments is slightly lower than in 2018

Total funding raised by VCs for investments in India
($B)

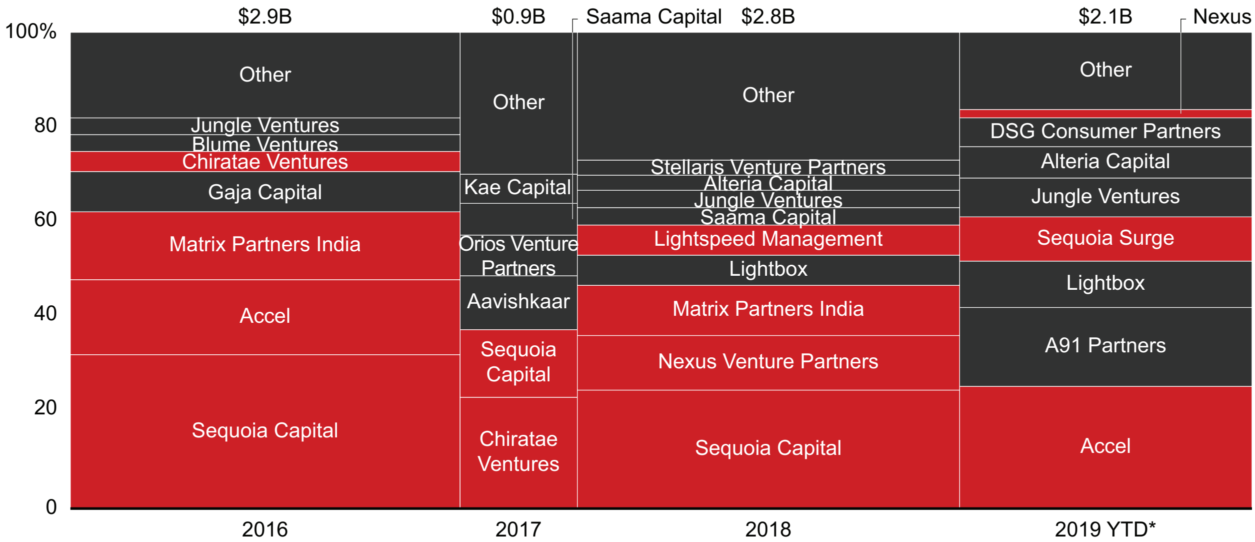


	2013	2014	2015	2016	2017	2018	2019 YTD*
Number of funds raised	15	10	14	26	19	28	20
Average size of funds raise ($M)	39	153	147	106	45	96	107

* YTD to the end of the first week of December 2019 and includes $550M announced by Accel in the first week of December 2019
Note: Includes only funds that are earmarked for India, whether raised by Indian or global VCs
Source: Venture Intelligence

Figure 21: Most of the top VC funds in India raised capital in 2018 and did not need to fundraise in 2019

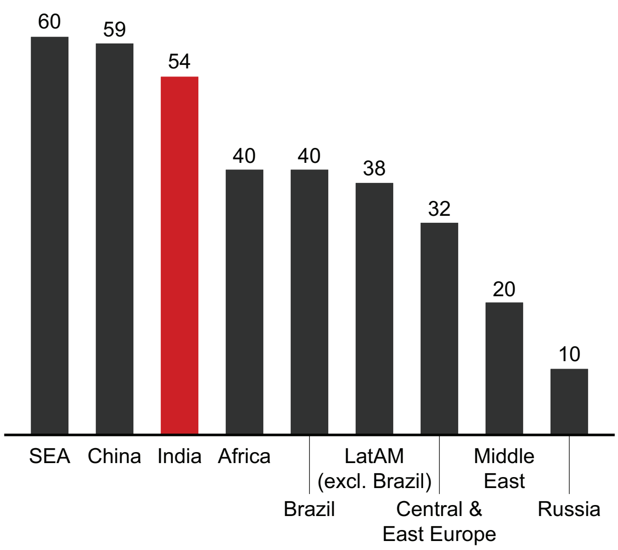
Total funds raised by VCs for Indian-based investments



