LetsVenture Early-Stage Funding Report

2022-23

Insights and Projections

COMPASS
LetsVenture

CONTENTS

INTRODUCTION

Albert Einstein's words "In the middle of difficulty lies opportunity," couldn't have been better put in the context of the Indian startup ecosystem at present.

The second half of 2022 hit the brakes on inflated valuations and loose pursestrings. Caution is in the winds, and the focus is shifting back on unit economics and revenue-led business models. And therein lies the opportunity. The opportunity to build for the long term. The opportunity to build sustainable businesses.

Late-stage startups took the biggest hit during the 2022 funding winter while early-stage startups continued to stay resilient and attracted investor interest.

LetsVenture, largest early-stage platforms for private market investing, also recorded a similar trend.

Amid the funding slowdown, LetsVenture recorded a total of 349 deals in CY 2022 as compared to 240 deals in CY 2021.

In this report, we will dive deeper into understanding the early-stage funding scenario in India in CY 2022 and the trends to watch out for in 2023.

FOUNDER'S NOTE

Shanti Mohan

Co-Founder & CEO,
LetsVenture and trica

LetsVenture was founded in 2013. At that point of time the ecosystem was very nascent. It was very hard as an investor to identify the right founders you want to invest in and as a founder it was very difficult to find the right investors.

Our vision at LetsVenture was very simple when it started. We wanted to make the process of fundraising easier for both founders and investors. As we started building the platform, it has been an incredible journey for us because we were early in the space and we had some amazing investors who came onboard the platform.

We worked with SEBI and policymakers to make sure that the space became more organized.

In 2018, SEBI announced the Angel AIF, which is basically a SPV structure that allows multiple investors to invest as one single entity on the cap table. We were the first Angel AIF in the country and today we completed five years as Angel AIF, one of the largest in the country. We have closed about 3000 angel investors on the AIF.

As the New Year begins, I think 2023 will see founders with a lot more passion, a lot more experience who have the ability to stay in the game for a longer time, raise little capital, and be able to build companies. I think that is what we are going to see in 2023. It is going to be back to the basics of entrepreneurship, probably what started maybe 15 years back. So really going back to the drawing board in terms of fundamentals.

I will not stress a lot on valuation as an investor because I think valuation is a byproduct of market conditions, capital being raised, and byproduct of a lot of things like how big the company can become.

In terms of sectors, I think we will continue to see financial services, we will continue to see healthcare, and I think what is going to emerge is software-as-a-commodity. Software today has become a commodity but can you build it in a very efficient, cost effective manner? Can you build large software enterprises which can scale?

I think we are going to see that next year. We are going to see a lot more emphasis on revenue conversations along with less funding being raised. Bootstrapping will go mainstream in some way so capital raise is not going to be a parameter of success for founders.

REPORT HIGHLIGHTS

01 2022 saw a slight drop in the number of deals and volume of funding for Seed and Early-stage. However, the average deal size increased to $1.1 million in 2022 as compared to $830K in 2021.

02 Funding winter was prominently seen in the late-stage startups where funding dropped by 47% from $33 billion to $ 17.5 billion.

03 Bengaluru and NCR continue to dominate the funding landscape and accounted for 60% of funding in 2022.

04 Even amid funding slowdown in 2022, LetsVenture saw growth in the number of investments done on the platform.

05 The total number of deals increased to 349 in CY (Calendar Year) 2022 from 240 in CY 2021 at LetsVenture. The total number of deals and volume of funding grew at 45% and 29% respectively in CY 2022 as compared to CY 2021.

06 As of August 2022, LetsVenture has over 3000 investors on the Angel AIF.

07 About 40% of this investor base includes CXOs and experienced investors, 40% are founders/ business owners, and 20% are from Tier II cities.

LOOKING AHEAD: TRENDS IN 2023

Sohil Chand

Founding Partner & Chief Investment Officer at LC Nueva

During the second half of the year, the interest rates will have peaked and will start coming off from there. We will start seeing liquidity flowing back into the sector, and specifically we will start seeing early-stage momentum building towards the second half of the year.

