



Startup Outlook Report 2023

8th Edition



February 2023

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FOREWORD

8th edition of InnoVen Start-up outlook report, a view from founders



Ashish Sharma

InnoVen Capital

2022 was a challenging year for the start-up eco-system. With the end of cheap money, rising interest rates and a challenging geo-political environment, the world is seeing slower growth and there is moderate risk of a global recession. Public market Tech names have seen meaningful corrections with NASDAQ down 33% and there will be downward pressure on private valuations in 2023.

The positive aspect of the slowdown has been an increased appreciation for building sustainable business models, focus on unit economics/ profitability and more rigorous investment discipline.

We are pleased to release the 8th annual Start-up Outlook report, which will provide some useful insights to all stakeholders that have a keen interest in the venture eco-system. This report is part of our continued effort to gauge the current mood & sentiment, as seen through the eyes of entrepreneurs.



SURVEY HIGHLIGHTS

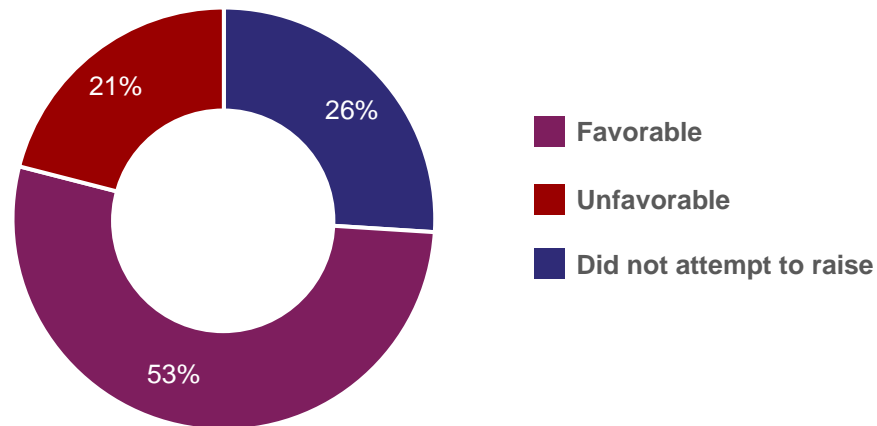
- **71%** who attempted to raise had a favorable fund-raising experience, down from 2021 (**92% favorable**)
- **58%** believe that the fund-raising environment will be **tougher** in 2023 v/s 2022
- **55%** are now more focused on **profitability** v/s growth ...significant increase from **17%** in 2021
- **62%** expect pace of hiring to slow down or remain at same level. Enterprise SaaS most bullish on hiring
- **63%** believe that a domestic IPO is the most likely mode of exit (up from 58% in 2021)
- **67%** of start-ups had **less than 20% women** in leadership roles... same levels as prior year's survey
- **70%** open to a professional CEO running their business at some point (down from 81% in 2021)
- **75%** expect their next funding round to be at a higher valuation. Fintech founders most bullish
- **Profitability** emerged as the #1 priority for founders in 2023 ...first time since the survey inception (2015)
- **Edtech** chosen as the most **over hyped sector**, while **Agriotech** as the most **under-hyped sector**
- **Zerodha** chosen again as **most admired start-up**. **Kamath brothers** are the **most admired founders**



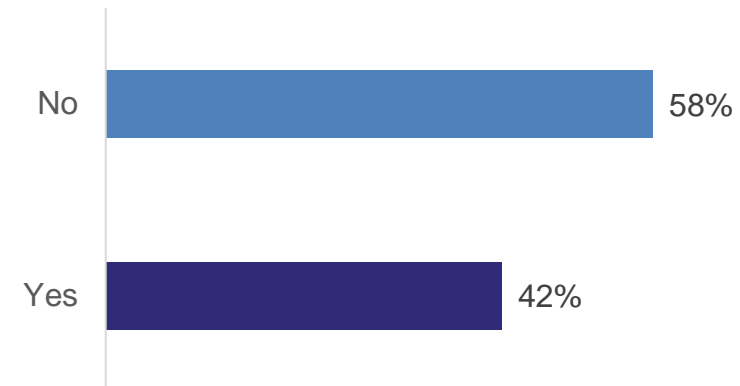
FUNDRAISING

Founders found it tough to raise funds in 2022 ... majority expect 2023 to be tougher

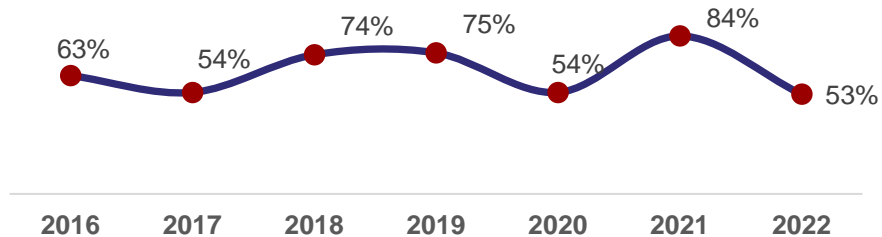
How was your funding experience in 2022?



Will funding environment be more favorable in 2023?



