

# The Anatomy of Rebuilding & Recovery

A CEO LOUNGE INITIATIVE

## What's Driving Founders' Optimism?

India Sentiment Outlook Survey Report

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# What's Driving Founders' Optimism?



***Eight-nine per cent of early-stage startup founders expect growth in the near term, with about 47 per cent saying they are experiencing growth at present. Founders are clearly optimistic and upbeat about investments and growth in 2021, finds the 100X.VC India Sentiment Outlook Survey.***

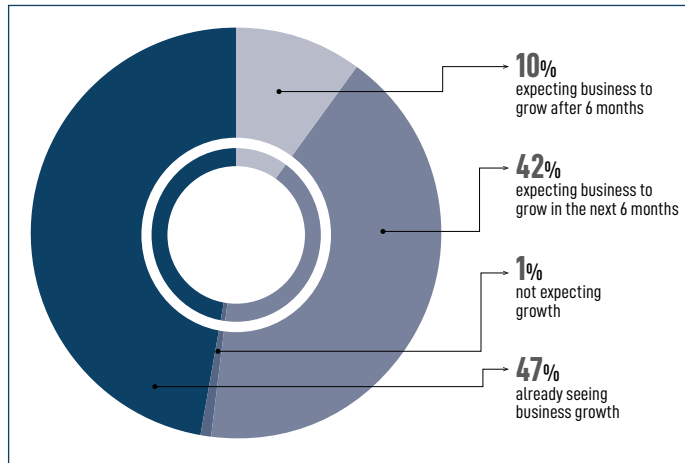
The last year and a half have been a period of massive disruption. The Covid-19 pandemic has ravaged lives and livelihoods across the globe and the economic fallout has been severe. Amid the gloom and doom, the good news is: the Indian startup ecosystem emerged unscathed. It demonstrated resilience and in fact leveraged the digitisation wave that the pandemic resulted in. Investors recognised the potential and increasingly poured money into new, digitally-founded business models across sectors. The surge in investment activity resulted in the period being one of spectacular growth for Indian founders.

The India Sentiment Outlook Survey recently conducted by 100X.VC, the country's leading venture fund investing in early-

stage startups, suggests that 89 per cent of founders expect to grow in the near term. Forty-seven per cent of the startup founders say they are already experiencing growth, while another 42 per cent expect the same in the next six months. "The pandemic gave rise to multiple opportunities for startups to build solutions, especially for remote management across segments. The survey reaffirms the growing use cases of products and also strong investor interest in continued investments into the asset class," says Shashank Randev, Founder VC, 100X.VC.

The survey is based on a sample size of 275 founders from diverse sectors and 77 investors who primarily engaged in early-stage ventures. The first of the two-part paper looks at the key findings of the founders' survey of their outlook and sentiments.

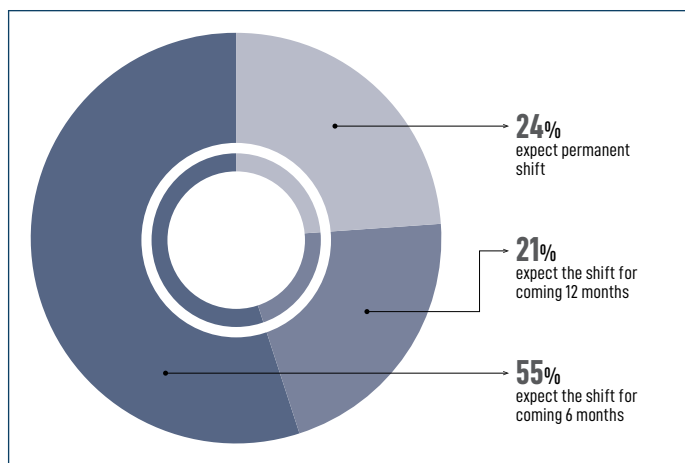
## ARE YOU FEELING CONFIDENT AND BULLISH ABOUT BUSINESS GROWTH?



A large percentage of Indian founders (42 per cent) expect the business to grow in the next six months and almost an equal percentage of founders (47 per cent) are already seeing business growth. Interestingly, a fraction (10 per cent) of the founders surveyed are expecting business to grow post six months and only a minority (1 per cent) are bearish on their expectation for business growth. Clearly, a majority of the founders are either already experiencing growth or are highly positive on the growth outlook in the next six months.