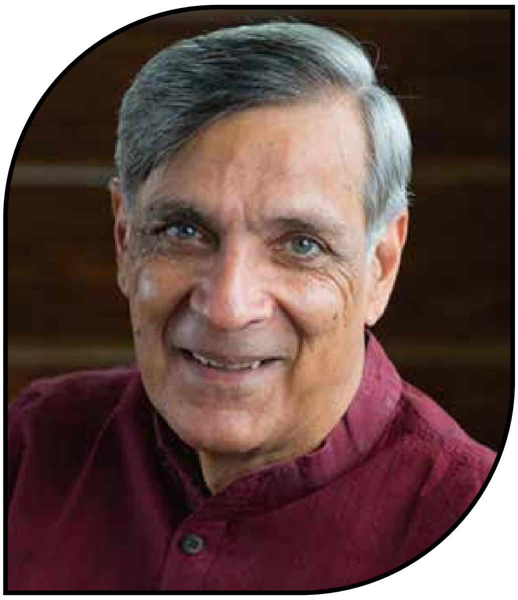
We already have funds which are sitting on large pools of capital for venture investing and though they have been very reluctant to invest in late-stage deals, we are seeing signs of activity on the early-stage side because those companies are obviously early and there is a lot of room for them to build and grow their valuations as well.

The activities have already started in the space and I expect to see momentum picking up towards the second half of the year on the macro side.

In terms of themes, I think the focus has definitely shifted from growth to cash flows and I think that is going to continue to remain as the themes for the foreseeable future. There is going to be more focus on business models and the companies' ability to generate cash in a reasonable time frame, rather than growth at all costs.

In terms of sectors, different funds have different focuses, but if you look at global trends, I think artificial intelligence (AI) is a big area that is going to attract investments. Specifically in India, I think B2B businesses will be in vogue because of their generally superior business models and lower cash requirements to break even and generate profits. I am bullish on EVs, the whole renewable space and fintech.There is going to be a massive valuation reset in the SaaS space because there is no fundamental justification for what these companies have been valued at.

LOOKING AHEAD: TRENDS IN 2023



Mohit Satyanand

Chairman and founder at Teamwork Arts

The year 2022 was clearly going to be a funding winter, and I had begun warning founders of this by October 2021. Only a few people have the ability to prepare for what they don't want to see happen, and I saw several startups head for the exit. But some, though on the brink, found acqui-hire options, reducing the pain for investors.

Fortunately, several companies in my portfolio also saw significant up-rounds. The dynamics of early- stage investing are such that the stars in your portfolio make up for the also-rans. Though it is not nice to see enthusiastic founders reach a dead end, my portfolio looks stronger and more robust as we head into 2023.

Based on my understanding of macro-economics, global liquidity will not improve in 2023. Business plans based on continuous infusion of equity will flounder, and investors will look more deeply for:

- Unit economics,
- Consumer loyalty and repeat buying, and
- A clear technical edge.

The valuations will be depressed, and as a long-term investor it is a good opportunity for me.

This year, the sectors I will continue to back are:

- Health,
- Fintech
- Deep tech.

STATE OF STARTUP INVESTING IN INDIA: 2022

Investing has always been an essential part of money management. For most Indian households, practices included investing in gold, land or house, and mutual funds among others. However, private market investing remained exclusive for the selected few.

This sentiment has changed over the years thanks to the growing number of startups in India, increasing startup success stories, accelerated digitisation, and growing popularity of the ecosystem among global investors.

Indian startup ecosystem is pegged to be the third largest ecosystem after the US and China with a total 84K DPIIT-registered startups as of November 2022 and 100+ Unicorns. This is indeed a huge leap from 471 startups in 2016.

Events such as the Jio revolution have been a catalyst for the ecosystem. With cheaper data, increased penetration of smartphones have played a huge role in adoption of digital services. In recent times, COVID-19 crisis bolstered the growth and adoption of digital and new technologies making the Indian startup ecosystem one of the most sought after ecosystems by global investors.

Startup funding plummeted in 2022 and that marked the onset of funding winter. This slowdown is being considered as a reset from the previous years where the ecosystem attracted high valuation deals. Indian startups raised a total of $41.8 billion across close to 3000 funding rounds in 2021, according to the Tracxn Geo Annual Funding Report 2022: India Tech 2022.