Trend over time (% favorable) fund-raising experience



- 1 in 3 founders that attempted to raise had an unfavorable experience in 2022 ..more so in Growth Stage (35%)
- E-Commerce, Fintech, and Enterprise SaaS founders had the most favorable experience
- Consumer brands & Fintech founders are the most optimistic about 2023 funding environment



FUNDRAISING

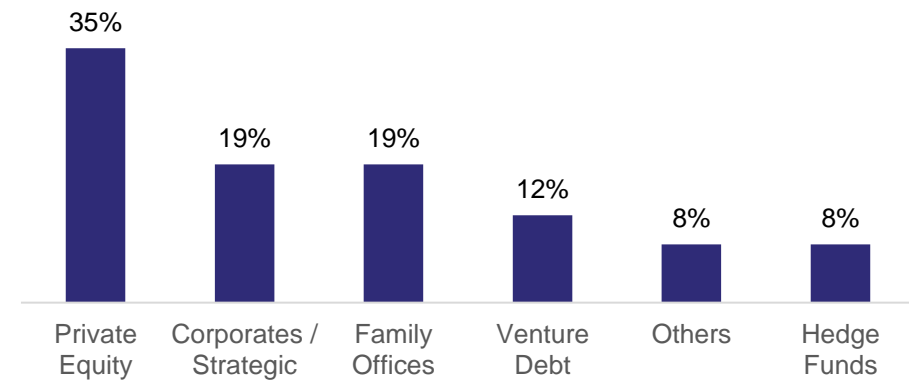
Ability to do follow-on investing more important now given tougher environment

Most important factor in choosing a lead investor?



- Ability to do follow-on funding chosen as #1 criteria for founders 41% vs. 27% in 2021
- Founders chose Strength of investor's brand as #2 factor
- Only 8% of the founders chose commercial terms

In addition to India based VC's, choose one other type of investor you are targeting for your next round?



- Private equity continues to be the most sought-after investor class (outside of VC's)
- Hedge funds see significant drop...8% (2022) v/s 15% (2021)
- Corporate/Strategic investors gain importance this year



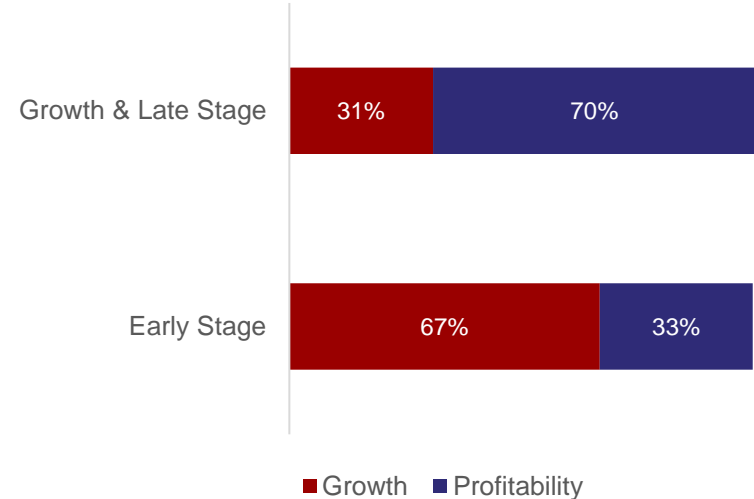
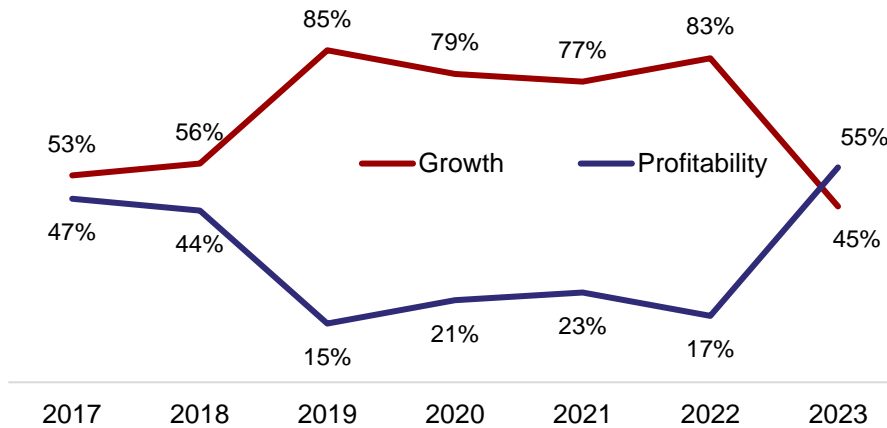
GROWTH VS PROFITABILITY

Profitability gains significant importance unlike prior years, when growth was a priority

Between growth & profitability, what is the bigger focus currently?

Growth v/s Profitability Bias (By Stage of Company)

Trend over last 7 years



- Tightening funding environment has led founders to prioritize profit over growth for the 1st time in 7 years
- Fintech founders have highest bias for growth while E-Com, D2C brands have the highest bias for profitability

- **Growth/Late-stage:** 70% of founders have higher focus on profitability ..significant jump from 14% in 2021 (up 5X)
- **Early Stage:** While growth remains the primary focus, bias for growth down to 67% (80% in 2021)

