

Asia & Pacific

Risk-averse India embraces Silicon Valley-style start-ups

By Rama Lakshmi, November 28, 2015



Vishal Gupta, co-founder of start-up parenting portal mycity4kids.com, is shown in his office with his team members on Nov. 18. (Rama Lakshmi/The Washington Post)

NEW DELHI — In a sprawling wholesale market of timber, glass and marble, businessman Amit Gupta supervises workers loading sheets of glass on trucks for builders across India — his family business for five decades.

As plumes of sawdust float, Gupta says he wants to play a role in the new economy. For the past year, he has been reading newspaper stories about the booming start-up culture, with millions flowing in from venture capitalists and nerdy graduates of India's tech universities becoming millionaires overnight.

About \$6.5 billion has been invested in start-ups this year, up from \$2.2 billion last year, according to the National Association of Software and Services Companies, an industry group. Three to four tech start-ups are born every day in India, it says.

Gupta's family has for years invested in land. But this year they decided to take \$700,000 and invest in start-ups.

"India is going to change in a dramatic way, and start-up companies are going to drive the change," Gupta, 40, said.



Prateek Chaturvedi, left, and Aditya Misra, shown in Gurgaon, India, are co-founders of a new location software start-up. (Rama Lakshmi/The Washington Post)

Two decades of India's information-technology success and the large pool of English-speaking engineers have created a fertile ground for e-commerce companies and innovative tech start-ups. Angel investors and venture capital funds are mushrooming.

Investment in start-ups is a new trend among affluent Indians, triggered by the Silicon Valley-like successes of a number of start-ups in the past year.

Many Indians who traditionally invested in land, art, gold and stock markets are beginning to invest in start-ups, said Sunil Goyal, founder of Your Nest, a venture capital fund in Gurgaon, a suburb of New Delhi. This year, his firm has 140 such new investors, up from 35 in 2012.

"Old money, new money — everybody wants a piece of our start-up boom," Goyal said.

It's also a risky proposition — far more unreliable than a cache of gold or land. Even as Indians are celebrating the new millionaires, there are signs that the country's fledgling e-commerce companies are overvalued, and the market may be slowing soon. In recent weeks, some restaurant and food delivery start-ups laid off hundreds of employees.

"Investment activity in start-ups is at an all-time high now. But it is also risky," said Arun Natarajan, head of research service Venture Intelligence, in Chennai. Only three of 10 start-ups are likely to be super-successes, he said.

But for now, Indian and international investors are tempted by the sheer size of India's market — with a rising middle class and increasingly global outlook. At over 350 million, India has the third most Internet users in the world, after the United States and China. Most of them are using the Web on mobile devices. That number is expected to grow to 580 million people by 2018.

In recent months, India's government, led by tech-savvy Prime Minister Narendra Modi, has launched an initiative called "Start Up India, Stand Up India." Authorities have set up a \$300 million fund for start-ups and eased restrictions on Indians abroad who want to invest in venture capital funds here.

The success in China of companies such as Alibaba has inspired many to say that India is the next big consumer Internet market, said Nandan Nilekani, a leader in India's IT sector and co-author of the new book "Rebooting India: Realizing a Billion Aspirations." Players are emerging that are unique to India — such as RailYatri, which helps riders navigate the Indian rail system.

Some entrepreneurs are also cashing in on social and cultural changes underway in urban India.

One of them, Vishal Gupta, became a parent a few years ago, and noticed urban Indian families were changing. More couples were living far from home instead of in the traditional extended family system — where generations live together.

Hoping to tap into that market, Gupta (who is not related to investor Amit Gupta) launched a portal called mycity4kids.com to help parents connect with other parents, schools, nannies and local events.

Five years later, the site has 1 million visitors a month. He's seeking an additional round of venture capital funding — \$3 million — to reach 3 million more a month.

"This is the best time to scale up," Gupta, 40, said.

The success stories are hard to miss, especially in Bangalore, a fast-growing start-up hub. Entrepreneurs are trading up from apartments to villas, said Harish Bijoor, a brand consultant who surveyed the industry.

In the past two years, Indian start-ups have been acquired by Facebook, Twitter, Yahoo and Ibibo.

The e-commerce company Flipkart.com, an Indian version of Amazon.com, attracted \$1 billion from investors, including the New York-based fund Tiger Global this year. The company is worth \$15 billion today, and its two owners are featured in the Forbes India list of billionaires.



Amit Gupta, 37, with his younger brother Varun (in white shirt) oversee the workers loading sheets of glass into trucks for builders in New Delhi. Their family has run the business for five decades. (Rama Lakshmi/The Washington Post)

Another buzz-creator this year was Vijay Shekhar Sharma, 37, the founder of Paytm, a mobile payment company that was funded with \$680 million from Alibaba and its affiliate.

Sharma said a lot has changed since he launched his first start-up in 2001. Back then, it took him four years to raise \$12,000 from a “friend of a friend.”

He’s a mini-celebrity now and gets swarmed at restaurants by young people asking for selfies.

Yet some investors, fearing an overheated market, have begun to proceed a bit more cautiously. Aditya Misra, co-founder of Focus, a new Mumbai start-up, said he “could sense that pragmatism is setting in” when he last met with investors to pitch his product.

The pitch was for new software that lets apps locate and alert customers about deals when they are near a store, kind of “like a Google map when you are indoors” he said.

“We thought the whole discussion would be about our innovative ideas,” he said, but instead there were many questions about users, clients, revenue and metrics for growth. “They were excited but did not want to be irrational.”

Gupta, the investor, says he is aware of the risks.

“We are not looking to make a quick buck. We want to be part of what’s new,” Gupta said. “As my father said to me last month: ‘I took risks and created this glass business 50 years ago. Now you need to create something new for your children, too.’”