In the months before the second wave of Covid-19, optimism and growth opportunities across sectors and the consumption metrics in tier 1 and 2 cities touched new highs. As Covid-19 cases decline and the country unlocks, the growth momentum is likely to continue owing to deeper penetration of technology, high digital adoption and an acceleration in the home economy.

## DO YOU THINK CUSTOMER CONVERSATIONS WILL CONTINUE TO HAPPEN REMOTELY THROUGH VIDEO CONFERENCING?

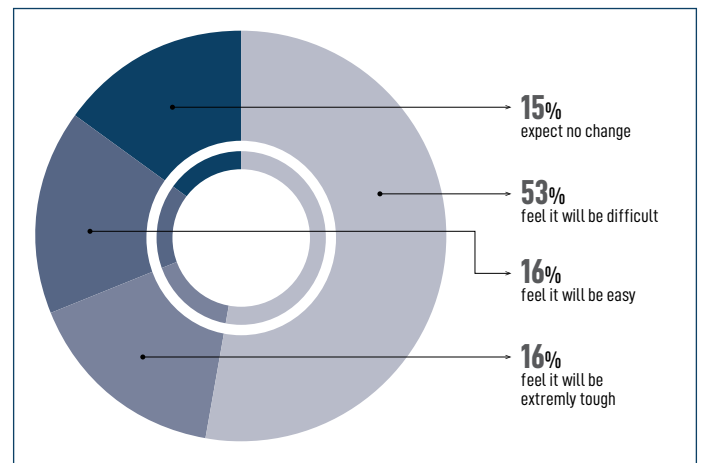


A majority of the founders — 55 per cent — believe that conversations will continue to happen remotely through video conferencing over the next six months. Interestingly, a quarter of the founders feel that there will be a permanent shift towards

online meetings, while an almost equal number (21 per cent) think that the trend will continue for the next 12 months.

Due to a large adoption across industries, video conferencing will continue to grow stronger and will expand to have a larger number of use cases. Industries like edtech, retail and healthcare will see a significant expansion in customer interactions over video conferencing. Founders are now confident of selling their products globally, operating from India. Video commerce startups should see a surge in funding.

## WHAT IS YOUR OUTLOOK ON THE CURRENT FUNDRAISING POSSIBILITIES?



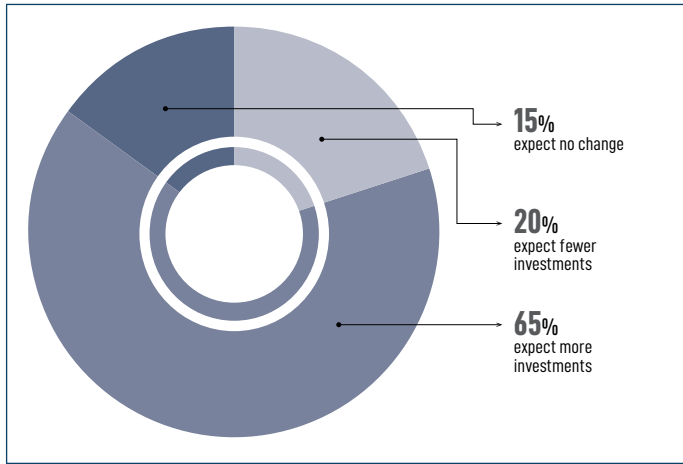
A majority (53 per cent) of the seed-stage founders believe fundraising will be difficult in the current scenario, while 16 per cent of the founders feel it will be extremely difficult. Interestingly, an equal number of founders found fundraising possibilities to be easy or expect no change in the scenario.

Startups are cognisant of the fact that the bar for raising new funds for investment has gone high. Founders have assessed and planned for an extended runway to build necessary capabilities. Certain startups in edtech, health tech, remote engagement technologies and deep tech will lead the way. These are areas of key interest for multiple stakeholders.

## WHAT ARE YOUR EXPECTATIONS ON THE INVESTOR SENTIMENT FOR ANGEL INVESTOR FUNDING AT THE SEED STAGE IN 2021?

A large majority of the founders (65 per cent) expect a higher momentum for investments from angel investors at the seed stage. Twenty per cent of the founders, however, believe that there will be fewer investments from angel investors at the seed stage. A small number — 15 per cent — of the founders believe that there will be no change in the scenario.