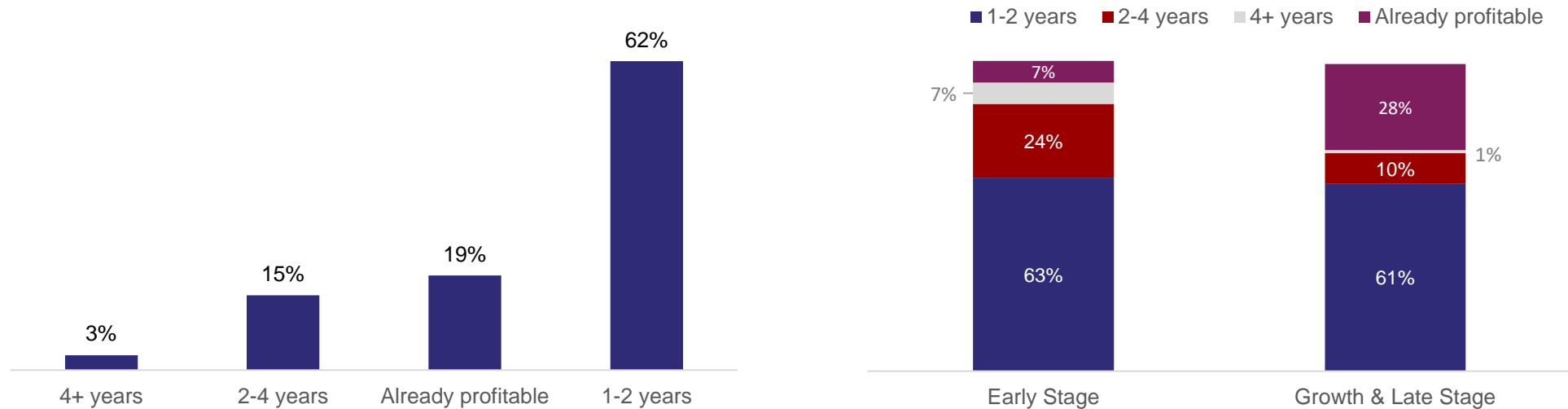




BUILDING SUSTAINABLE BUSINESS MODEL

Estimate timeline to profitability

When do you expect to turn profitable?



- 19% of respondents were already EBITDA profitable
- Only 4% expect to take more than 4 years to hit profitability

- 28% of Growth/Late-stage respondents are already EBITDA profitable
- Over 60% of respondents aim to be profitable within 2 years

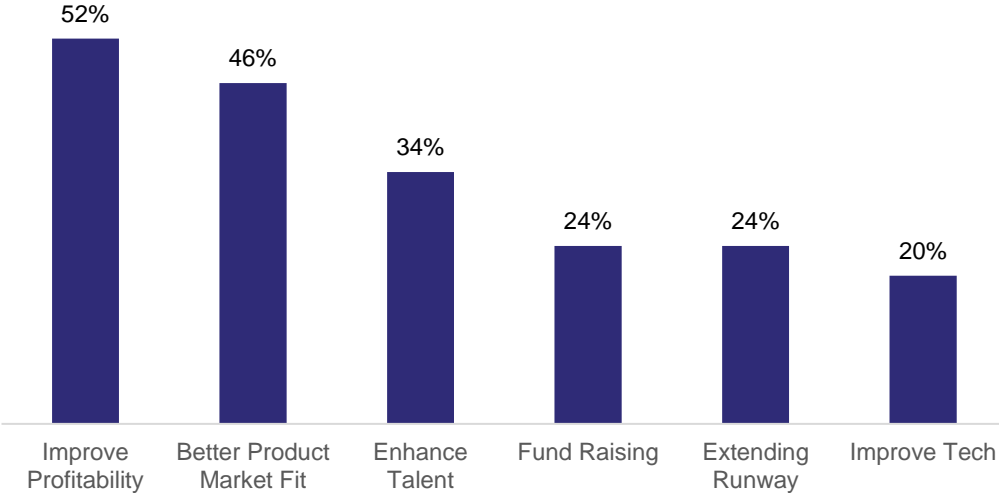


BUSINESS PRIORITIES & CHALLENGES

Profitability and Product Market fit top priorities for founders

What are your top 2 priorities in the next 12 months?

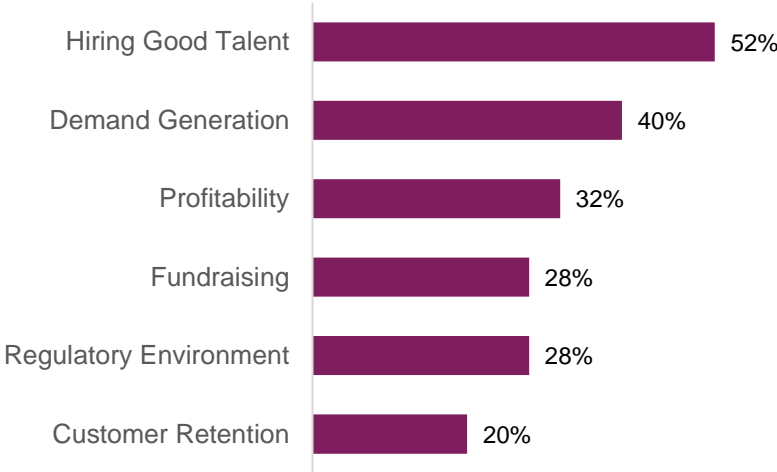
Respondents picked 2 choices (total adds to 200%)



- Profitability & PMF top two priorities for founders in 2023
- Enhancing talent (34%), down from 2021 (54%)

What are your start-up's top 2 biggest challenges?

