



Early-Stage Investment Insights Report: 2022

6th Edition of Annual “Early-Stage investment insights report- India”, based on market information and survey conducted with leading institutional early-stage investors

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SURVEY DESIGN

The 'Early-Stage Investment Insights Report' provides analysis and trends on pre-series A/Seed investment activity. The report has been prepared by InnoVen Capital with inputs from reputed early-stage institutional investors. The following investors participated in this edition of the report – 3one4 Capital, Blume Ventures, First Cheque Ventures, Indian Angel Network, India Quotient, Inflection Point Ventures, Kae Capital, Mumbai Angels, Omnivore, Orios Venture Partners, Stanford Angels, Sauce.vc, Aureolis Capital, Leo Capital, Waterbridge Ventures, Prophetic ventures, Incubate Fund, Good Capital, Gemba Capital and YourNest Capital.

The 5th Edition (last year) of this report can be referred [here](#).





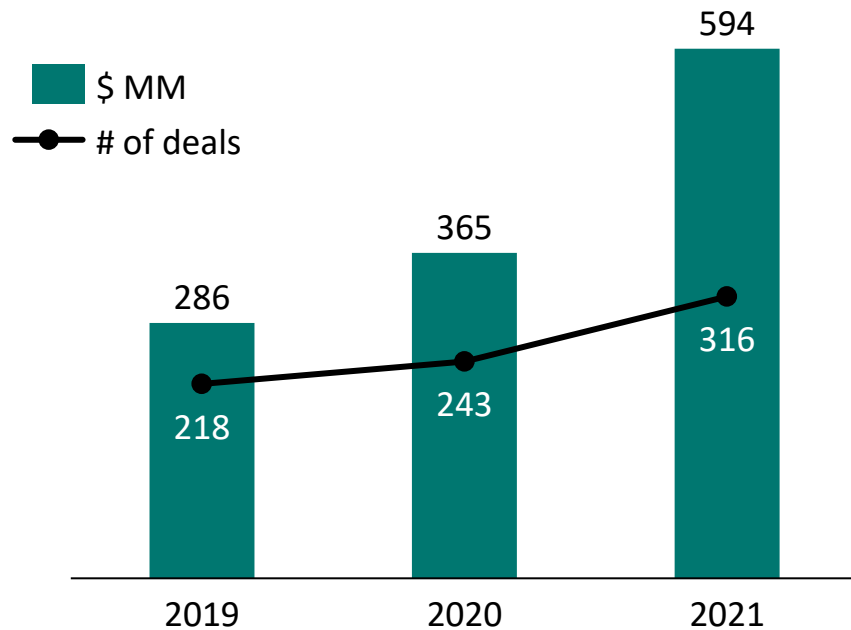
KEY HIGHLIGHTS

- With 316 deals, total early stage (Seed/Pre-series A) funding was 63% higher than 2020. Total number of deals went up by 30% while average deal size went up 20%.
- Over 67% of the respondents surveyed invested more last year (v/s 2020), with majority of investments in the \$500K-\$1 MM range. Valuations of seed deals continued to go up, with 56% of deals being done within a range of \$5-10 MM valuation.
- Respondents chose Fintech, B2B platforms and Enterprise SaaS as the top 3 sectors where they invested in 2021. More than 30% of the start ups funded in 2021 were at a pre-revenue stage, in comparison to 20-30% in 2020.
- Investors continue to bet on experienced founders, with 70% of founders having 5-10 years experience. The number of repeat founders also increased, with 29% of investors having more than 30% of repeat founders in deals concluded in 2021.
- 47% of investors expect that the funding activity this year will see some slowdown. The sectors which investors are most interested in this year include Web3.0, HealthTech, FinTech, SaaS and Creator economy.
- Most early-stage investors feel that emergence of Angel Syndicates has been positive for the overall eco-system. However, the higher activity levels in seed stage by large established VCs has increased competition and driven valuations higher.
- Bangalore and NCR continue to be the start-up hubs and attract over two thirds of all seed investments.
- Family Offices and UHNIs are the top source for domestic capital into the VC ecosystem followed by fund of funds.



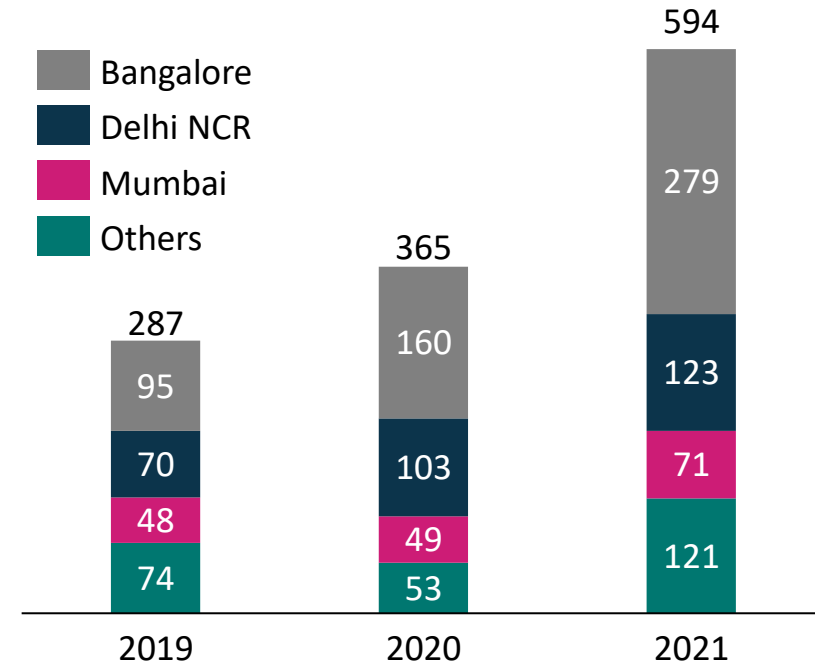
SEED/PRE-A INVESTMENT TRENDS (Overall Market)