In 2022, the total funding decreased by 38 percent to $25.9 billion. The funding winter was prominently seen in the late-stage startups where funding dropped by 47% to $17.5 billion. However, not all hope is lost especially for the early-stage startups.

Overall state of startup investing in India

Overall tech startup funding

2022	$25.9 B
2021	$41.8 B

Exits

2022	256
2021	255

IPOs

2022	13
2021	18

Unicorns

2022	22
2021	46

Source: DPIIT, Tracxn Geo Annual Funding Report: India Tech 2022

State of funding across stages

2022		
Stage	**Funding**	**Number of Rounds**
Seed (includes Seed, Angel rounds)	**$1.4 B**	**1253**
Early-stage (includes Series A,B rounds)	**$7.0 B**	**522**
Late-stage (Series C+, PE, Pre-IPO rounds)	**$17.5 B**	**223**
Total	$25.9 B	1998

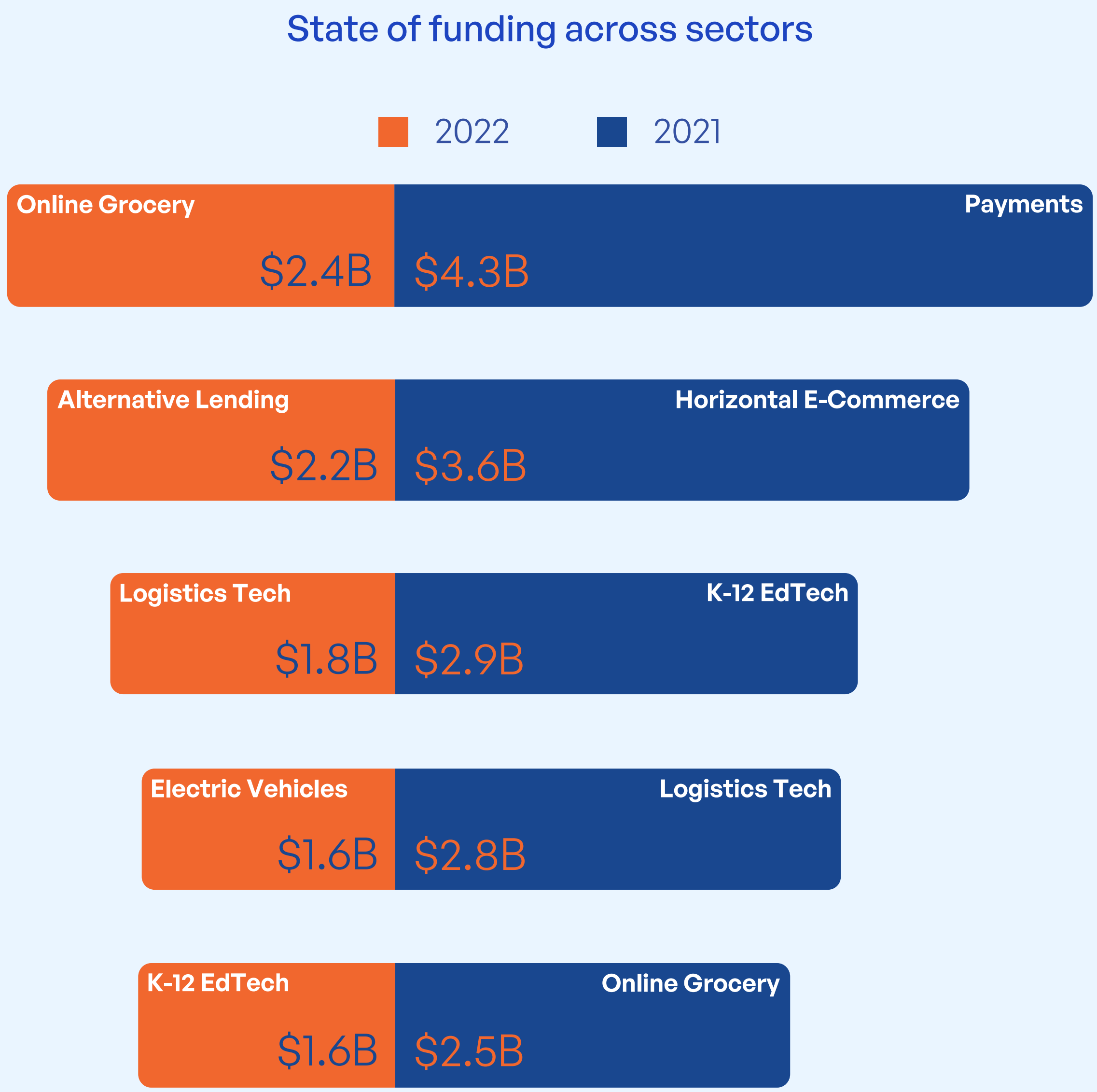
2021		
Stage	**Funding**	**Number of Rounds**
Seed (includes Seed, Angel rounds)	**$1.7 B**	**2024**
Early-stage (includes Series A,B rounds)	**$7.0 B**	**590**
Late-stage (Series C+, PE, Pre-IPO rounds)	**$33.0 B**	**299**
Total	$41.8 B	2913