Respondents picked 2 choices (total adds to 200%)



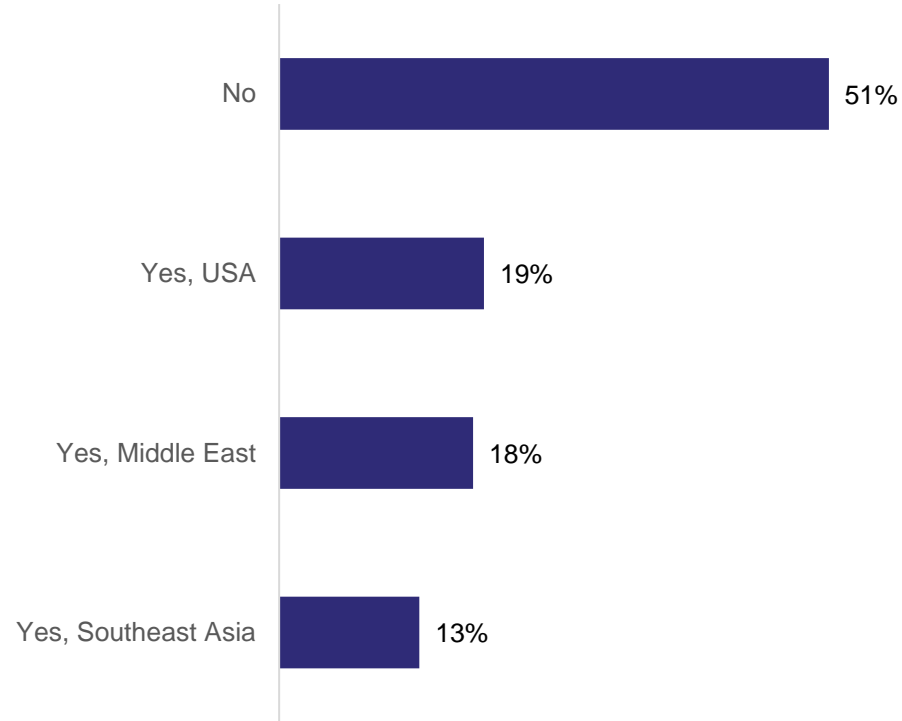
- Hiring good talent continues to be the #1 challenge
- Demand and profitability identified as key challenges





GLOBAL EXPANSION PLANS

49% of founders have international growth aspirations but lower than prior years



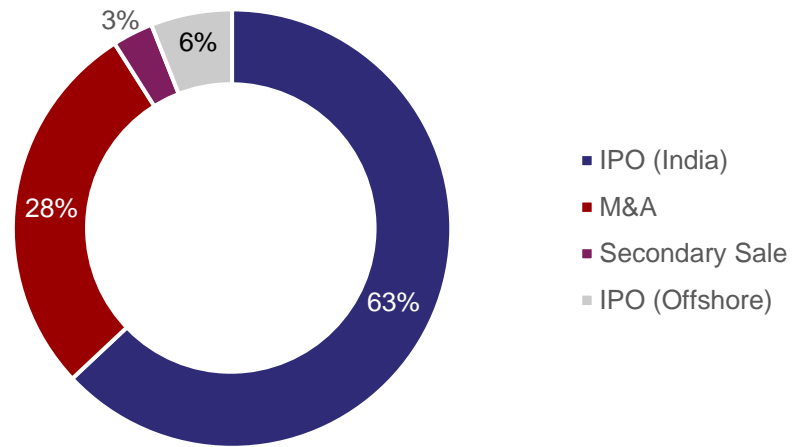
- Drop in global aspirations (49%) v/s (61%) in 2021
- Consumer brands, Fintech and Edtech predominantly focused on the domestic market
- Middle East moves to #2 spot v/s S.E Asia which was #2 in 2021
- Preference for expansion varies across sectors, with USA being the most popular market among Enterprise SaaS (37%)
- While most Fintech founders remain focused on the domestic market, 24% open to exploring Middle East in the future



EXIT EXPECTATIONS

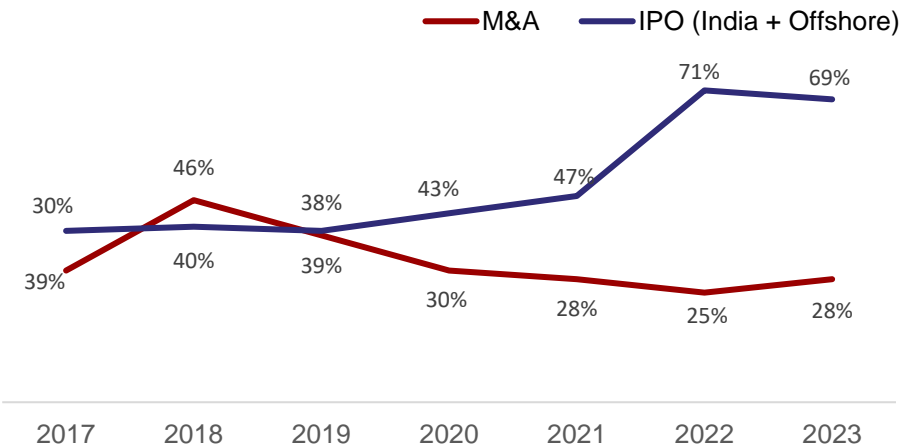
Founders increasingly looking at domestic IPOs as the most likely mode of exit

What is the most likely mode of exit for your company ?