Total investments (\$ MM) and number of deals (a)



- Funding up 63% driven by higher deal flow (up 30% v/s 2020)
- Average deal size increased from \$1.5MM to \$1.8MM in 2021
- ~67% participants funded higher number of start-ups in 2021

Split of deals by city

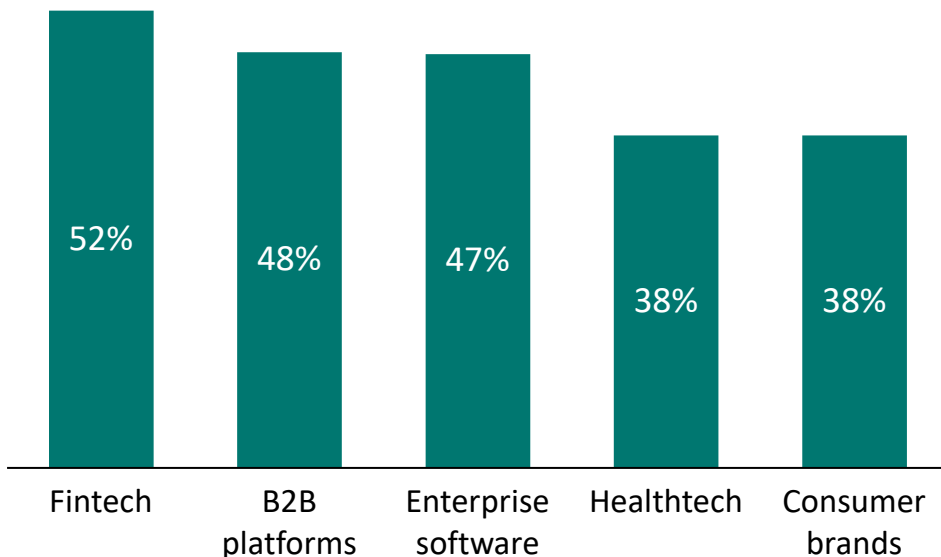


- Bangalore and NCR get two out of three investments
- 12% of all funding went to Mumbai based startups
- Pune and Chennai also among Top5 start-up cities



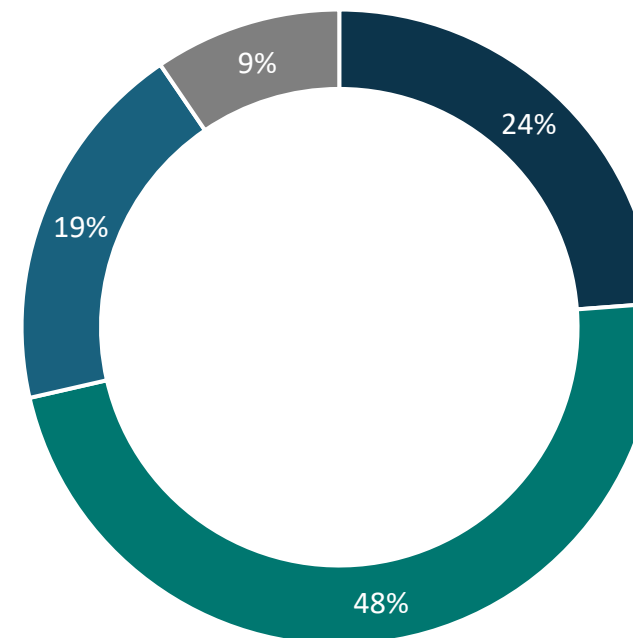
INVESTMENT Trends

Top sectors where the firm invested in 2021 (a)



- FinTech, B2B platforms and SaaS were the top 3 sectors
- Edtech was amongst the top3 in 2020 but not in 2021.

Startups funded in 2021 v/s 2020



■ Broadly same ■ Higher ■ Significantly higher ■ Lower

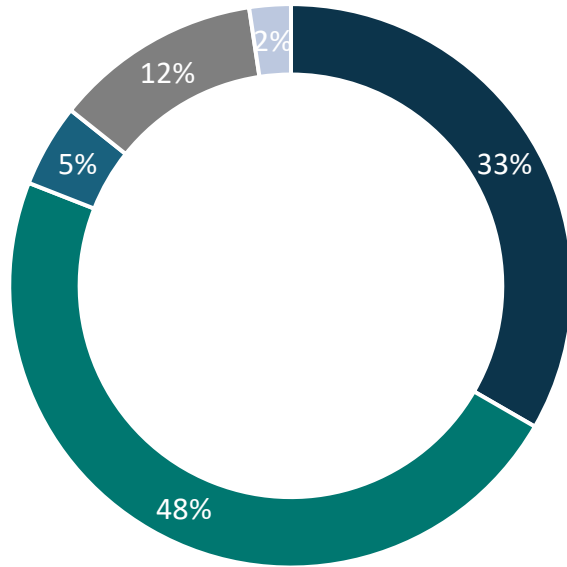
- 67% of investors closed higher number of deals in 2021