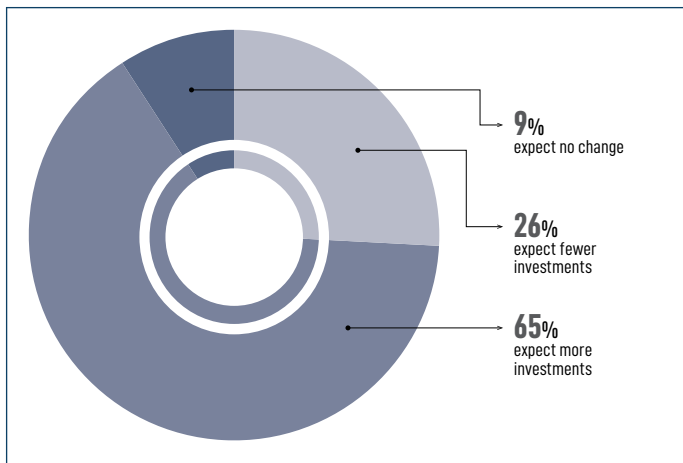
Early-stage startup founders appear optimistic about success. This has been accentuated by a high-octane media coverage of successful startups. One expects a higher number of individuals to enter angel investing as an asset class, as it provides an alternate investment opportunity with high diversification benefits and lower correlation with other asset classes.



### WHAT DO YOU THINK ABOUT THE MICRO VC SENTIMENT FOR FUNDING AT THE SEED STAGE IN 2021?

A clear majority (65 per cent) of the founders feel there will be more investments from micro VCs at the seed stage in 2021. While 26 per cent of the founders feel there will be fewer investments, 9 per cent feel there will be no change in the sentiment of micro VCs for seed-stage funding in 2021.

The flurry of funding announcements in the media by micro VCs has opened up access to accelerated investment strategies. The number of micro VCs in the Indian startup ecosystem is growing each year due to government policies and investments via university incubators. This trend will continue thus making it easier for upcoming startups to access funds from micro VCs.

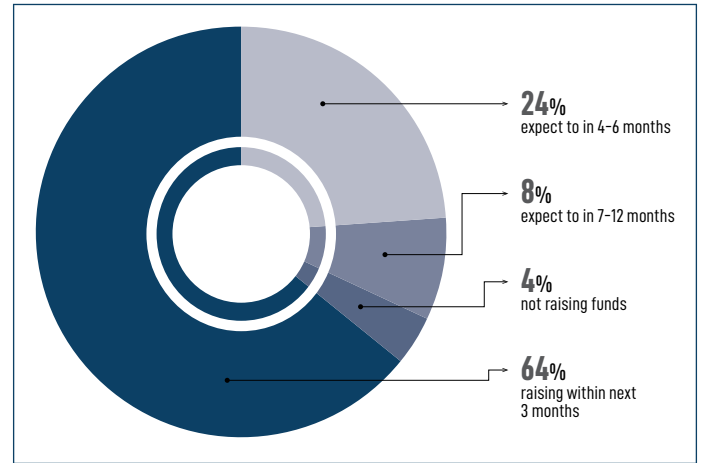


### WHEN ARE YOU PLANNING TO RAISE FUNDS?

A large 64 per cent of the founders plan to raise funds within the next three months. While 24 per cent of the founders plan to raise funds in 4-6 months, a minority (8 per cent) of them plan to do it in 7-12 months and just 4 per cent of the founders are not looking to raise funds.

A lot of founders have realised that the next six months present a massive opportunity due to a non-linear demand curve

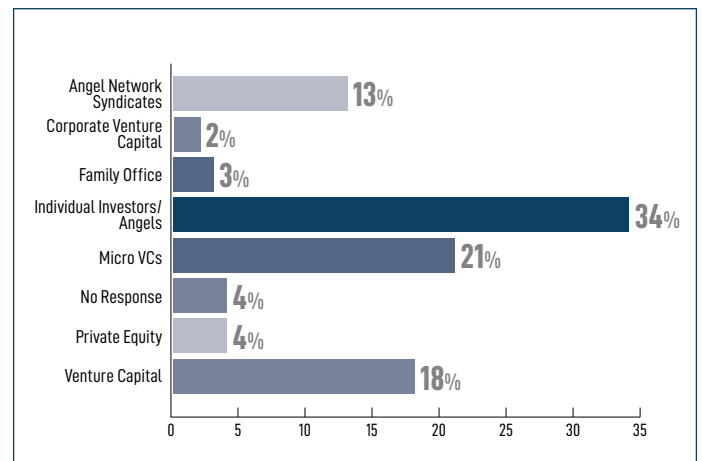
catalysed by deeper technology adoption, especially among tier 2 and tier 3 audiences. Hence, raising funds to better the product and accelerate their growth is at the top of their list. Sectors like deep tech, SaaS, fintech, consumer brands, social commerce and agritech startups are seeing a lot of interest from investors.