- Increasing focus on Domestic IPOs as the most likely mode of exit ...63% (2022), 58% (2021) and 30% (2020)
- Interest in overseas listing goes down to 6% ..was 13% in 2021

Trend over time



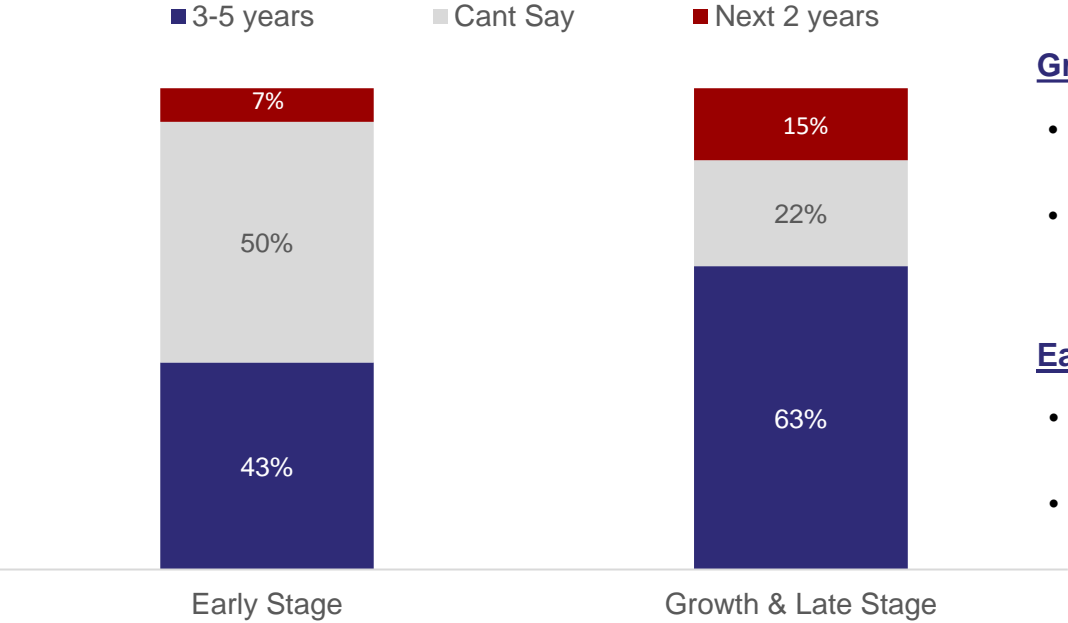
- 69% of respondents chose IPOs as the most likely mode of exit, which has remained largely flat v/s 2021
- E-Commerce most bullish on an IPO exit (92%)





EXIT EXPECTATIONS

Expected timeline for exits for most founders is in the 3–5 year horizon



Growth/ Late-stage

- Only 15% of founders expect an exit event in the next 2 years
- 22% of founders are still unsure on exit timelines

Early-stage

- 50% of founders are uncertain on exit timeline v/s 35% (2021)
- 43% of founders expect an exit event in the next 3-5 years





IMPACT OF FUNDING SLOWDOWN

Most founders optimistic that they can get a higher valuation in next round

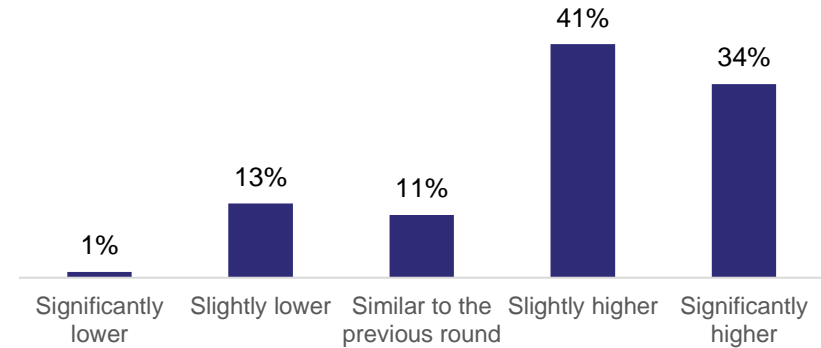
What do you believe has been the impact of the funding slowdown?

Respondents picked 2 choices (total adds to 200%)



- Funding slowdown has led to an increased focus on building sustainable business models & more disciplined investing
- Compensation/attracting talent has not been impacted as much

What is your realistic valuation expectation for your next round of funding relative to the last round?



- 75% founders optimistic on achieving a higher valuation, with Fintech being the most bullish (96%)
- Only 1% of founders expect a down-round