a) The responses do not total to 100% as each participant had to pick top 3



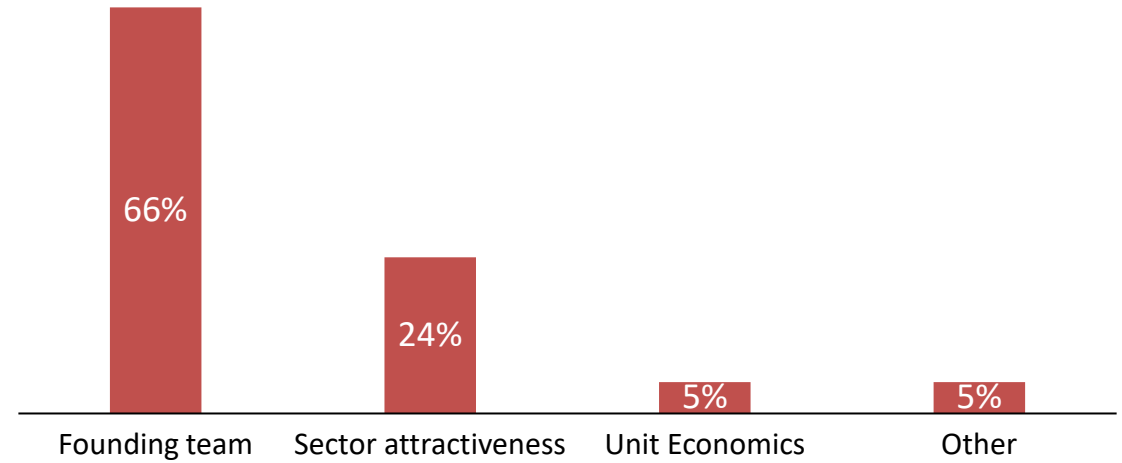
Deal flow and investment criteria

Top sources of deal flow (a)

