

India sees a 4-year decline in the number of new start-ups

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The country has the third-largest number of unicorns in the world. Yet, the number of new entrants into the ecosystem has been declining since 2016

Year 2019 saw start-ups receive a major boost after the government announced incentives, including new incubators and relief from angel tax. But those did not seem to be enough to encourage more entrepreneurs to venture into the start-up ecosystem in India.

According to data from Tracxn, a firm that tracks investments and financials of private companies and start-ups, the number of companies founded in 2019 was only 5,462 – 35 per cent down from 2018 – the lowest since 2011. Furthermore, this number has been falling since 2016, the year the government launched the Startup India scheme, an initiative to catalyse and encourage innovation and entrepreneurship in India. The drop in the number of new entrants is observed across sectors, ranging from fintech to retail to enterprise applications.



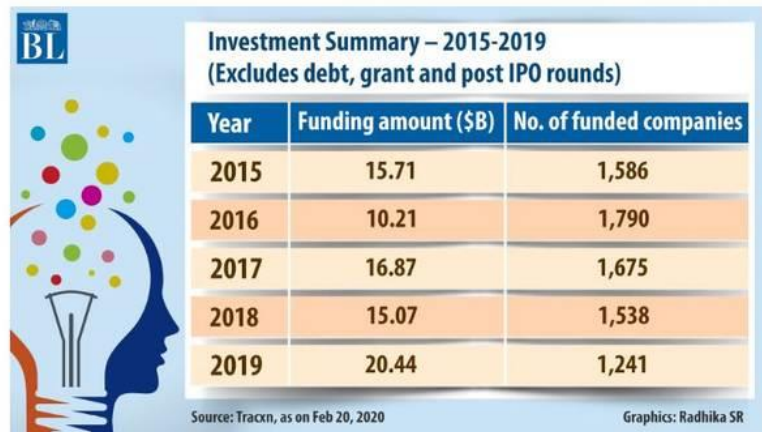
This could be because of the increased competition in the space that has raised the entry barriers for new ventures, which need to sustain and survive alongside more established players with deep pockets, says Ankur Pahwa, Partner, Ernst and Young.

Hari Ganapathy, Co-founder of Pickyourtrail (a start-up founded in 2014, that provides travel concierge and personalised vacation planning), which raised its Series A funding in February last year, says “During 2014-16, there was a huge euphoria around start-ups, funding, unicorns and, the start-up ecosystem as a concept was drawing a lot of people towards wanting to start something on their own.”

But, after 2017, a sense of rational belief has come into the ecosystem, he adds. “Expectations have become realistic, in the sense that people are starting to understand that not everybody who has an idea will get funded. People who are getting into the start-up ecosystem now are more serious about it and are validating their ideas with the market scenario before actually taking the plunge,” Ganapathy says.

Funding

But this dip in the number of players hasn’t affected the money that has gone into the ecosystem. Start-ups across sectors received an overall funding of \$20.44 billion in 2019, the highest in the last five years. But the number of companies that have been receiving funding also have been declining since 2016.



The large ticket-size transactions have taken up the funding dollar and the outliers have actually increased the total value of funding that has come into the ecosystem, says Ganapathy. Start-ups that started in 2013-14 have become market leaders and these mature start-ups are attracting larger cheques, he adds.

This coincides with the fact that the unicorn (start-up with a valuation greater than \$1 billion) club has been expanding in India — from 17 unicorns in 2018 to 24 in 2019, plus the country has its largest pipeline of potential unicorns ever (according to NASSCOM 2019 report) — and raises the question if there is space for newcomers at all any more. Case in point, the seed funding received by start-ups was only 2.5 per cent of the total funding that went into the ecosystem in 2019, according to Tracxn data.

Trends now indicate concentration of investment as many sectors have clear winning start-ups, which in turn, has resulted in weeding out trailing start-ups, says Saurabh Chaubey, CEO, AIC – Great Lakes Balachandran Incubator (AGBI), a venture that nurtures nascent entrepreneurial innovations in various technology domains. These winning start-ups have a higher degree of investors, which results in higher amount of funding, he adds.

For the new chips on the block

The business to consumer (B2C) start-up market in India is exploding, with the consumer sector which encompasses all companies offering consumer-focused solutions across various industries, viz. fintech, retail, and logistics, among others, receiving nearly 45 per cent of the total funding in 2019. With increasing disposable incomes at hand, there are now more customers who can afford to avail new services, and try out new products in the market. But what does the scene look like for budding entrepreneurs who want to start up now?

“The ecosystem has become more rational, not all ideas are going to get funded. The product that you are building should have been compelling in 2016 and should continue to remain so in 2026,” Ganapathy says. “You cannot survive in the current market scenario with a substandard idea.”

Plus, to run a business in India, there’s a significant cost of compliance, right from registration of company (ROC) to filing returns to GST, Ganapathy says.

Having to comply with so many aspects can be very intimidating for a start-up in the initial phase. If the government can take initiatives to make the process easier, more digital, and reduce the paperwork, it would help start-ups focus more on developing the business, he adds.

With the government proposing various incentives in Budget 2020 including providing a seed fund for the development of early-stage start-ups and easing the tax burden on employees, and, with the growing pool of incubators, institutional, private equity and corporate investors, this year will probably see the number of new entrants take a giant leap.

Link: <https://www.thehindubusinessline.com/info-tech/india-sees-a-4-year-decline-in-the-number-of-new-start-ups/article30910404.ece#>