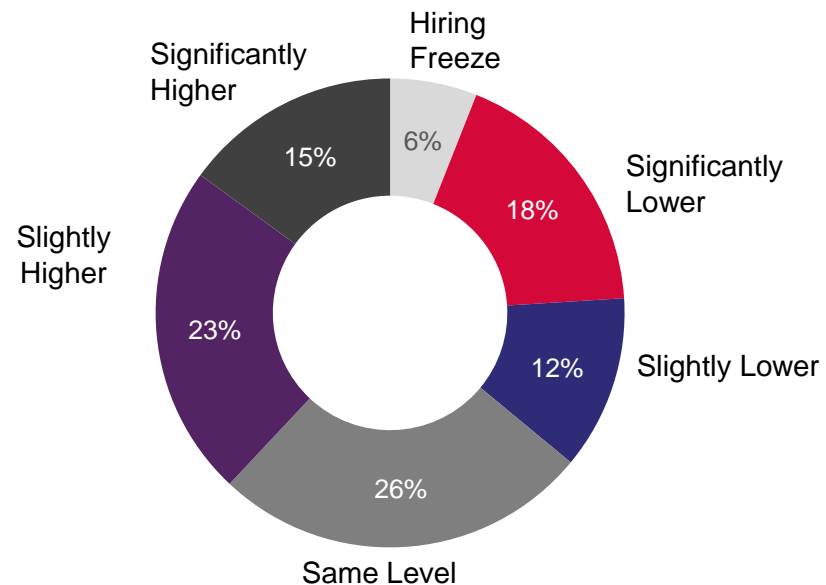




WORKPLACE

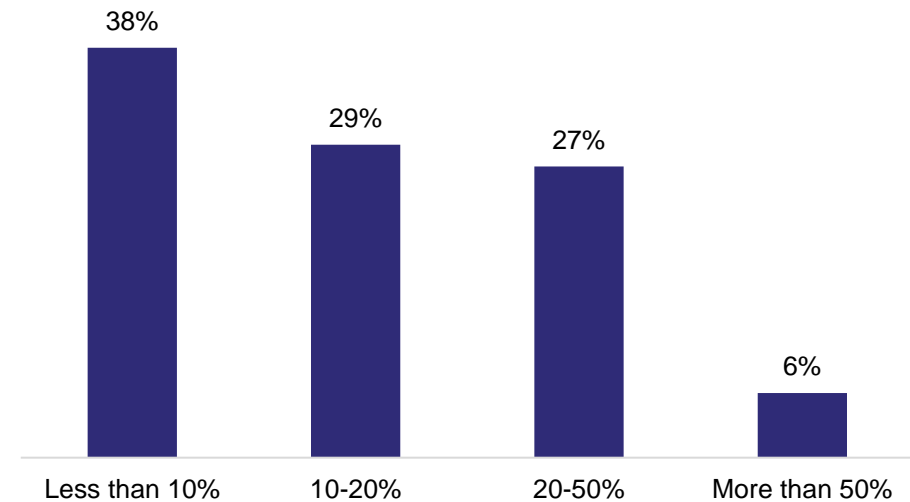
Hiring expected to slowdown, women in leadership roles still a challenge

Expected pace of hiring in 2023 compared to 2022?



- Only 38% expect higher pace of hiring in 2023
- Enterprise SaaS & Agritech most bullish on hiring

What % of your top leadership team are women?



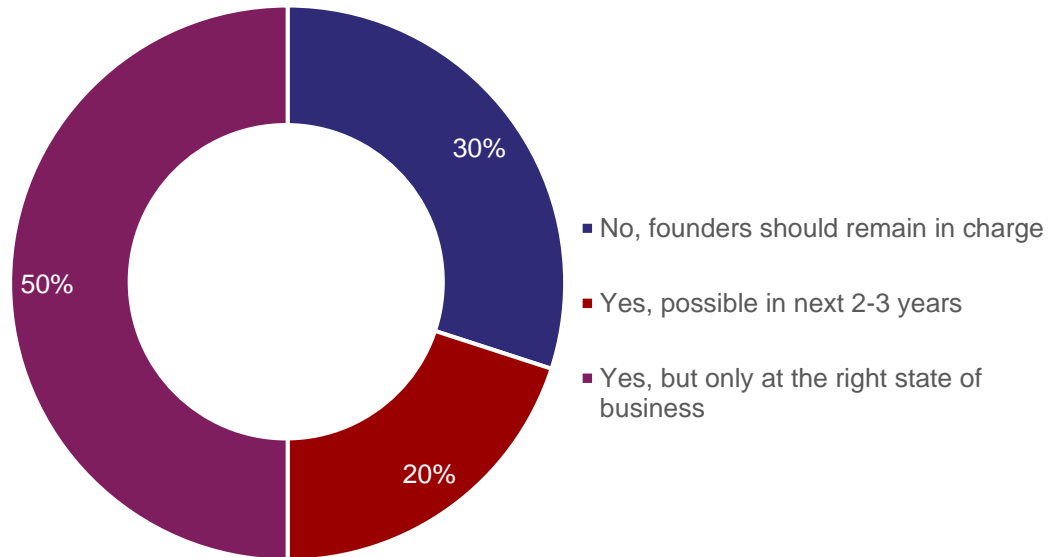
- 67% of respondents have < 20% women in leadership team
- 38% of companies have < 10% women in leadership roles



WORKPLACE

70% of founders open to a professional CEO running their business in the future

Can you see a professional CEO running your company?