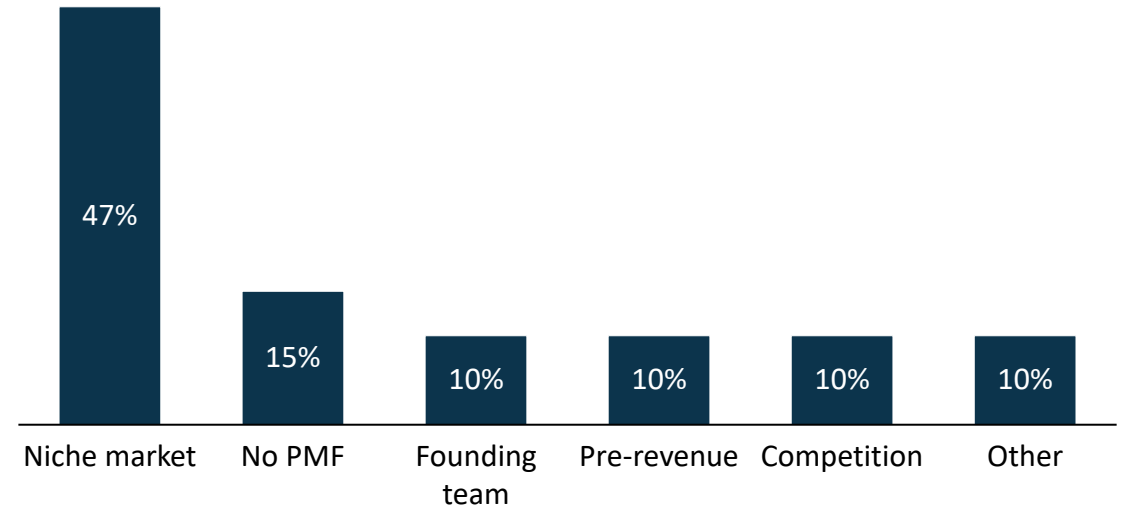


- Inbound
- Referrals
- Accelerators
- Outbound
- Others

Top attributes of investible start ups



Most frequent factor to pass on a deal

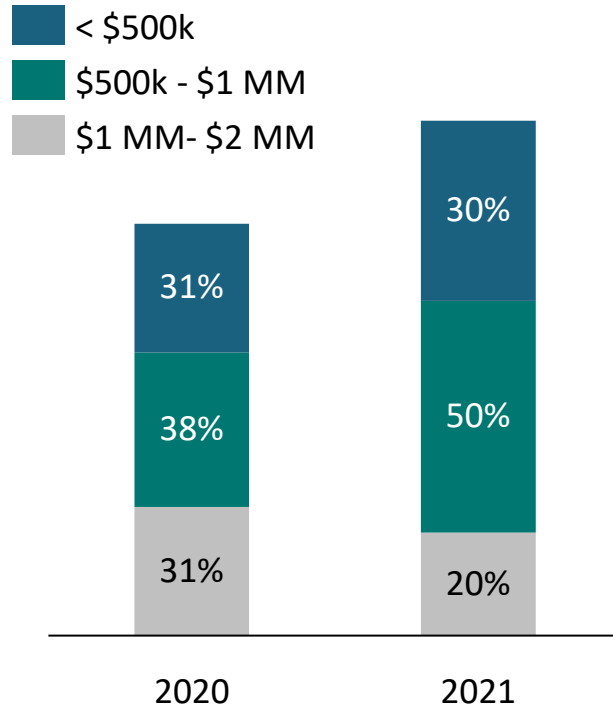


a) The responses are on a blended basis as each participant had to pick top 2



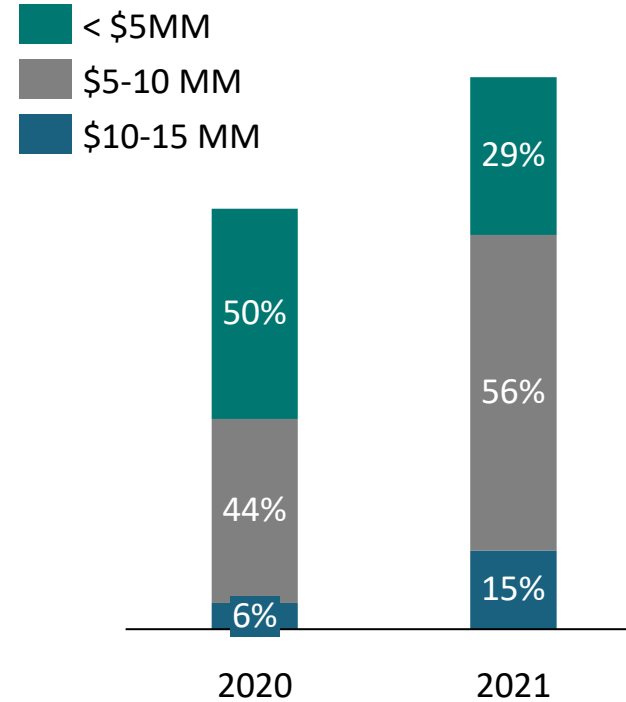
Deal size and valuations- 2021

Increase of amount invested per deal



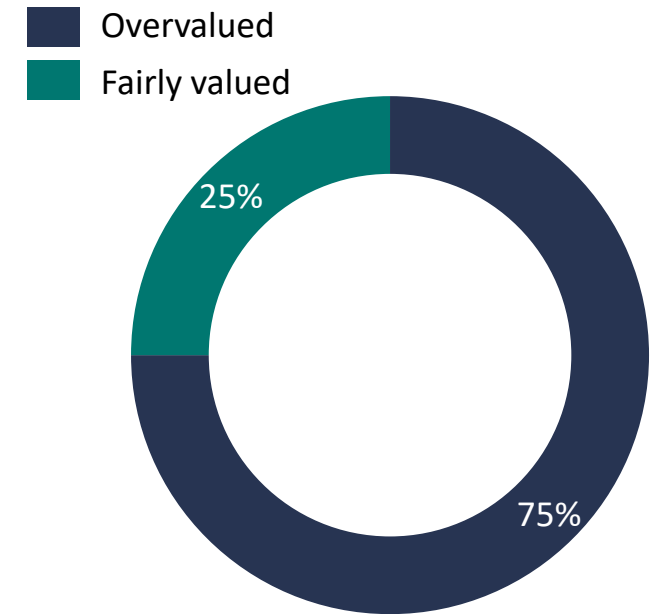
- 50% respondents had deal sizes of \$500k- \$1MM verses 38% in 2020

Increase in valuation per investment



- 56% investors invested at a valuation of \$5 MM- \$10 MM verses 44% in 2020.