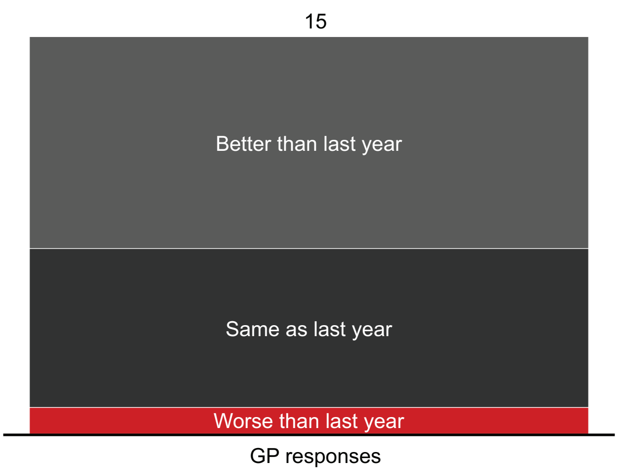
* YTD till the end of first week of December 2019
Notes: Includes only funds that are earmarked for India, whether raised by Indian or global VCs
Sources: Venture Intelligence; Bain analysis

Figure 22: LPs consider India one of the top markets for investment, while GPs are optimistic about future fundraising

Emerging markets' attractiveness for LPs (on a scale of 100)*



How different do you expect the fundraising environment to be in the next 12 months compared with 2019?
(Interviews with 15 GPs investing in India)

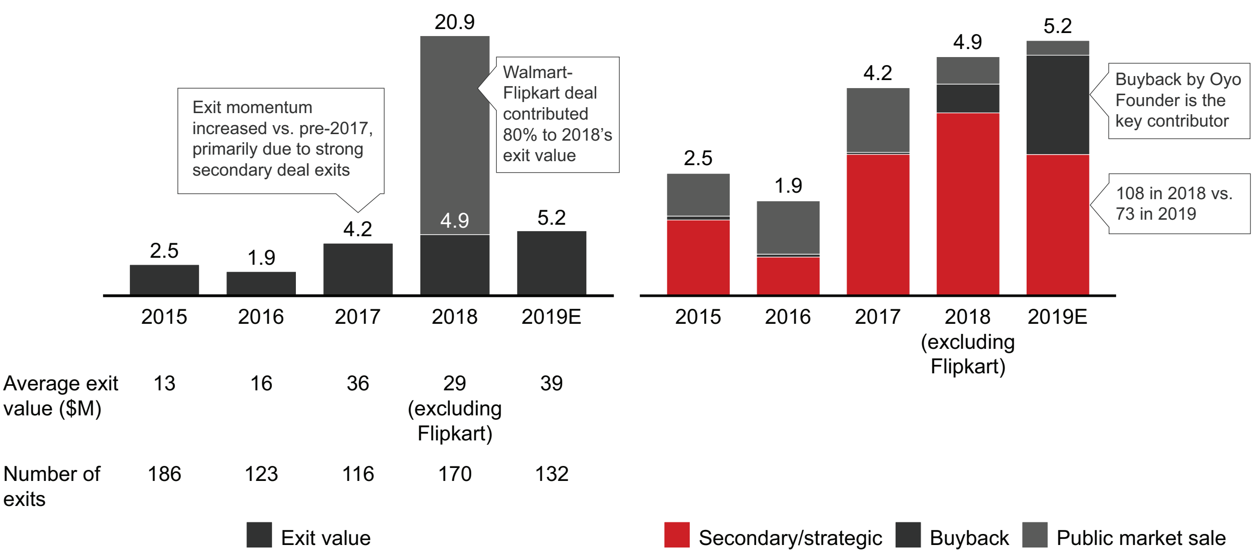


* Attractiveness for VC investment in the next 12 months; n=104
Sources: EMPEA Global Limited Partner's Survey; 2019, Market participant interviews (n=15)

Figure 23: VC exit momentum in 2019 was in line with 2018, with secondary sales leading the mode of exits in India

Annual VC exits In India
($B)