Source: Tracxn Geo Annual Funding Report: India Tech 2022

A dry investment sentiment in global markets because of persistently high inflation compelled central banks around the world to raise interest rates. This was one of the reasons for the decrease in the number of Unicorns in 2022.

Digital services such as ecommerce, edtech, and online payments are not an entirely new phenomenon and existed before the pandemic as alternatives and good-to-have options. However, they became necessary means for education and shopping as social distancing became the norm during the pandemic.

Fintech and online commerce remain the top funded sectors over the COVID-19 affected years. With the introduction of OCEN (Open Credit Enablement Network), alternative lending saw a good buzz in the market.



Source: Tracxn Geo Annual Funding Report: India Tech 2022

Top funding rounds in 2022

Company	Funding Amount	Round Name	Date
VERSE	$805 M	Series J	Apr 2022
BYJU'S The Learning App	$800 M	Series F	Mar 2022
SWIGGY	$700 M	Series J	Jan 2022
Tata Passenger Electric Moblity Ltd.	$496 M	Series D	Mar 2022
polygon	$450 M	Series D	Feb 2022
uniphore	$400 M	Series E	Feb 2022

Source: Tracxn Geo Annual Funding Report: India Tech 2022

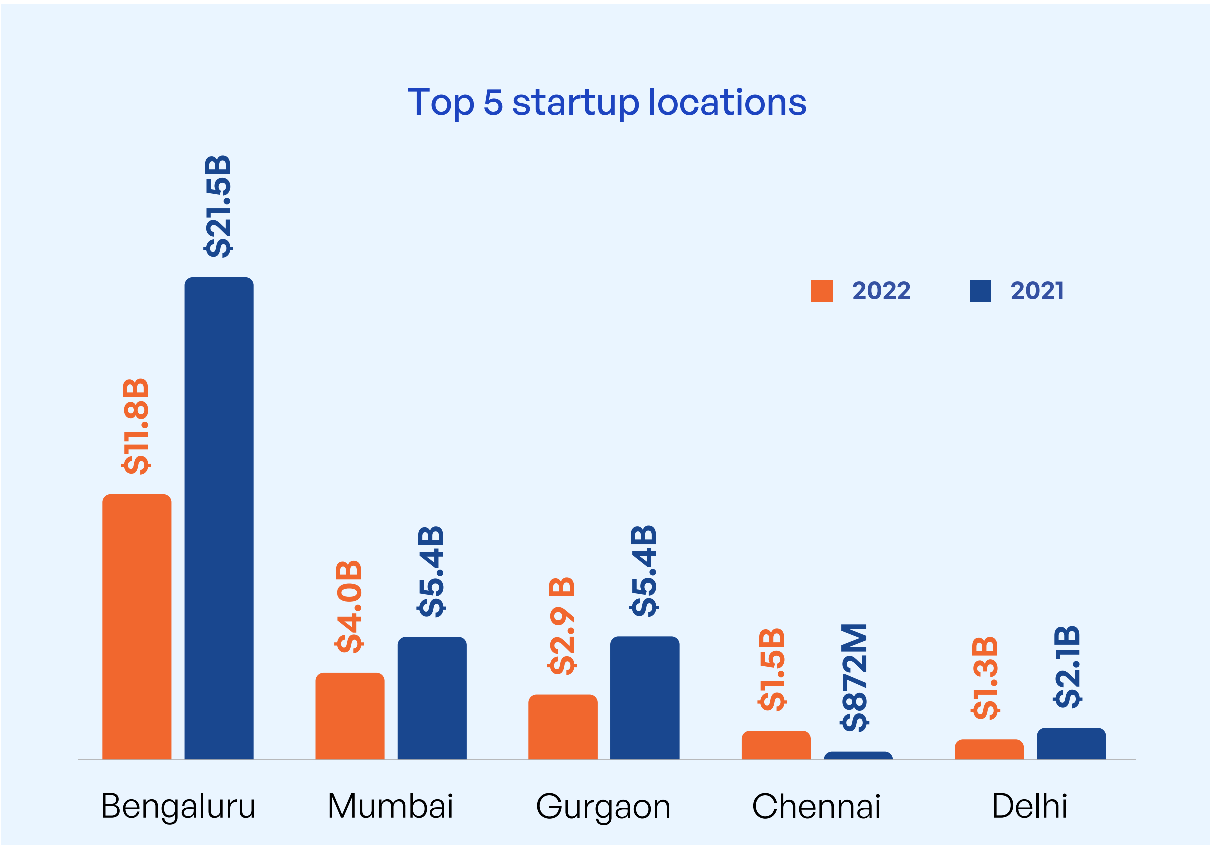
Bengaluru becomes the startup hub of the Indian ecosystem with the city recording $11.8 billion funding in 2022. While it continues to hold its position as the top funded city, the amount of funding was nearly down by 50% in 2022 followed by Mumbai and Gurgaon.