Investor outlook on valuations

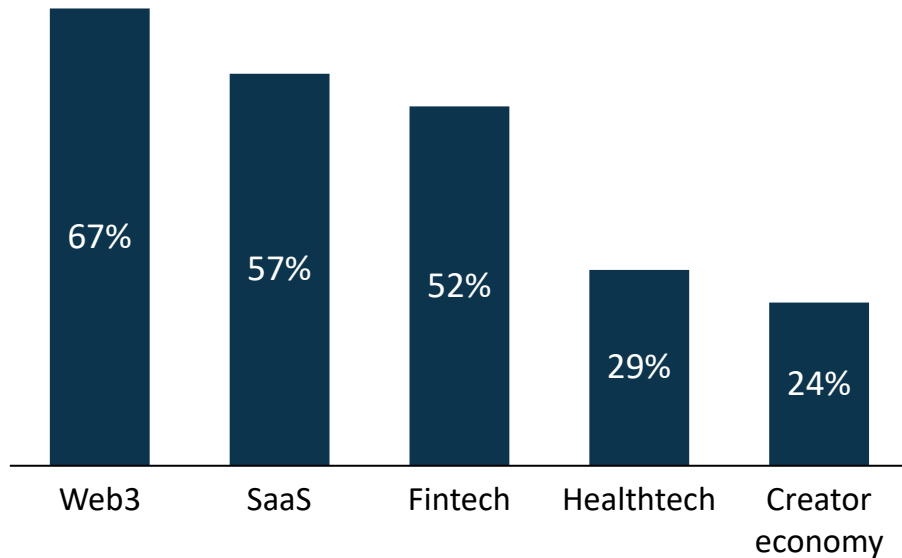


- 75% investors believe that early-stage companies were over-valued in 2021

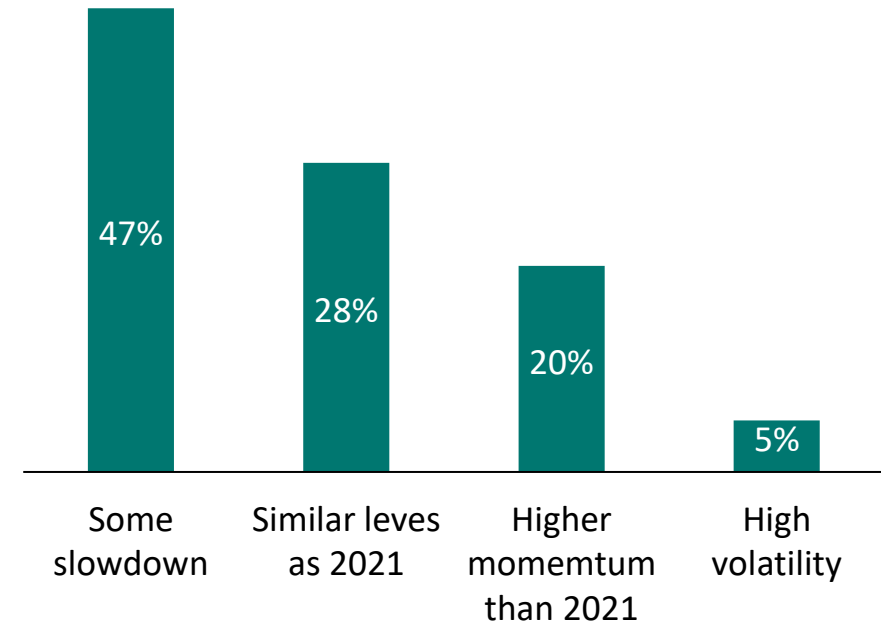


Investment outlook- 2022

Investor expectation for top 3 sectors of 2022



Funding activity expectations

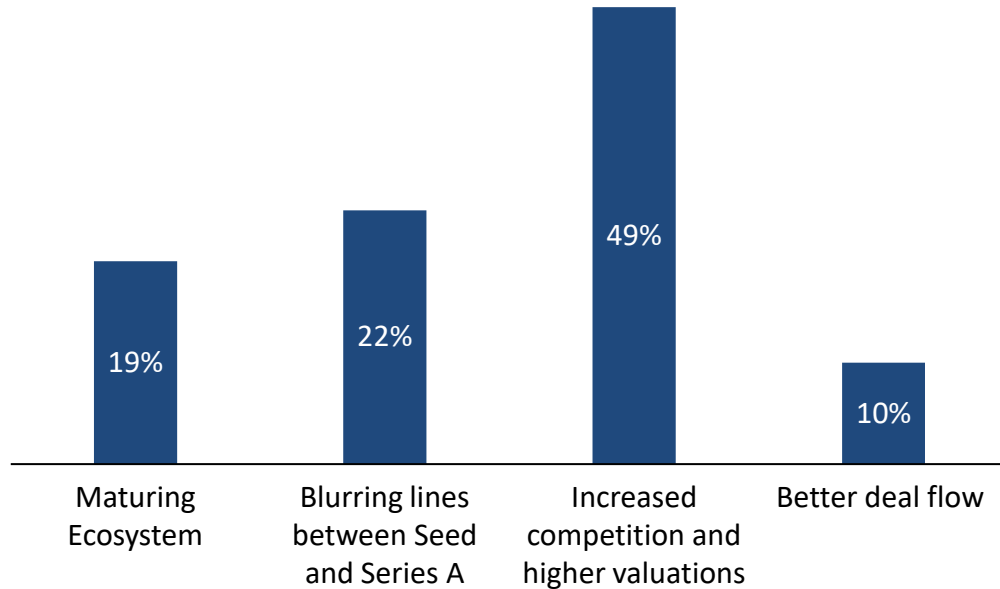


- Web3.0, SaaS and Fintech are emerging as big focus areas for the investors in 2022
- 47% respondents believe that early stage start up ecosystem will see some slowdown in 2022.



