

India, a Startup Nation



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Startups are leveraging technology led-change to transform societies world over. These startups are entrepreneurial-driven innovation engines which change the context for society alongside creating disproportional value. 250 years ago, the world changed forever with the advent of the Industrial Revolution. We saw the rise of Europe and the decline of Asia. India and China were the richest economies from the dawn of civilization until then. From years 1800 to 1900, Europe leveraged the rise of the machine to dominate the global economy, creating a global supply chain, connecting consumers and producers all around the world.

About 20 years ago, the internet rose as an

alternative to this supply chain. And now, the internet has brought people together like no other phenomena in history. Today, of the 7.8 billion people on the planet, 6 billion people have a mobile connection, more than 5 billion have an internet connection, and 4.5 billion use social media to stay connected. The internet allows you to communicate with each other, do business, get educated, be entertained, access health, and access every other conceivable product or service through global suppliers.

The growth of the internet has given rise to giant technology conglomerates, some of which are today valued around \$2 trillion each. These US-based companies are leading the pack of the top ten most valuable companies in the world. In fact, nine of these are digital companies, a phenomenon never seen before. To put this in perspective, Apple, at a \$2 trillion market cap is worth almost two-thirds of India's GDP.

India too is catching up and is now the third-largest startup ecosystem on the planet. The depth of this ecosystem is significant, with 55,000 start-ups having already created \$350 billion of value, employing over 1.5 million people. Indian startups raised over \$70 billion from 2014-2020, \$11.5 billion in 2020 and \$10.5 billion in the first half of 2021 alone, a period marked by the Covid-19 pandemic. 2020 first set the pace, seeing the most number of new unicorns in a year, with 11 startups reaching the milestone. Only to be topped in 2021, where we were witness to 6 unicorns crowned in one week, and 18 being created in just the first half, with an expectation of 25 unicorns by year-end.

Of the \$110 billion in capital raised by Indian startups since 2008, \$70 billion was raised in the just last 5 years — a remarkable acceleration of capital deployment that has gone largely unnoticed by most of the mainstream Indian industry. It has led to the creation of 59 venture-funded tech companies, valued at over a billion dollars each in just a decade. By the year 2025, India will host 100,000 start-ups and 150 Unicorns, cumulatively supporting 35 lakh jobs, and creating \$1 trillion of value and possibly seeing \$150-200 billion being invested cumulatively. The successful listing of one of India's first startup unicorn augurs well for the Indian public markets to become the agent of change. The pace of growth in this sector is creating immense value for the nation and those that invest in it.

The outburst of innovation across the past decade is built upon the successes that India has had in the software services industry between the 1990-2010. This year, India will export more than \$170 billion of software globally, with over 60% of global technology outsourcing coming to India. To put this figure in perspective, these exports are much larger than the oil exports made by the world's largest oil exporter, Saudi Arabia. Today, India is the largest global exporter of software services, with 5 of the 10 most valuable software services companies being Indian and 3 of the top 5, with 2m of the total 2.8m employees in the top 10 companies being Indian. India is using its deep supply of technological talent to provide high technology services to the world. In the next two years, all these software companies expect to grow in double digits, and by 2025, we could be exporting \$250 billion of software services. These companies have created a market value of more than \$400 billion today and there is hope that, with the startup IPOs happening in the public markets today, the market value of both the IT service companies and the listed startups combined, could reach more than \$1 trillion in India's public markets by 2025.

India is transforming rapidly, ably supported by Prime Minister Modi's vision for creating a Digital India. The government worked hard to connect all Indians through a common digital identity (Aadhar) and provided bank account access for all. Today, India has 1.2 billion unique Aadhar accounts, 1 billion bank accounts, 1.2 billion mobile phones, and 900 million mobile connections. This has truly created an interconnected India. The UPI infrastructure facilitates over 2.8 billion transactions a month. The government has transferred more than INR 17 lakh crores over the last

seven years, directly to its citizens' bank accounts by way of Direct Benefit Transfer (DBT). During the nation-wide lockdowns, this digital infrastructure came to the fore as the government was able to transfer sums of money along with rations to crores of citizens, together supporting Indians with the wherewithal to survive the pandemic.

The pandemic also gave momentum for the widespread adoption of technology in India. A large number of people migrated to digital services and got accustomed to purchasing and transacting on e-commerce. They availed or reserved services through apps, got healthcare information at the click of a button, and also got consultations from their doctors. There is a whole new generation of children who have gotten accustomed to getting almost all aspects of their education and extra-curricular activities online. People found their individual entertainment needs – be it movies, gaming, music streaming, or picking up new hobbies - all being met through apps, even in their native languages. This was a seamless transition for more than 50% of India's population, with enough of a critical mass being generated to provide the momentum to accelerate coverage over the next few years.

Indian companies like Dozee helped over-burdened hospitals become more efficient with their care by providing a remote step-down ICU infrastructure that saved the lives of thousands during this pandemic. Bugworks is another inspirational company from India in the field of biotechnology, working towards de-risking humans from the threat of another potential pandemic due to Anti-Microbial Resistance, a threat that WHO claims could be much more devastating and long-term than Covid-19.