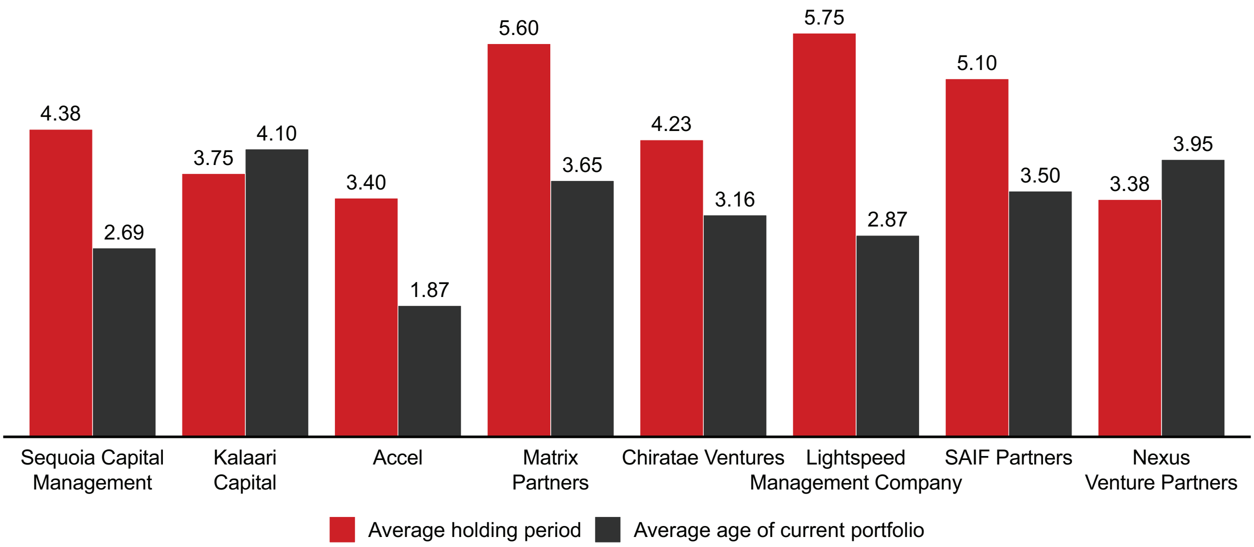
VC exits in India by mode
($B)



Note: Exits with undisclosed deal amounts have not been included
Sources: Venture Intelligence; AVCJ; VCCEdge; Bain analysis

Figure 24: Most top funds' portfolios did not reach maturity in 2019, and exit momentum is expected to increase in the next few years

Average holding period and portfolio age of top VC funds
(in years)



Notes: No major exit for Lightspeed Management Company in 2018; mean holding period calculated using simple average of holding period for exits between 2012–2019; current and 2018 exit portfolio based on select major deals
Source: Bain analysis

Figure 25: The top 10 exits in 2019 included several exits of more than $100 million

Asset	Key exiting VC investors	Exit mode	Exit value ($M)
Oyo	Lightspeed Management Company, Sequoia Capital Operations	Buyback	~1500
Yatra	Intel Capital, Norwest Venture Partners, Chiratae Ventures, Rajasthan Venture Capital Fund, Capital18, Reliance Ventures, Valiant Capital, Vertex Holdings	Strategic sale	~340
Policybazaar	Tiger Global Management	Secondary sale	~150
Delhivery	Nexus Venture Partners, Multiples Alternate Asset Management	Secondary sale	~120
Shopclues	GIC, Tiger Global Management, Helion Venture Partners, Nexus Venture Partners, Chiratae Ventures, Jungle Ventures, India Quotient, Unilazer Ventures, Beenos, InnoVen Capital	Strategic sale	~80
Qwikcilver	Helion Venture Partners, Accel, Amazon, Sistema Asia Capital	Strategic sale	~80
Indiamart	Intel Capital, Quona Capital, Amadeus Capital Partners	Public market sale	~70
UrbanClap	SAIF Partners, Accel, Bessemer Venture Partners	Secondary sale	~60
Dream11	Multiples Alternate Asset Management, Kalaari Capital, Timf LP	Secondary sale	~60
Lenskart	Chiratae Ventures, TPG Growth, PremjiInvest	Secondary sale	~55