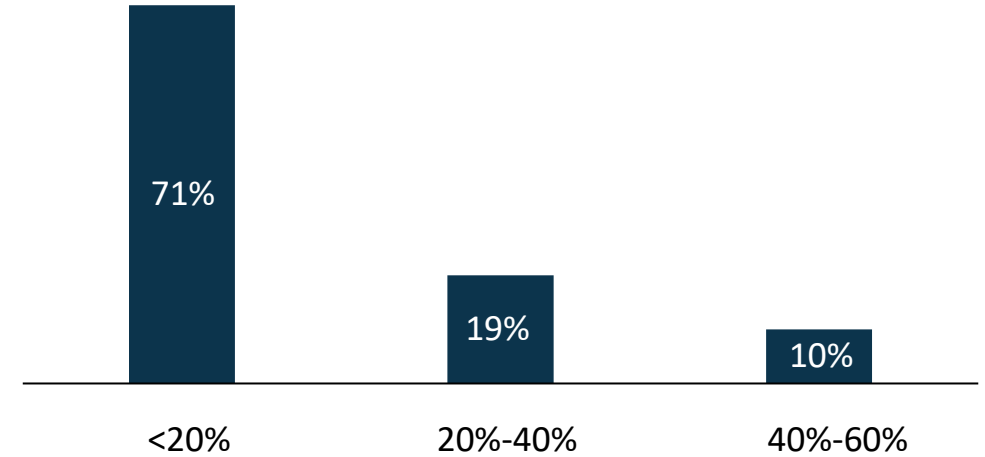
Competitive Landscape

Impact of Tier 1 VCs seed programs

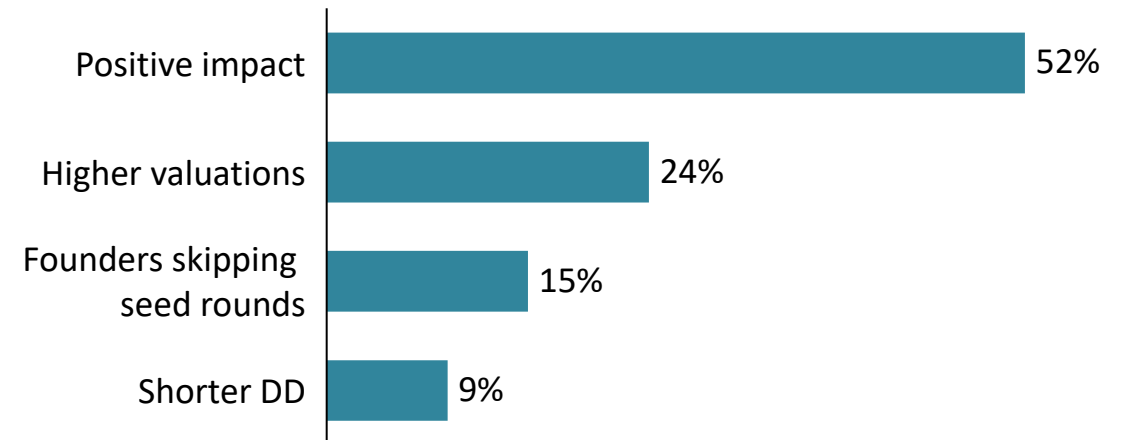


- 49% respondents believe that presence of Tier-1 VC's accelerator programs has resulted in increased competition and higher valuations

Deals lost to Tier 1 VCs seed programs



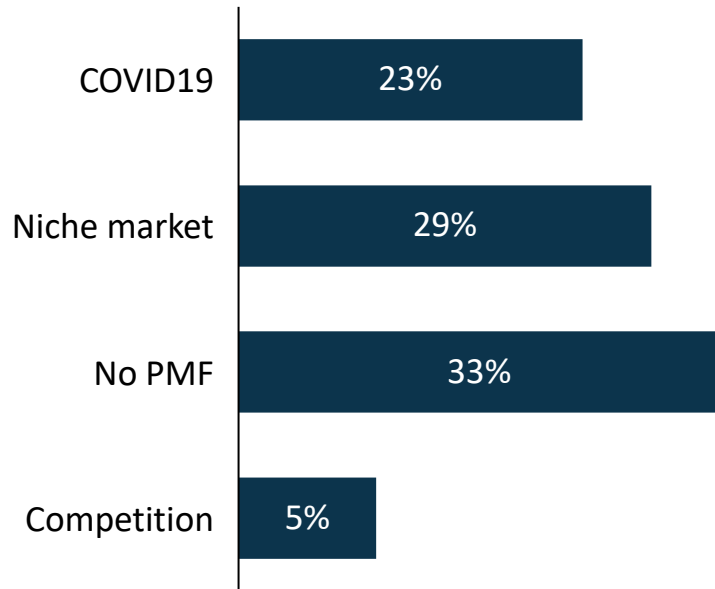
Impact of deepening angel syndicates activity