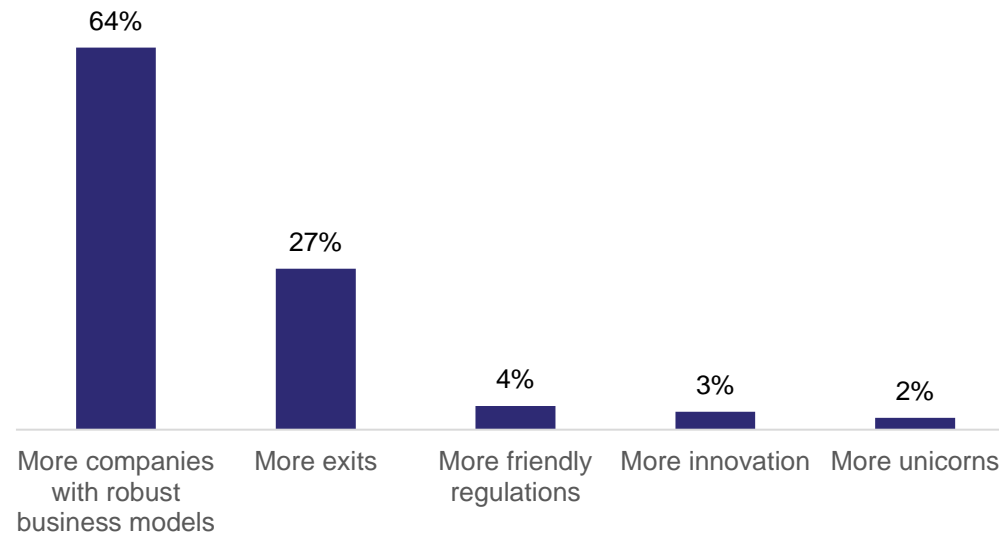
- 70% of founders can see a professional CEO running their business in the future (vs 81% in last year's survey)
- 80% of Growth/Late-stage open to a professional CEO though most would like that at the right stage of the business
- 30% respondents stated that founders should always remain in charge up from 19% last year



POSITIVE INVESTOR SENTIMENT

Sustainable business models take center stage to drive positive sentiment

What will drive a more positive investor sentiment ?

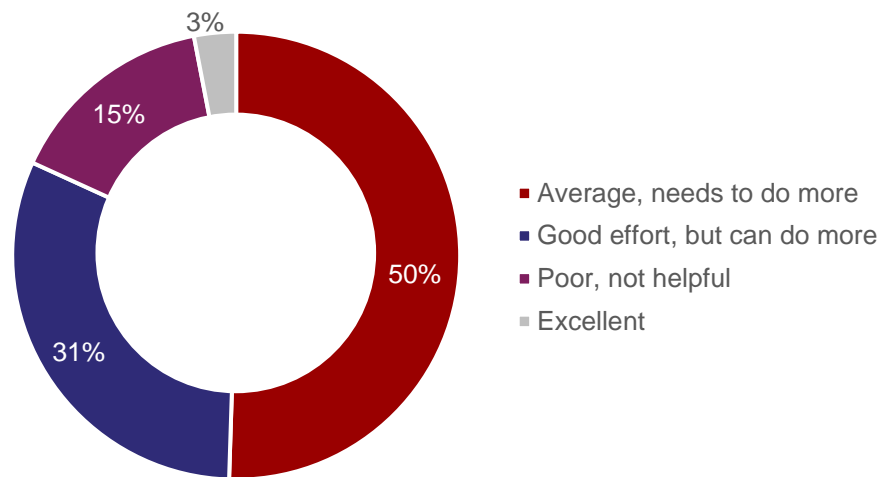


- Most respondents (64%) stated that emergence of robust business models will drive positive investor sentiment, higher than last year's figure of 49%
- Founders believe that more exits are required to drive a strong investor environment in the ecosystem



GOVERNMENT POLICY

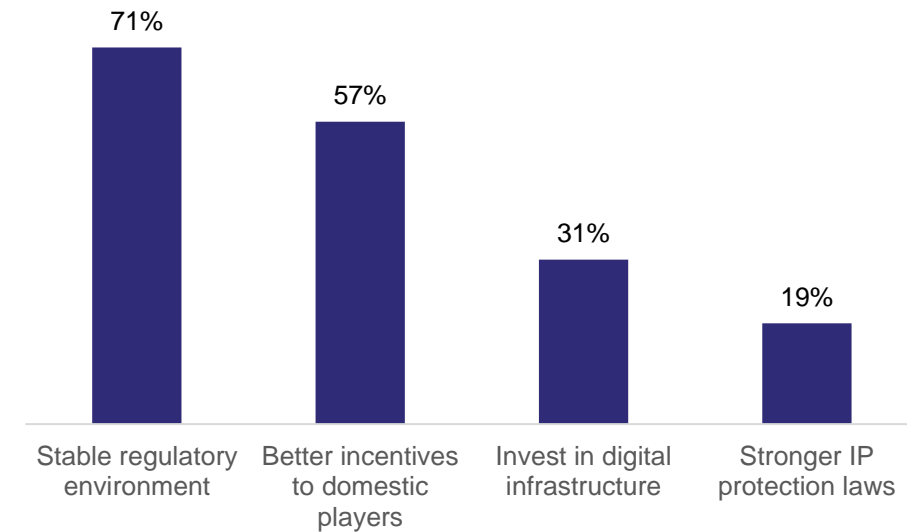
Rate government's efforts to improve the start-up ecosystem?