### WHAT WILL BE THE KEY SOURCE OF FUNDING?

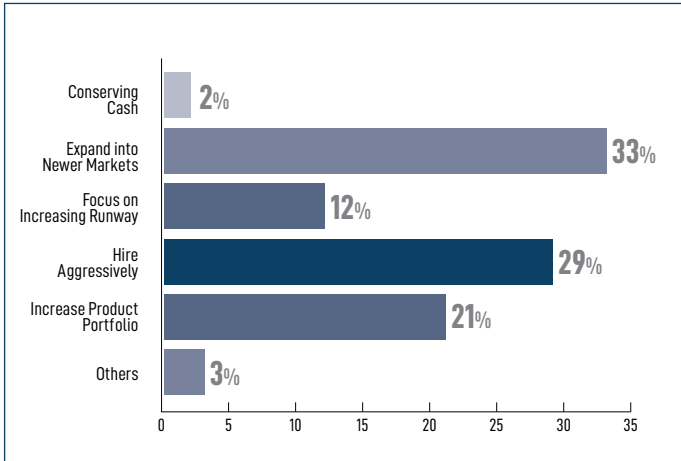
The top three sources of funding for founders are individual investors/angels, micro VCs and venture capital. A good number of founders (13 per cent) feel that angel network syndicates are a key source of funding as well. A small number of founders find corporate and family offices as a key source of funding in the Indian ecosystem.

100X.VC claims that iSAFE (India Simple Agreement for Future Equity) – which is a convertible instrument that an investor gets in return for making a cash investment in a startup – has opened a new window of opportunities for startups to raise funding directly from angel investors, without going through the onerous route of shareholder agreements. Due to huge opportunities at the seed stage in India, there is apparent growth in the number of individual investors/angels and micro VCs, resulting in a growing sense for a lot of founders that it is easier to raise funds from them. This trend is likely to become increasingly common, as India is at the cusp of becoming the hottest early-stage startup market across the globe.





### WHAT HAVE BEEN THE KEY AREAS OF FOCUS IN THE FIRST SIX MONTHS OF 2021?



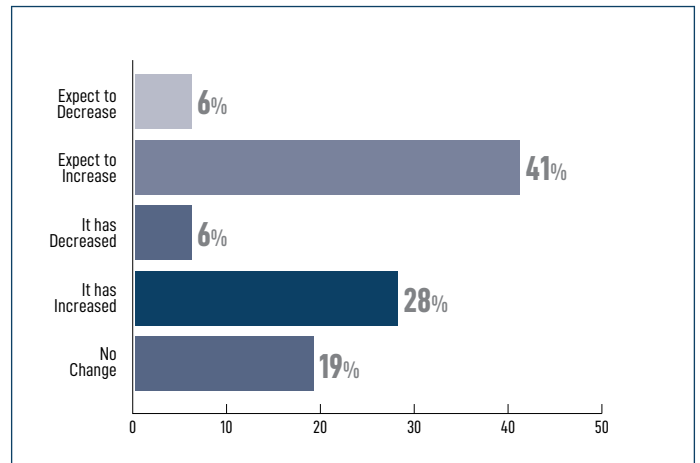
The top areas of focus in the first half of 2021 have been to expand into newer markets and hire aggressively, while a good percentage of the founders also feel increasing their product portfolio is a key area of focus to take advantage of the tailwinds from high customer demand.

With the rapid surge in digital penetration and home economy, there is a huge increase in demand for digital transformation in MSMEs and large enterprises. Thus, making it the right time to expand into newer markets while focussing on creating a bigger product portfolio as the markets have higher degrees of digital acceptance than ever before.