Sources: Venture Intelligence; Tracxn; Bain analysis

Figure 26: VCs had a good year—70% and 80% of key funds' portfolio companies went on to further funding

VC Name	Funds raised, 2014–19	# of deals participated 2014–19	Est. total capital deployed between 2014–19	% portfolio companies that raised further funding*	% of portfolio companies with total funding >$100M	Exits** 2014–19
Sequoia Capital Operations	~$3.2B	~250	~$7.0B	~80%	~30%	• ~40 exits in last 5 years; total exit value of ~$4.4B • Top 3 exits include Oyo, Star Health Insurance and Accelyst Solutions
Accel	~$0.8B	~200	~$4.8B	~70%	~10%	• ~20 exits in last 5 years; total exit value of ~$2B • Top 3 exits include Flipkart, Myntra and Ola
Lightspeed Management Company	~$0.3B	~60	~$3.2B	~70%	~15%	• ~5 exits in last 5 years; total exit value of ~1.7B • Top 3 exits include Oyo, ItzCash and Indian Energy Exchange (IEX)

* Further funding also includes subsequent rounds raised/participated by the same funds
** Total exit value includes combined exit value for all participating firms
Note: Top 3 exits are by total exit value
Sources: Tracxn; Venture Intelligence; Bain analysis

Figure 27: Funds' portfolio companies that went on to further funding (continued)

VC Name	Funds raised, 2014–19	# of deals participated 2014–19	Total deal value 2014–19	% portfolio companies that raised further funding*	% of portfolio companies with total funding >$100M	Exits** 2014–19
Nexus Venture Partners	~$0.8B	~100	~$1.8B	~70%	~10%	• ~15 exits in last 5 years; total exit value of ~$0.3B • Top 3 exits include Mezi, Delhivery and Whats On India Media
SAIF Partners	~$0.4B	~110	~$1.3B	~80%	~20%	• ~20 exits in last 5 years; total exit value of ~$1.0B • Top 3 exits include PayTM, Makemytrip and JustDial
Chiratae Ventures	~$0.4B	~110	~$1.3B	~80%	~10%	• ~16 exits in last 5 years; total exit value of $1.7B • Top 3 exits include Yatra, Myntra and Lenskart

* Further funding also includes subsequent rounds raised/participated by the same funds
** Total exit value includes combined exit value for all participating firms
Note: Top 3 exits are by total exit value
Sources: Tracxn; Venture Intelligence; Bain analysis

Figure 28: Additional key funds' portfolio companies that went on to further funding in 2019 (continued)

VC Name	Funds raised, 2014–19	# of deals participated 2014–19	Total deal value 2014–19	% portfolio companies that raised further funding*	% of portfolio companies with total funding >$100M	Exits** 2014–19
Matrix Partners	~$0.7B	~70	~$1.3B	~70%	~20%	• ~15 exits in last 5 years; total exit value of ~$0.4B • Top 3 exits include ItzCash, TCNS Clothing and Quikr
Kalaari Capital	~$0.3B	~100	~$1.2B	~75%	~10%	• ~7 exits in last 5 years; total exit value of ~$1.6B • Top 3 exits include Flipkart, Myntra and Embibe

* Further funding also includes subsequent rounds raised/participated by the same funds
** Total exit value includes combined exit value for all participating firms
Note: Top 3 exits are by total exit value
Sources: Tracxn; Venture Intelligence; Bain analysis

2.