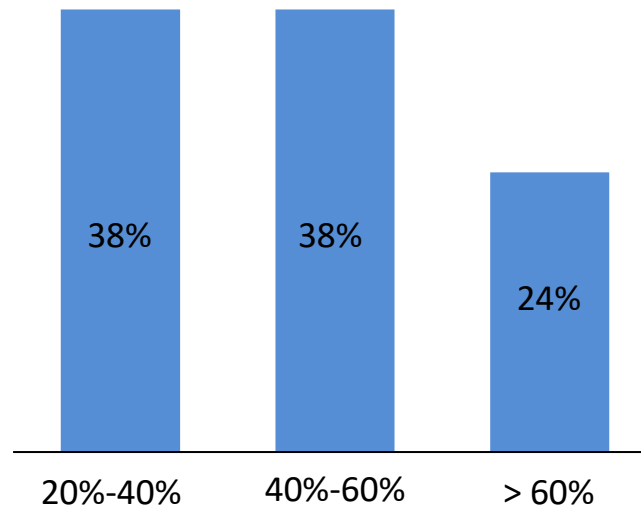


Follow on funding and exit paths

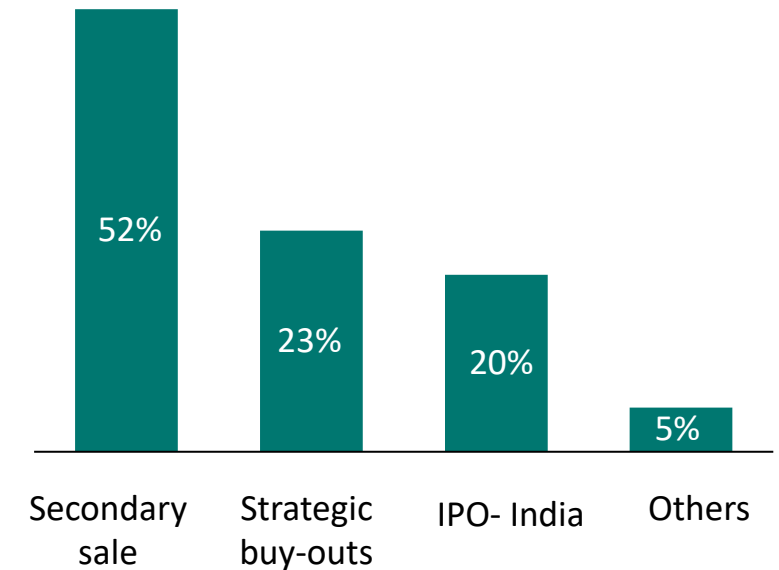
Reasons for failure to raise follow on rounds



% of portfolio (last 2 years) that have raised follow on rounds



Most likely path of exit



- No Product Market Fit & Adverse Impact of Covid were the 2 biggest reasons for failure to raise a follow-on round

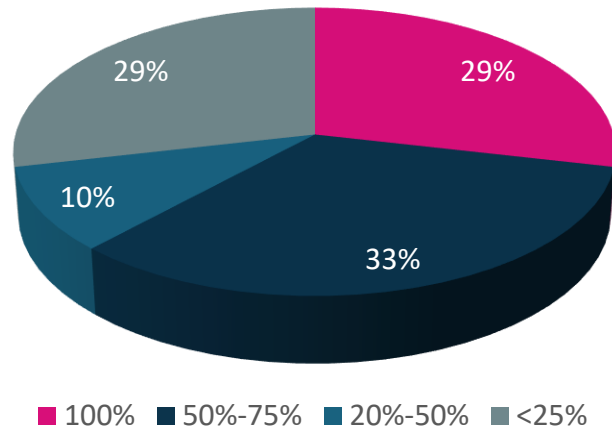
- 24% of investors had >60% follow-on funding within their portfolio cos

- Secondary sale and strategic buy-outs continue to be the preferred modes of exit