Beyond solving for species-level problems, India's startups are also bringing a depth of choice to Indian consumers like never seen before. New-age brands like Licious, building multiple formats of consuming healthy and fresh protein, are reimagining entire categories for Indian consumers. Indian children are learning and solving live projects from the foremost CXOs across the world's biggest companies like Tesla, through an edtech company called Uable. Social media platforms like Koo and Lokal help Indians beyond its top 5-10 cities to communicate, engage, and work collaboratively in their native languages. Betterplace is helping formalize India's blue-collared workforce and empowers this underserved demographic to leverage all the opportunities that come with being a digital citizen.

Zerodha has very sustainably brought a whole generation of investors to invest in India's public markets, by helping them stay informed and approach investing in a scientific way. Similarly, neo-banks like Open and Jupiter are helping both small businesses and salaried citizens to be better informed about their finances through centralized financial dashboards and automated tasks that no longer need regular branch visits. Indian startups are impacting all aspects of life in India and making lives better every day for all Indians.

In fact, there is both breadth and depth of India's technological development by the seeding and growth of startups in multiple different verticals – both established and novel industries. From agriculture, supply chain, and software to AI applications, biotechnology, distributed healthcare, cybersecurity, electric mobility, etc., Investors in India have provided enough risk capital and support for young Indian entrepreneurs and innovators to dream beyond 9-5 jobs and become the architects of India's future.

But as a startup nation, India is still number three in the world. India's technological advancement is still inhibited by a paucity of local capital. The US invests more than \$135 billion annually on venture capital and startups, while China invests more than \$65 billion, with over 60% being local capital. In stark contrast, India invests only \$10 billion a year, with 90% being overseas capital. Of course, there is now enough momentum to warrant an estimated influx of \$150-200 billion of capital by 2025.

With the recent events creating capital distrust in China, the world's attention is sharpening on the lucrative tech opportunities in India and the value that could be created. But India requires decisive policy measures, in addition to the Digital India initiative of Prime Minister Modi. Today, out of the 59 unicorns, nearly 30 are domiciled outside India, driven outside by outdated Forex regulations, non-implementation of relevant federal regulations, tax terrorism, and lack of local capital incentives. DeepTech and Healthcare startups still do not get adequate early capital to grow in this country and are forced to domicile outside. Tax terrorism continues to reign supreme. Even though the Finance Minister has said that Angel tax will be a thing of the past, many startups are still stuck in litigation. Antiquated forex regulations from the FERA-era, like round tripping, convoluted documentation for purchase of an Indian company, unnecessary valuation certificates, approvals required to remit foreign exchange, etc., are driving many companies to headquarter in countries outside where they can easily access capital.

There has been improvement, but it is not enough. We need stronger regulations for both global and domestic investments into startups. Global investors want to make sure they can invest freely in India and get their returns out when they sell as well, as is the norm in the stock market, which sees massive influx of FDIs. Depositories need to be set up to create a repository of KYCs of investors, ensuring traceability and seamless governance, while incentivizing global institutional investors by allowing them to freely remit their gains. Further, we need to make sure that more domestic institutional capital comes into startups as there is a real danger of India becoming a digital colony by 2025. A great majority of our unicorns, their tech IP, and even their holding companies are owned by foreign capital. There's nothing wrong with foreign capital, but while India welcomes foreign capital, India should not disincentivize Indian capital.

Today the capital gains tax on unlisted companies is 20% plus 37% surcharge above INR 5 crores, whereas foreign investors can invest in unlisted companies inviting a capital gains tax of only 11%. This massive discrimination

against Indian investors has reduced the flow of capital into a vital sector for India. After liberalisation, the software industry is majorly Indian-owned and managed, and so are the telecom industry, the pharma industry, and the infrastructure industry. But the most innovative and forward-looking of all, the startup industry, is in danger of not having adequate Indian capital.

In countries leading the race for technological growth, like the US & China, large and consistent investments into PE/VCs and startups come in from insurance companies, pension funds, and other such long-term sources of capital. Similar organizations in India must be incentivised to support India's innovation ecosystem more holistically. Investors like LIC cannot excuse themselves from doing so, citing their lack of knowledge towards such investments, when their contemporary bodies from outside India, like the Canadian Pension Fund, Ontario Pension Funds, and others, have invested over \$10 billion in India's innovation ecosystem already. India's regulations for trusts, pension funds, and insurance companies have recently been changed to allow their investments in fund of funds, hence allowing such companies to invest by diversifying risk and spreading the flow of capital over a large number of startups. The only redeeming factor about Indian Capital has been the INR 10,000 crore fund of funds for startups made by the NDA government about six years ago, which has revolutionized the AIF industry. Today, India has more than INR 4 lakh crores committed to the AIF industry and over 650 funds. A new generation of fund managers have come up, but they too are finding it difficult to access domestic capital.

India today is being driven ahead in leaps and bounds by young entrepreneurs who use technology and innovation to grow their businesses, and there is strong backing in them from the largest and most distinguished sources of capital globally. The recent listing of a startup, with a warm market reception has become a harbinger for many more listings to come. The tech opportunity is being finally made available to the Indian masses and the momentum is only going to pick up with more such opportunities expected. What the nation needs at this hour is helpful policies in foreign exchange and taxation that supports more domestic institutional capital. Technology has the power to both improve the quality of life for India's citizens and to facilitate improved governance for the nation. This is a once in a lifetime opportunity for India and we must capitalize on it to make India a great startup nation.