Start-up ecosystem in India

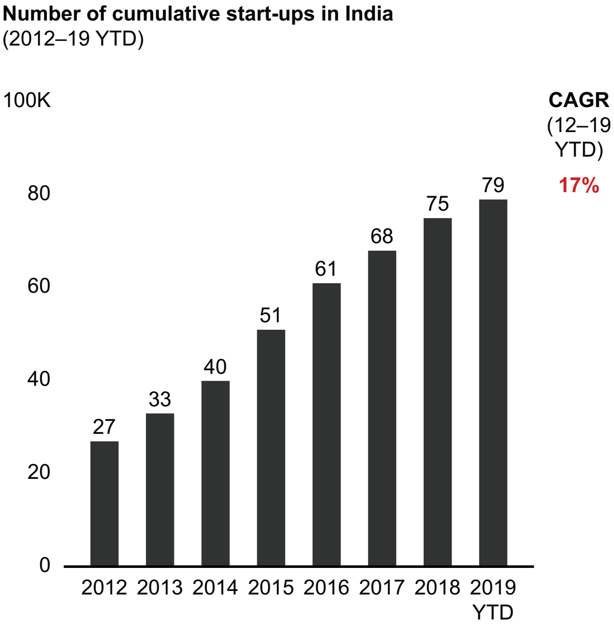
- India has one of the top five start-up ecosystems in the world which continued to grow rapidly. Between 2012 and 2019, the number of start-ups have grown by 17% each year, while funded start-ups have shown a compounded annual growth of 19% during the same period.
- Among funded start-ups in India, typically 25% or more go on to raise subsequent rounds.
- Several initiatives and policy changes, such as Startup India, Digital India, AIPAC, Atal Innovation Mission and Small Industries Development Bank of India (SIDBI) have helped create a favourable environment for start-up and venture capital growth in India.

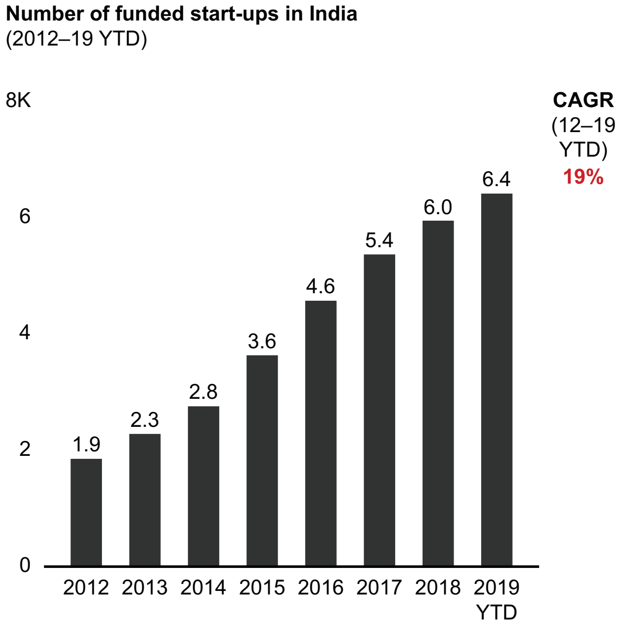
Figure 29: India has one of the top five start-up ecosystems in the world

	US	China	India	UK	Israel
Total number of unicorns	**203**	**206**	**20***	**13**	**7**
Total number of funded start-ups	57K	9K	6.4K	10K	~2K
Total engineering graduates	0.26M	4.6M	1M	0.07M	0.01M
Total number of internet users	270M	800M	520M	59M	7M
Total number of incubators and accelerators	1,500	11,800	400+	370	91
Ease of doing business rank, World Bank 2019 (2018)	6 (8)	31 (46)	63 (77)	8 (9)	35 (49)

* As of end-2019; start-ups are defined as firms founded after 2000
Note: Ease of doing business rank as reported by World Bank
Sources: Tracxn; IVCA; World Bank

Figure 30: The start-up ecosystem in India continues to grow rapidly with about 80,000 start-ups—8% are funded

