

EMERGING STARTUP INVESTMENT OPPORTUNITIES IN INDIA

AUGUST 2020

AL **CONSULTING**

TABLE OF CONTENTS

| CONTENTS | PAGE |
|--|--------|
| <i>GLOSSARY</i> | 1 |
| <i>STARTUP ECOSYSTEM IN INDIA</i> | 3 |
| <i>VC INVESTMENTS IN INDIA</i> | 4 – 5 |
| <i>JAPAN & INDIA: COLLABORATION & VC INVESTMENTS</i> | 6 – 7 |
| <i>OVERVIEW OF EMERGING SECTORS IN INDIA</i> | 8 – 15 |
| <i>SOURCES</i> | 16 |

GLOSSARY

WORDS

MEANING

\$

United States Dollar

Bn

Billion

CAGR

Compound Annual Growth Rate

FDI

Foreign Direct Investments

FY

Financial Year

Mn

Million

NBFC

Non-Banking Financial Company

OTT

Over the top media platform

SaaS

Software as a Service

VC

Venture Capital

PE

Private Equity

H1

First Half

INTRODUCTION

India has one of the largest startup ecosystems globally. There has been significant increase in the number of startups in India in the last 5 years. The PE & VC investments in Indian startups have been growing at a fast pace, which is reflected by increase in the volume and the deal values across various sectors.

Some of the emerging sectors which are gaining importance and investor confidence are Fintech, Edu-Tech, Health-Tech, E-Pharmacy, Online Gaming and Agri-Tech. These sectors have gained importance, especially during the COVID-19 pandemic, as consumers are increasingly relying on online transactions and businesses have started re-modelling their online business strategy.

Also, it is likely that investors would prefer a defensive play which may include investments in companies in the technology, consumer goods (packaged essentials, personal and healthcare, food processing and retail), pharmaceuticals as well as sub-sectors like medical supply and services, and e-commerce sectors.

While the impact of COVID-19 pandemic will be felt for some time ahead, newer opportunities, emerging sectors and attractive valuations should be on the watchlist. This presentation aims to provide a high-level overview of the Indian start up ecosystem and the private equity & venture capital investment landscape in India, collaboration between India & Japan, Japanese early stage and venture capital investments in India and some of the emerging and fastest growing startup sectors in India.

The information and data presented in this presentation provides a snapshot of the current state of the start-up industry, India's position globally in the start-up space, trends and certain key statistics in each of the key start-up sectors. The facts and figures set out in this note have been collated from various publicly available sources, which are listed towards the end of this note.

We, at AL Consulting are bullish on these emerging sectors and would be happy to discuss in detail with you, the potential opportunities from an Indian investment landscape perspective.

Best regards

STARTUP ECOSYSTEM IN INDIA

India's position

- Top 5 start-up ecosystems
- Number of startups: 80,000+
- Between 2012 and 2019:
 - number of start-ups increased by 17% each year
 - number of funded start-ups increased 19% CAGR
- Ranking for ease of doing business: 63 in 2019, improved from 130 in 2016
- Leading sectors in 2019: e-commerce, SaaS & Fintech

Emerging Sectors

- Health-Tech (pharma, life sciences)
- Ed-tech
- E-Commerce & Delivery Based Services
- OTT Platforms & Online Gaming
- SaaS & Remote Working Tools
- FinTech

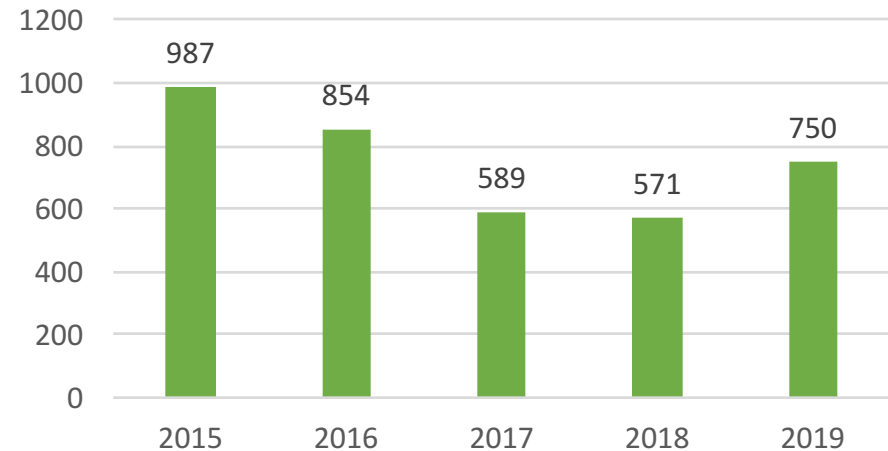
| Key Details | Numbers as of 2019 |
|---------------------------|--------------------|
| Unicorns | 20 |
| Funded start-ups | 6,400 |
| Incubators & Accelerators | 400+ |
| Internet users | 520 Mn |
| Engineering students | 1 Mn + |