- Broadly similar sentiment like last year with 34% rating the efforts good or excellent, down from 39% last year
- E-Commerce (33%) and Fintech (24%) rate the efforts poorly

What can government do to make it more appealing for start-ups

Respondents picked 2 choices (total adds to 200%)



- Like last year, respondents chose stable regulatory regime and incentives for domestic players as most important focus areas
- Fintech founders want a stable regulatory framework (92%)





OVERHYPED & UNDERHYPED SECTORS

Founders chose Edtech as most over-hyped sector

Overhyped Sectors

Edtech 29%

Crypto 17%

Fintech 15%

Underhyped Sectors

Agritech 11%

Healthtech 11%

SaaS 9%

- Edtech seen as the most overhyped sector in 2022 v/s quick commerce in 2021
- Crypto moves up to #2 overhyped sector v/s #3 in 2021

- Respondents chose Agritech and Healthtech as most underhyped sectors, same as 2021 survey
- 9% of respondents chose SaaS as an under-hyped sector



FAVORITE STARTUP AND FOUNDER

Zerodha chosen as most admired India start-up for the second consecutive year

**Indian Startup
Admired Most**

Zerodha

Zoho

OfBusiness

Swiggy

Razorpay

UrbanCompany

**India Founder
Admired Most**

Kamath Brothers

Kunal Shah

Sridhar Vembu

Sachin Bansal

**Global Founder
Admired Most**

Elon Musk

Jeff Bezos

Steve Jobs

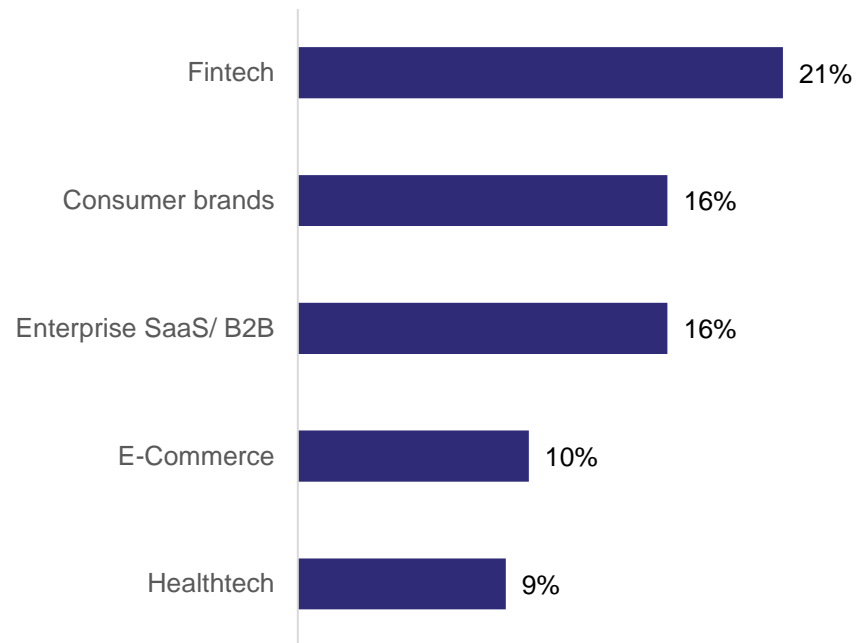
Brian Chesky



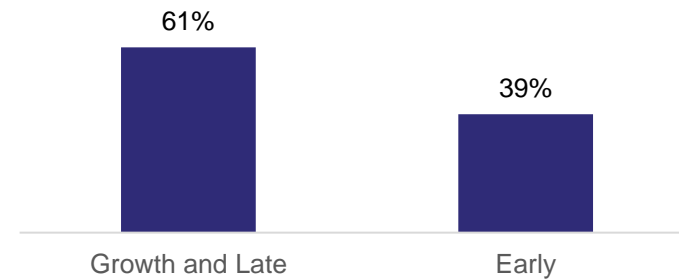
RESPONDENT DEMOGRAPHICS

120 founders surveyed across sectors and stages

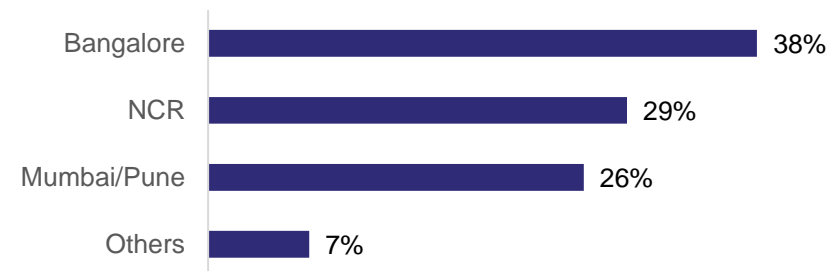
Top 5 sectors



By Stage



By City



Note: Other sectors included Edtech, Logistics, Agritech, etc.

About InnoVen Capital

InnoVen Capital is Asia's leading debt firm with offices in India, China and Singapore. It provides debt capital to high growth ventures. 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 completed over 300 transactions with more than 200 start-ups, including 35+ unicorns like Swiggy, Byjus, boAt, Dailyhunt, Licious, Ofbusiness Eruditus, Infra.Market, Pharmeasy, Xpressbees, Shiprocket, Elasticrun, Oyo Rooms,, CureFit, Udaan,, Zetwerk, Moglix, Firstcry, Mensa Brands, Blackbuck, Rebel Foods, BharatPe, Cars24, Spinny, Slice, Vedantu, Dealshare and many more. For more information, please visit www.innovencapital.com

About the report

The Start-up Outlook report is an annual report published by InnoVen Capital & provides an outlook on the sentiment prevailing in the start-up eco-system through the eyes of founders. The survey is administered to founders & senior leaders and covers a broad cross-section of companies from early-stage, growth stage and late stage. It covers wide ranging topics around funding environment, exits, focus areas, challenges and other aspects that are on the mind of founders. The 8th Start-up outlook report was based on a survey conducted with 120 start-up leaders.

Data and figures herein may represent the whole or part of a set of responses to a given question to account for data completion matters.

For more information on the report, please contact:

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