Bengaluru and NCR continue to dominate the funding landscape and accounted for 60% of funding in 2022. Greater availability of talent in these cities is a major factor driving higher funding.

Meanwhile, it is also interesting to note that while India has been taking steady steps towards closing the gender parity, women-founded startups received lower funding as compared to their male counterparts.

Of the total, women-led startups raised only $2.4 billion funding in 2022 out of which $132 million was raised in seed rounds, $651 million raised by growth stage startups and $1.6 billion was raised by late-stage businesses, according to Inc42's Indian Tech Startup Funding Report 2022.

One of the reasons for funding slowdown in 2022 includes VCs being stringent with their cheques and precise evaluation of startup metrics. However, good quality startups continued to get funds.



Source: DPIIT, Tracxn Geo Annual Funding Report: India Tech 2022

STATE OF EARLY-STAGE STARTUP INVESTING IN INDIA: 2022

Early-stage investing is a space where the risk is considered to be the highest. However, the opportunity for early-stage startups in India to grow and build a profitable business is attracting investor interest even amid funding slowdown.

An in-depth interview with 125 HNIs and UHNIs by LetsVenture and Unearthinsights revealed that India will see more than 950K high net worth individuals (HNIs) by 2027 with an estimated wealth of more than $200B-$300B, while the number of ultra HNIs (UNHIs) is predicted to be more than 11K by 2025 with over $700B wealth up from the current $440B.