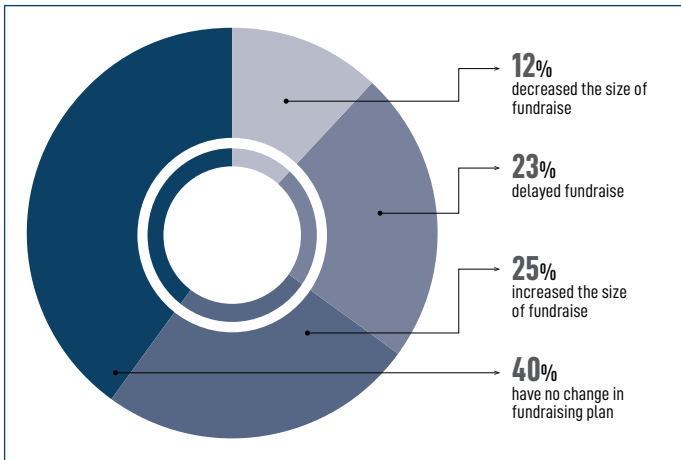
### YOUR VIEWS ON VALUATIONS...

A majority of the founders lean towards an increase in valuation, while 19 per cent of them believe there is no change in their current valuation. A smaller fraction of the founders believes that they see a decrease in their valuation.

Seeing the macro parameters as well as the newer opportunities due to the changes in consumer behaviour, certain industries and technologies are likely to get higher valuations than before. Startup valuations are difficult as there is no specific rationale behind them. It is like measuring the intangible probable. Valuation is driven by market sentiments, founder's team, traction with customers and quantum of capital. It is also a fact that only a few entrepreneurs and angel investors get the valuations math right, hence this is an art and not a science.



### HAVE YOU ALTERED YOUR FUNDRAISING PLANS?

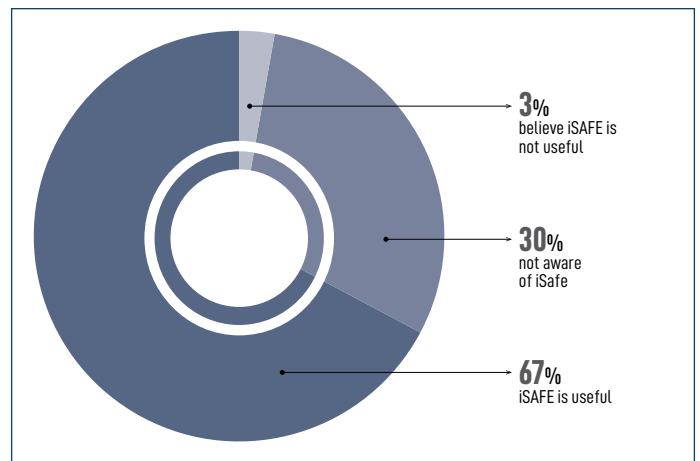


Over 40 per cent of the founders have not made any changes in their fundraising plans while a quarter of them have increased the size of their fundraise and an equal number of founders have delayed fundraising. Interestingly, around 12 per cent of the founders have decreased the size of their fundraising.

Investment sentiments are at a high. This is the right time to grow the business to newer markets taking advantage of the dormant demand last year. If the founders didn't have plans to raise capital for their expansion, they should realign their fundraising strategy. It is the best time for startups to raise capital.

### IS iSAFE A FOUNDER-FRIENDLY INVESTING INSTRUMENT FOR SEED-STAGE FUNDING?

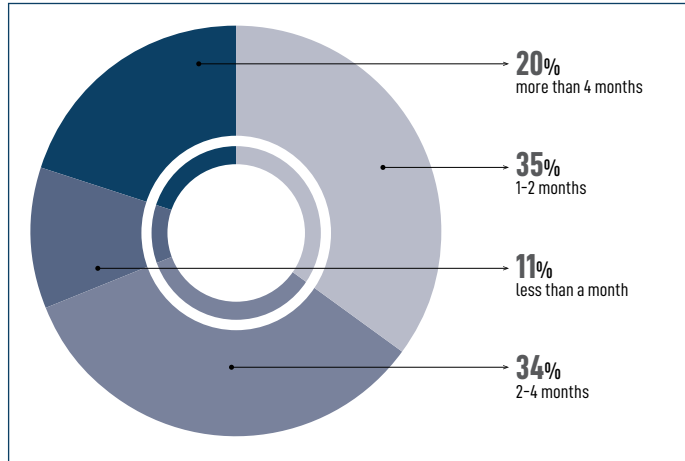
A clear majority of the founders feel that iSAFE is a founder-friendly investing instrument for seed-stage funding, while around 30 per cent of the founders are not aware of the instrument.



iSAFE stands for India Simple Agreement for Future Equity. An investor makes a cash investment in return for a convertible instrument. An iSAFE note is not a debt instrument, but a founder-friendly convertible security note

that is beneficial for both startups and investors. The vision behind has been to make the funding process simpler and highly founder-friendly.