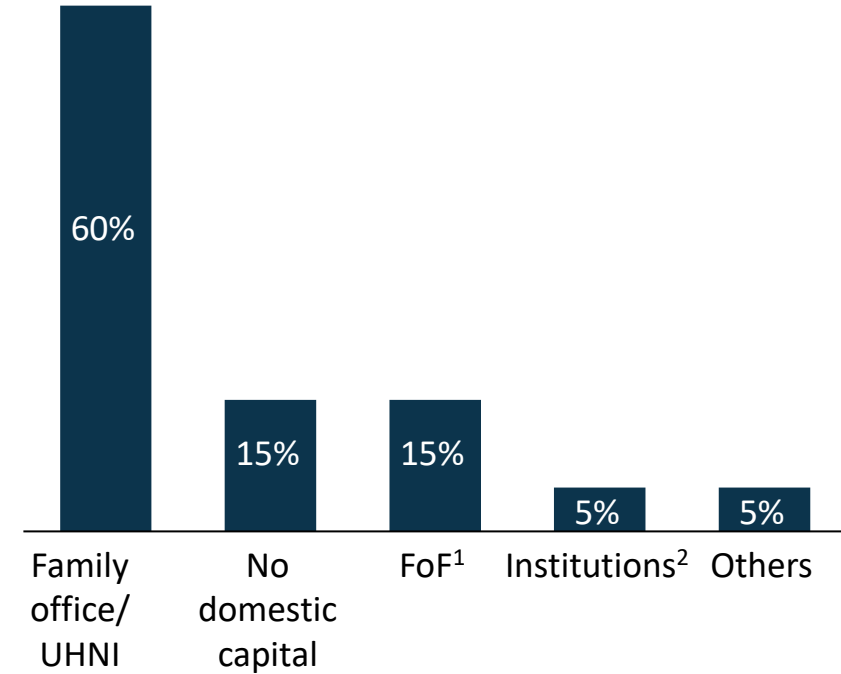


Sources of funding – early stage investors

Share of domestic capital in LP base



Sources of domestic capital



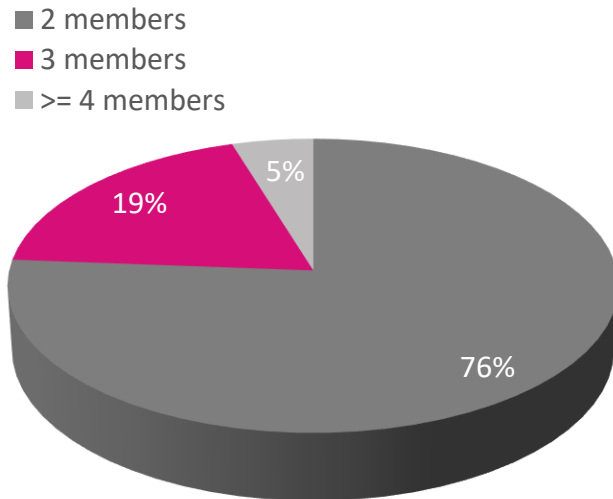
- Majority of investors relied on domestic pool of capital ...29% have 100% domestic Limited Partners (LP's)
- Domestic capital has largely come from Family offices/UHNIs, while 15% came from FoF's like SIDBI

1. Institutional investors represent Insurance companies, banks, corporates, etc.
 2. FoF represents fund of funds



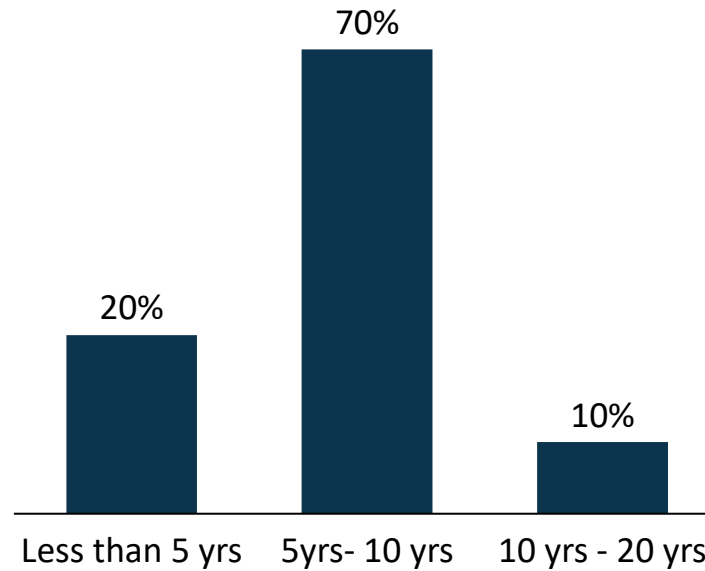
Founder demographics

Average size of founding team



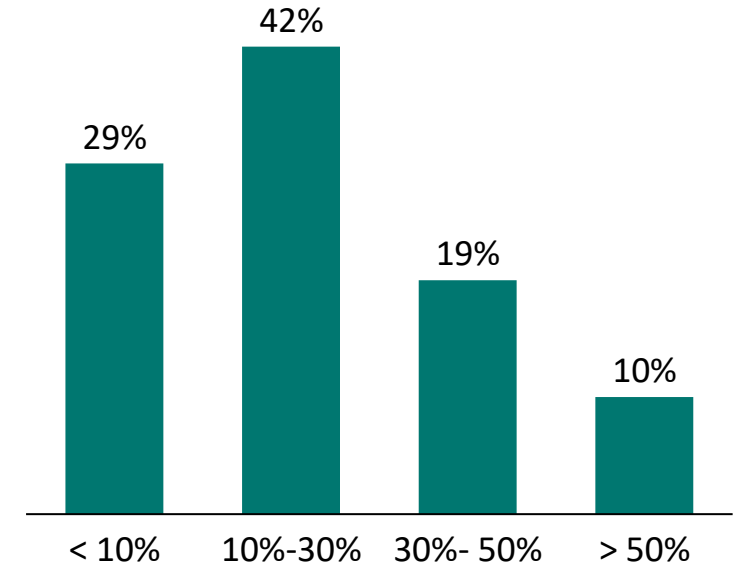
- Most funded startups have 2 co-founders
- In 2020 survey 2 co-founders were 89% of funded companies

Average work experience of founders



- Trend towards more experienced founders
- SaaS, FinTech see more experienced founder
- Web3.0/Social /Gaming -> younger founders.

% of repeat founders



- 71% of investors have backed new founders with the share of repeat founders lower than 30% in their portfolio.

ABOUT INNOVEN CAPITAL

InnoVen Capital is Asia's leading venture lending firm with offices in India, China and Singapore. It provides debt capital to high growth venture capital backed startups. Started in 2008 as the first dedicated venture debt provider in India, the platform offers multiple debt capital solutions, including venture debt, acquisition finance, growth loans, working capital, etc.

To date, InnoVen Capital India has partnered with more than 200 start-ups, including market leading companies such as Byjus, Swiggy, Eruditus, DailyHunt, Elasticrun, Oyo Rooms, PharmEasy, boAt, Moglix, CureFit, Dealshare, Cars24, Udaan, Shiprocket, Infra.Market, Firstcry, Mensa Brands, Licious, Spinny, Blackbuck, Zetwerk, Ofbusiness, Snapdeal, Rebel Foods, Slice, Myntra, Grofers and many more. For more information, please visit www.innovencapital.com and follow us at [@InnoVenCap_IN](https://twitter.com/InnoVenCap_IN).

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