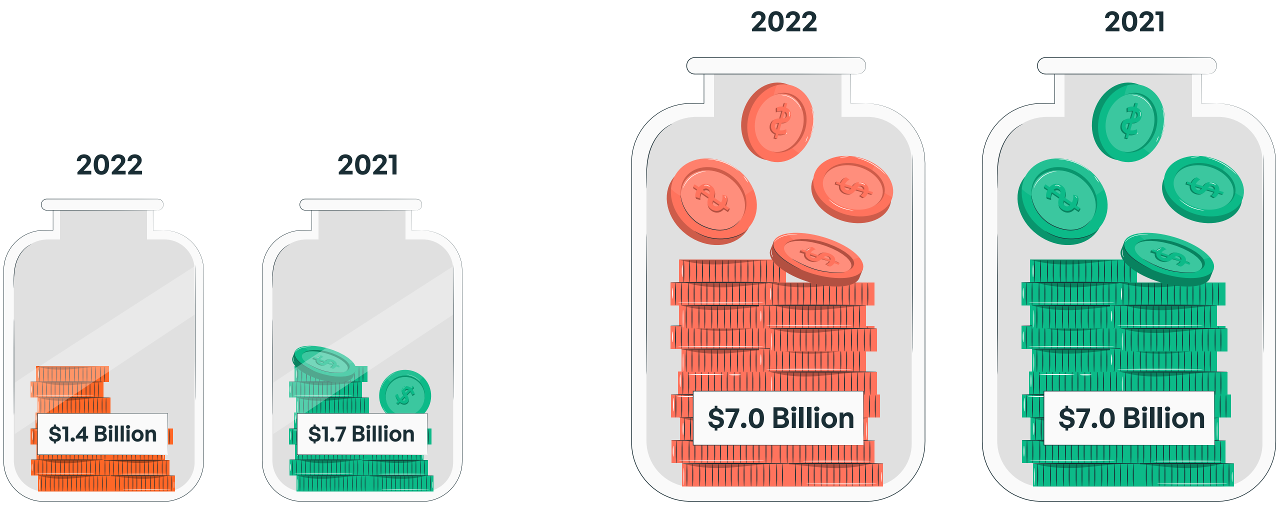
The survey results revealed that the growth of Indian tech services, tech startups, and product firms is creating a new breed of HNI investors in startups through direct investment, syndicate networks, and angel platforms.

Even amid the 2022 funding slowdown, early-stage startups continued to be resilient and attracted investor interest. While a slight drop has been recorded in the number of deals and volume of funding for seed and early-stage deals in 2022, the average deal size increased. Seed rounds were of an average $1.1 million in 2022 as compared to $830K in 2021.

In an earlier conversation with LetsVenture during The Private Market Show podcast with Shanti Mohan, **Nithin Kamath, Founder & CEO at Zerodha**, said that, now it is important for investors to look at growth while valuing a company and not just focus on profitability as there are opportunities for them to suddenly become large and turn profitable.

The year 2021 was all about expansion and scaling of first-generation startups which picked up the investors interest into private market investments. While this continued in 2022, it was limited to high quality startups consisting of a strong team with deep understanding about the market, visibility to revenue, and strong unit economics.

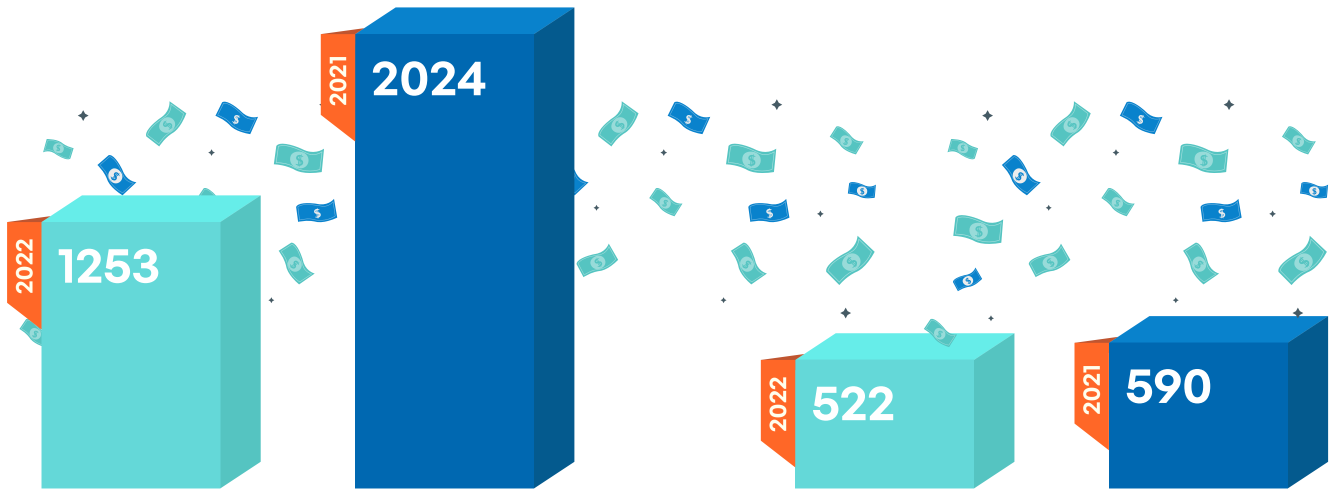
Overall total ES funding in value in comparison to 2021



Seed (includes Seed, Angel rounds)

Early-stage (includes Series A,B rounds)

Overall total ES funding deals in comparison to 2021



Seed (includes Seed, Angel rounds)

Early-stage (includes Series A,B rounds)

Source: Tracxn Geo Annual Funding Report: India Tech 2022

INVESTORS BETTING ON THE INDIA STORY

A crucial aspect to look at is that early-stage investing is no longer confined within a selected few and several founders-turned investors, CXOs, Family Offices among others are betting on the space.