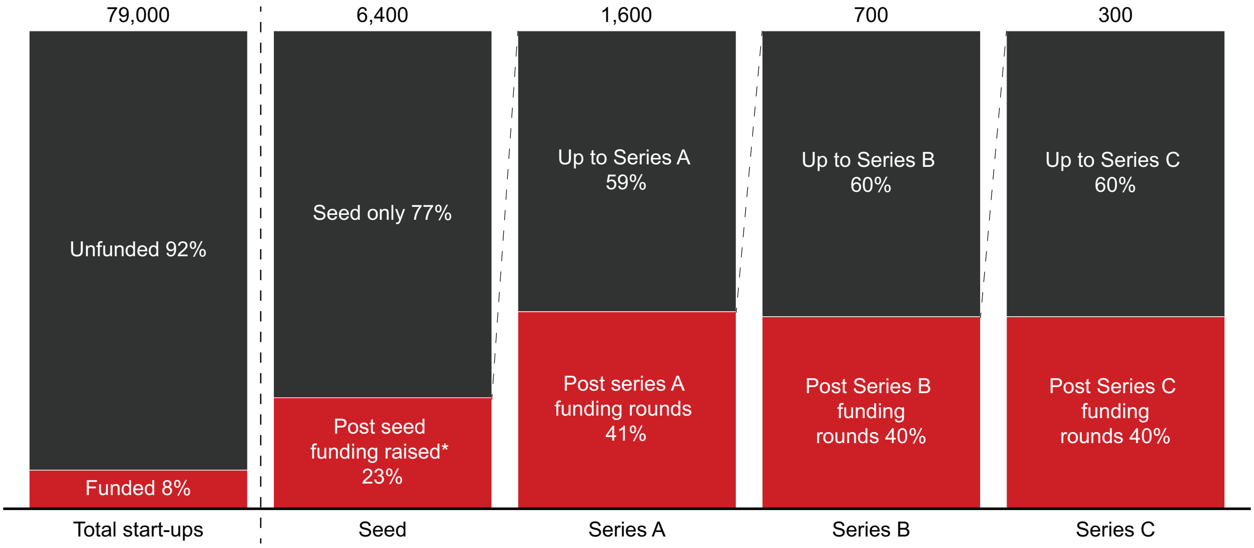




Notes: Start-ups are companies founded post 2000; as reported by Tracxn; YTD is as of the first week of December
Sources: Tracxn; Bain analysis

Figure 31: Among funded start-ups in India, typically at least 25% go on to raise subsequent rounds

Number of start-ups in India
(2000–19 YTD)



* 450 start-ups received series A funding directly without seed round
Notes: Classification of rounds as Seed, Series A, Series B and Series C per investment announcements; YTD as of the first week of December
Sources: Tracxn; Bain analysis

3.

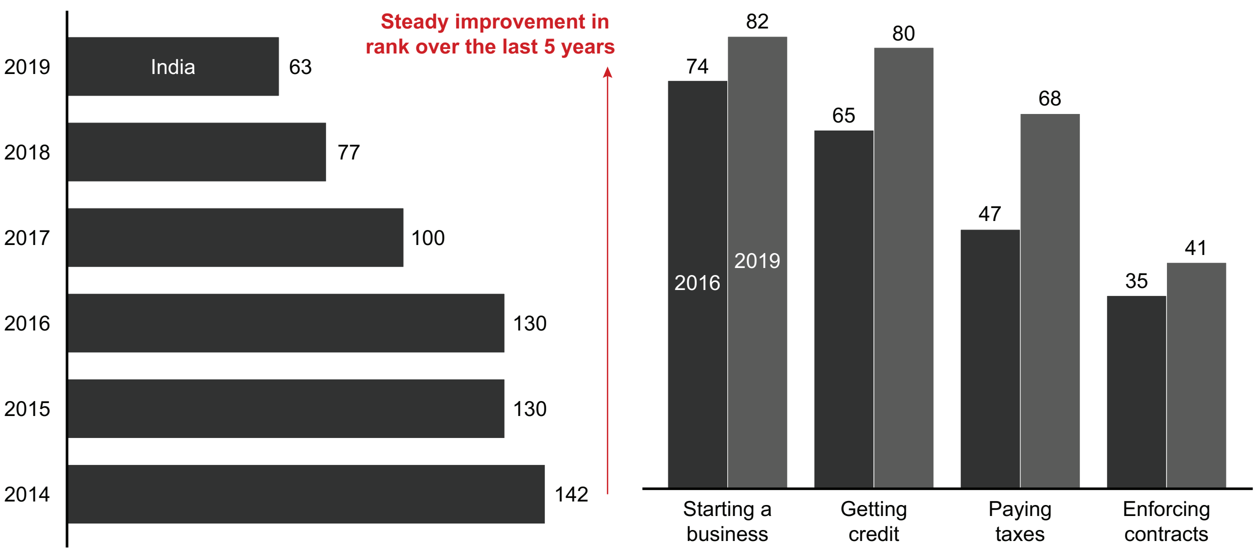
Regulatory framework

- Not only have prudent and timely regulatory policy decisions helped the funding environment for VCs, India has also seen significant improvement in the ease of doing business ranking over the last 5 years. Ranked 142 in 2014 by the World Bank, in 2019, India edged its Ease of Doing Business ranking to 63rd in the world.