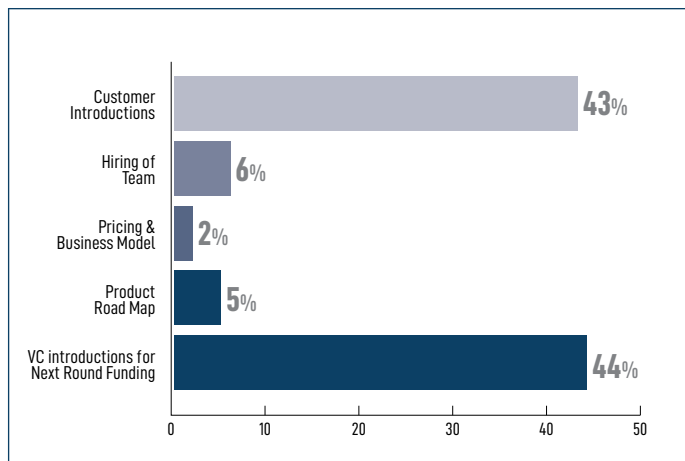
### HOW MUCH TIME DOES IT TAKE TO CLOSE A DEAL AND GET MONEY IN THE BANK AFTER THE TERM SHEET?



A good percentage (35 per cent) of the founders found that it takes 1-2 months to close the deal and get money credited in their bank and an equal number of founders (34 per cent) say it takes 2-4 months for the entire transaction to take place. Interestingly, around 20 per cent of them say that it takes more than four months for the money to reach their bank post the term sheet. A small percentage (11 per cent) of founders say it is less than a month.

The turnaround time post signing of the term sheet is extremely important especially in sectors where timing and scale is a serious competitive advantage. It will eventually come down in the coming years.

### BESIDES CAPITAL, WHAT HELP DO YOU EXPECT FROM INVESTORS?



Customer introductions and VC introductions for the next round of funding are the top requirements for founders from investors. The hiring of a team and product road map are other important



*The pandemic gave rise to multiple opportunities for startups to build solutions, especially for remote management across segments. The Sentiment Outlook survey reaffirms the growing use cases of products and also strong investor interest in continued investments into the asset class"*

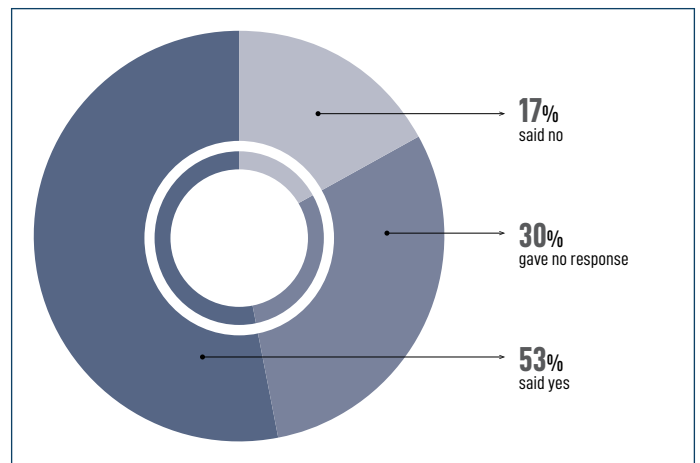
**Shashank Randev**, Founder VC, 100X.VC

areas they typically require help in from investors.

Streamlining the business model along with customer introductions is something new-age investors should bring to the table. Leveraging the huge network of investors can make or break most fundraising attempts by founders. There is a dilemma for the first time early-stage entrepreneurs where all kind of money looks the same as long as someone is willing to offer the money. Founders now look for smart money with investors who can do value add.

### DO YOU THINK BLOCKCHAIN TECHNOLOGY WILL BE A BIG TREND WITH INDIAN STARTUPS?

A majority — 53 per cent — of the founders see blockchain as a clear trend with Indian startups, while 30 per cent of them didn't have a response towards the same. A small fraction (17 per cent) felt that blockchain will not be the big trend with Indian startups.