After having built their own successful ventures, founder-turned-investors re-entered the ecosystem as angels to not only provide capital support but also pass on their learnings and experience to the new generation entrepreneurs.

The data shows that in the list of the top angel investors in India today, most, if not all, are founders themselves.

Founder-turned-investors, also called as operator investors, are providing 'smart capital' where financial backing is coupled with the investor's practical experience of building a business and knowledge about the industry.

While operator-investors are changing the paradigm of early-stage investing with smart capital, on the other side of the spectrum, Family Offices (FOs), which have been mostly involved in traditional forms of investing over the years, have begun betting on startups.

In a report titled 'The Private Market Monitor' by trica capital, a LetsVenture subsidiary, and EY, which includes responses from 103 FOs and UHNIs, revealed that over 83% FOs have allocated over 10% of investment to the private markets.

In fact, the allocation percentage has doubled for a good 40% of the Family Offices surveyed and has been steadily increasing for 50% of the respondents over the past five years. The number of FOs is also said to have grown five-fold to 200 from just 40 in the last three years.

Top founder-angels of 2022





	Kunal Shah	Aman Gupta	Anupam Mittal	Sandeep Nailwal	Peyush Bansal
	Founder, CRED	Co-founder & CMO, boAT Lifestyle	Founder & CEO, People Group	Co-founder, Polygon Technology	Co-founder, Chief Executive & People Officer, Lenskart
Bets in 2022	49	30	30	29	28
Portfolio	Procol	REVAMP	STRIVE	CYPHEROCK	Thinkerbell Labs
	EVERFLOW	GROWFITTER	SKIPPI ICE POPS	Olive Formerly polysynth	LOKA
	rapido BIKE TAXI	FLORYO	Housr	KoinX	INSURANCE SAMADHAN

Source: Tracxn. [Note: Data includes Seed, Angel and Series A deals done as of Dec 20, 2022]

Higher return opportunities, exposure to new tech and innovations, diversifications were top reasons behind FOs investing in startups.

In India, some of the notable FOs, including Ratan Tata's RNT Associates, NR Narayana Murthy's Catamaran Ventures, Burman Family Holdings, Harsh Mariwala's Sharrp Ventures, Premji Invest, Damani Group's Artha India Ventures, Ronnie Screwvala's Unilazer Ventures among many others, have always been bullish about the startup ecosystem.

Notable deals made by Family Offices in India

Family Office	# invested firms	Portfolio companies
aarin INSPIRED CAPITAL	35	BYJU'S The Learning App, HomeLane.com INTERIORS MADE EASY, Zoomcar Never Stop Living, POCKET ACES, PharmEasy
CATAMARAN	31	Cloudtail, Coverfox, paper boat drinks and memories, acko, ACHIRA
PREMJI INVEST	30	icertis Applied Cloud, snapdeal, policybazaar.com, lenskart
BURMAN FAMILY HOLDINGS	30	experian, M3 India, cricket.com, DMI FINANCE Flexible, Fast, Creative, TACO BELL, head digital works, DAILYROUNDS
SharrpVentures	13	Kapiva AYURVEDA, THE BEER CAFE, NYKAA.COM, mamaearth, BIRA 91, policybazaar.com

Source: 256 Network and Praxis Global Alliance. [Note: Source considered data till 2020.]

LETSVENTURE IN CY 2022

Last year has been an eye-opener for the Indian startup ecosystem. While the funding glow dimmed, the ecosystem went back to the basics of building a sustainable and profitable business without just relying on funding.

Even while investors' sentiments were low in 2022 and the market slowed down, LetsVenture saw growth in the number of investments done on the platform.