- The government of India introduced several new policy initiatives to improve ease of operating alternate investment funds (AIFs) and start-ups in India, with sector-specific initiatives to turbocharge high-priority industries.

Figure 32: Ease of doing business has improved in India in the last five years due to improvements in several crucial areas

India's Ease of Doing Business ranking, World Bank | **India's Ease of Doing Business score across key dimensions**



Source: World Bank

Figure 33: Several regulatory programs will boost the Indian start-up ecosystem by supporting both start-ups and venture capital firms

Flagship programs specifically support start-ups and AIFs

- **Startup India**
- **Digital India**
- **AIPAC**
- **Atal Innovation Mission**
- **SIDBI**

Initiatives to improve ease of operating AIFs and start-ups in India

Policy initiatives

- Angel Tax exemption for AIFs (DPIIT, CBDT, DEA)
- Pass through status of losses to AIFs (CBDT, DEA)
- Encourage AIFs to locate in IFSC (GIFT City Administration, SEBI, CBDT)
- Modification in NABARD policy for a greater participation in AIFs (NABARD)
- Relaxation of Electronic Development Fund (EDF) funding restriction (MEITy, DPIIT)

Policy recommendations

- Greater tax incentives for India focused offshore funds (CBDT)
- Relaxing overseas remittance of sales proceeds norms for foreign investors (RBI)
- Facilitating offshore listing of Indian companies (SEBI)
- Simplifying tax laws for foreign investors (CBDT)
- Lower GST rate of 5% compared with current 18% on services provided to AIF (CBIC, GST Council)

Sector-specific initiatives will turbocharge high-priority industries

- **Fintech**
- **Agriculture and Agritech**
- **Healthcare and Healthtech**
- **Mobility**

Sources: Government websites; IVCA

Figure 34: Several initiatives and policy changes created a favorable environment for startup and venture capital growth in India

Startup India	• Regulatory program simplifies processes for start-ups • Procedural simplifications to set up companies; tax waivers incentivise start-ups and provide incubation assistance and funding to start-ups
Digital India	• Developing digital infrastructure to support digital services to increase penetration of mobile, data and information • Launch of BHIM app to promote UPI, multiple apps for farmers like agrimarket and crop insurance app
AIPAC	• SEBI's Alternate Investment Policy Advisory Committee (AIPAC) eases financial regulations for alternate investment funds (includes VC funds) • Tax benefits such as pass-through and TDS waivers for VC funds, less stringent angel fund regulations such as reduced lock-in period, permitting up to 25% corpus investment overseas
Atal Innovation Mission	• NITI Aayog launched this mission to develop new programs and policies to encourage innovation by fostering sectoral innovation and providing a collaborative platform • Atal Tinkering Labs encourages innovation at institute level, Atal/Established Incubation Centers supports ideas to scale and develop to problem-solve in key sectors; Atal Research & Innovation for Small Enterprises propagates research and innovation in micro small and medium enterprises (MSMEs)
SIDBI	• Aimed at fostering the growth of MSMEs in India through a variety of initiatives including availability of funding • A Fund of Funds for Startups with a corpus of INR. 10,000 Cr. for SEBI-registered VC funds, MSME lending through Soft Loan Fund for Micro Small and Medium Enterprises (SMILE) and promotional initiatives like Mission Swavalamban (country-wide entrepreneurship awareness)

Source: Government websites

Figure 35: Multiple new policy initiatives will enable AIFs in India to fundraise and operate