A lot of government institutions are deploying blockchain technologies for tamper-evident record-keeping, real-time transaction transparency and auditability. There are stories on using blockchain in startup pitches, thereby seeing investments going through the roof without any evidence of the technology. Those days are over and now real business use cases are emerging. The blockchain hype is over and serious businesses are implementing blockchain-based solutions.

## GOING BULLISH

While most global VCs termed the Covid-19 pandemic as a Black Swan event, it turned out to be one of the best periods for startup founders across the world. For Indian founders, it was a period of spectacular growth. Despite a tumultuous economic environment, Indian tech entrepreneurs raised a record \$14.5 billion in venture capital and private equity between 2020 and the first few months of 2021. The period also witnessed over 1,600 new startup registrations and the birth of 22-odd unicorns and still counting. In the first few months of 2021, about 12 new billion-dollar companies were born, signalling a boom for tech-based new-age companies. We can call it the beginning of the unicorn era in India and expect the ecosystem to have over 100-odd billion-dollar companies by 2025.

The optimism in the Indian startup scene is at its peak, with over 80 per cent expecting the valuations of their startup to increase sizeably during the

second half of the year. The same set of founders forecasted valuations to decline the previous year, which it did. While there were heightened funding and merger and acquisitions last year, most founders raised funds at comparatively lower valuations.

Tech entrepreneurs also felt that businesses will continue to grow over the next six to 12 months despite concerns over the surge in Covid cases and the likely third wave. The pandemic has created new opportunities and new normals. It has also caused reverse migration of skilled workers from metros to smaller towns resulting in increased consumption in tier 2 and 3 cities and towns.

100X.VC says the consumption level across sectors has touched new highs in smaller Indian towns, owing to deeper penetration of technology and the internet. Fifty-five per cent of the startup founders felt that meetings will continue via video conferencing for the next six months. Industries such as edtech, fintech, retail and healthcare will witness significant



*In terms of mere scale, the Indian startup ecosystem is a truly remarkable story. India has shown that the technology centre of the world need not necessarily be concentrated in Silicon Valley. We are at the stage where it's never been easier to start a business, never been easier to raise funds and never been easier to scale. This ecosystem has the perfect mix of opportunity, growth potential and momentum"*

### Tuhin Sharma

Co-founder, Accio Robotics  
(an on-demand automation company that is building autonomous mobile robots)







*"I believe the 'Next Big What' will be from*

*India. Looking at the current Indian startup ecosystem, the resource utilisation, innovation, out-of-box thinking, striving to make complex things simpler and support from the investor community are driving our startup ecosystem to newer heights"*

**Akash Nidhi PS**

Co-founder & CTO, Vitra.ai  
(an app that translates videos with the voice and lipsync to 50-plus languages)



*"Startups have a key role to play in*

*fostering innovation, providing an investment opportunity with a potential for asymmetric returns for investors and a new avenue for corporate venture capital. The survey provides an easy snapshot of the prevailing conditions in the startup ecosystem in India"*

**Ninad Karpe**

Partner, 100X.VC



expansion in customer interactions over video conferencing.

However, despite being bullish on a recovering economy and market being flushed with dollars, over 70 per cent of the founders still felt that fundraising would become difficult. This is due to investors having raised the bar high and becoming picky about their investments. Nevertheless, startups working in edtech, health tech, deep tech and remote working engagement technologies will continue to remain investors' darling. 100X.VC says it expects over 65 per cent of founders to raise funds in the next few months for expanding operations in newer markets and smaller Indian cities. Besides, for most of the founders, a majority of funds would go into hiring and increasing the product portfolio. The primary source of this funding would be from individual investors, super

angels, angel networks, and micro-VCs, according to 65 per cent of the founders. They also feel that this category of investors is likely to remain active at the seed stage this year. Over the last year, micro VCs and angel investors have been booming in India. Close to 88 new funds came up in 2020 to fund more idea-stage or early-stage startups.

Over 67 per cent of the founders surveyed are betting on iSAFE. They feel that it is a founder-friendly and simple form of investing instrument for seed-stage funding. Trends that would dominate the startup ecosystem in the medium to long term, as per founders, include blockchain, expected to emerge as a clear technology with multiple use cases deployed across industries.

Overall, 2021 will give rise to the next generation of entrepreneurs, companies that will likely dominate the next decades.



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