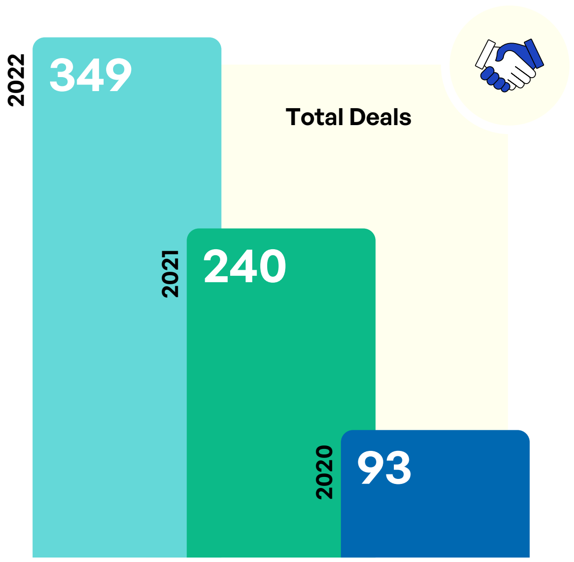
The total number of deals and volume of funding grew at 45% and 29% respectively in CY 2022 as compared to CY 2021.

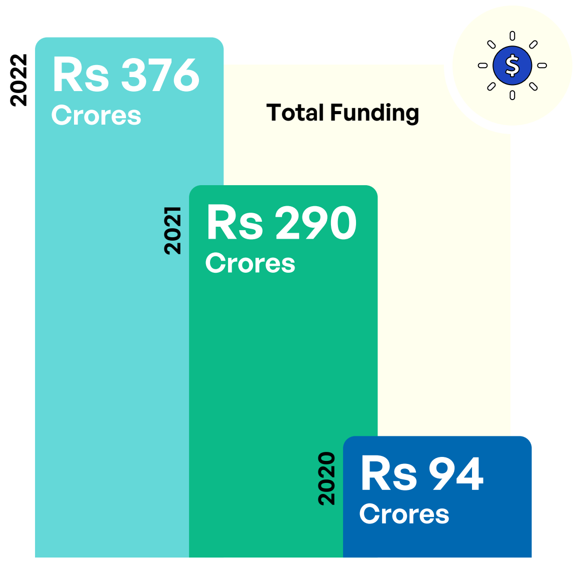
Interestingly, we noted that in 2021, startup deals were being closed faster (in a matter of days) driven by the FOMO factor. However, as market conditions changed in the second half of CY 2022, funding deals took over a minimum of one month to close.

This shows that investors have been much more thorough with their deal evaluation and research on the startups before placing their bets.

As of August 2022, LetsVenture had over 3000 investors on the Angel AIF and about 40% of the investor base are CXOs and experienced investors, 40% are founders/ business owners, and 20% are from Tier II cities.

Funding overview at LetsVenture





Source: LV Data [Note: Data from CY2022 compared to CY 2021]

Top deals of 2022 at LetsVenture

Company	Sector	City
seekho	Education Technology, Platform	Singapore
scripbox	Fintech, Advisory, Personal finance	Bangalore
evenflow	Consumer goods, Ecommerce	Mumbai
BLU SMART MOBILITY	Taxi, Online aggregator	Ahmedabad
leverage edu	Education technology, Platform	Delhi

Source: LV Data [Note: Data from CY2022]

CONCLUSION

Similar to how the world saw a paradigm shift in communications with the invention of hand-held mobile phones back in the 80s, the Indian startup ecosystem has also been undergoing a transformational phase since the last two years.

While new-age technologies and digitisation were steadily making their way into the mainstream, the last few years bolstered their growth to make them a necessity. The 2020 COVID-19 led restrictions fueled demand for digital services eliminating human contact and this led to several first-generation startups building unique solutions to counter the crisis.

However, as we returned to the pre-COVID normalcy in 2022, founders are now focusing on building sustainable growing businesses and thus many startups have cut down their marketing budgets and rationalized the workforce to ensure that they ride out the dry funding period.

Sustainability among startups played a key role in 2022. We believe that it will continue to remain as one of the primary objectives for the founders in 2023. This can lead to an increase in more bridge funding rounds or flat rounds this year.

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