Angel tax exemption (DPIIT, CBDT, DEA)	• Exemption granted to Category I & II AIFs from Section 56 (2) (viib)
Pass-through status of losses to AIFs (CBDT, DEA)	• Just like profit, Category I & II AIFs are **allowed to pass-through their losses to limited partners or investors** via Finance Bill 2019
Encourage AIFs to locate in IFSC (GIFT City Administration, SEBI, CBDT)	• **Operating guidelines for AIFs in IFSCs** issued by SEBI • **Capital gains exemption** for Category III AIFs set up in IFSC • **100% tax exemption:** For fund managers operating from IFSC for any 10-year block within a 15-year period • **Dividend distribution tax exemption:** Companies and mutual funds exempt from paying dividend distribution tax on meeting prescribed criteria • **Exemption from return filing:** For non-residents and foreign companies earning income from Category I and II AIFs set up in IFSC on meeting prescribed criteria
Modification in NABARD policy for a greater participation in Alternative Investment Fund (NABARD)	• Removal of 5% loss guarantee clause for inexperienced investment managers (launched two funds) • Penalty reduction from 18% to 15% for nonfulfillment of stipulated investment in agriculture and rural sector and non-utilisation of funds within 60 days of withdrawal from NABARD. Screening committee has been delegated to recommend the quantum of sanctioned amount based on merits of the proposal
Relaxation of Electronic Development Fund (EDF) funding restriction (MeitY, DPIIT)	• EDF daughter funds allowed to avail funding from other fund of funds operated by different Ministries of the Government of India (including Fund of Funds for Start-ups)

Source: IVCA

Figure 36: Key policy recommendations address foreign VCs' concerns

Tax exemptions for India focused offshore funds (CBDT)	• Proposed conditions to apply for exemptions: - At most 20% of corpus is invested in Indian entity - Fund does not make any investments in its associate entity - Fund shall not carry on or control and manage, directly or indirectly, any business in India - Fund manager and fund are not considered "connected persons" as per law - Connected persons to not receive more than 20% of profits accruing from fund investments
Relaxing overseas remittance of sales proceeds norms for foreign investors (RBI)	• Exempt investors from providing RBI acknowledgement letters • Make communication between investee and RBI/AD bank transparent to the foreign investor • Policies to allow foreign investor to obtain copies of RBI acknowledgement letters from RBI/AD banker of the Indian investee
Facilitating offshore listing of Indian companies (SEBI)	• Exempting Indian companies from additional filing requirements on meeting prescribed criteria • Lifting end use restrictions on offshore funds raised from said jurisdiction • Clarifying taxation law for such companies
Simpler tax laws for foreign investors (CBDT)	• Exempting foreign investors from return filing requirements for proceeds distributed by Category I and II AIFs after deduction of tax at source
Flat GST rate of 5% from 18% (CBIC, GST Council)	• For services provided to AIFs, on non-availment of input tax credit to simplify compliances and reduce tax burden on foreign investors

Source: IVCA

Figure 37: Growth in the Fintech sector is the result of multiple targeted initiatives that set the stage for regulating in other promising sectors

Fintech initiatives

- BHIM app to promote UPI-based payments
- "DigiDhan ABHIYAAN" to enable citizens and merchants to undertake real time digital transactions
- BharatQR, an integrated payment system to transfer money
- Authorisation of third-party apps to use UPI boosting digital payments
- Granting NBFC licenses to P2P platforms to expand technology enabled lending market
- Improving security of P2P lending through single lender exposure caps

Initiatives for other sectors

Healthtech

- In progress regulations:
  - Facilitation of e-pharmacies through regulations for sale of drugs by e-pharmacies
  - Digital AIIMS – Health identification number for every patient visiting the AIIMS platform thus creating a digital identity
  - Enabling digitisation of AYUSH through an MoU between MOA and MeitY

Mobility

- Second phase launch of Faster Adoption and Manufacturing of Electric Vehicles scheme
- Tax benefits like GST reduction on electric vehicles to 5% and income tax deductions for interest on loan taken for electric vehicles

Agritech

- Launch of multiple apps to increase availability of information to farmers
  - Agrimarket app to inform farmers about the market prices of crops
  - Crop insurance app for calculating insurance premium and coverage amounts
  - Kisan Suvidha app for spreading best practices and agri-education to farmers
- Government's blockchain initiative "IndiaChain" plans to target agriculture in first phase

Sources: Government websites on BHIM; Startup India; DigiDhan Abhyaan

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