VC INVESTMENTS IN INDIA: A SNAPSHOT

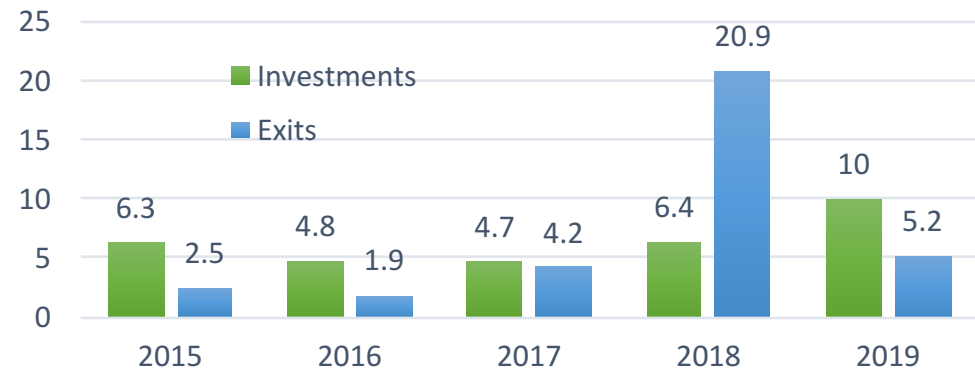
H1 of Calendar Year 2020

- Globally, VC backed companies raised \$61 Bn across 4,260 deals in Q1 of calendar year 2020
- PE & VC investments in Indian startups was recorded at \$20 Bn largely driven by significant investments in Reliance Jio (telecom)
- Major Sectors: Edu-tech, food delivery, Health-Tech and IT&ITES
- Top companies which attracted investments are: **Byju's** (edu-tech), **OYO** (hotel aggregator), **Swiggy** (food delivery), **Postman** (API development platform), **FreshToHome** (fresh food delivery), **Yellow Messenger** (Bots / conversational platform) and **iMerit** (IT services – AI).

Annual VC Deal Volume

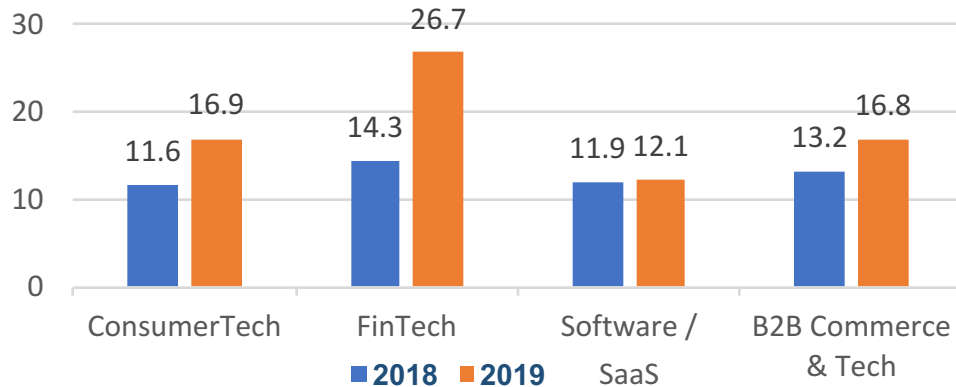


Annual VC Investments and Exits in India (Bn \$)

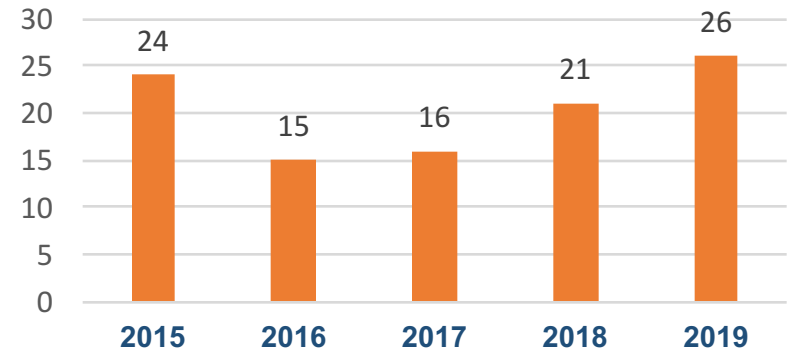


VC INVESTMENTS: TRENDS ACROSS SEGMENTS AND SECTORS

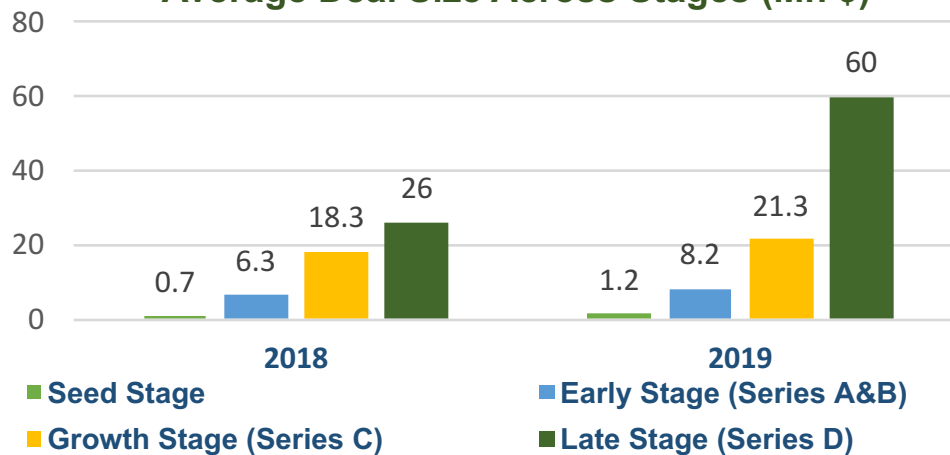
Average VC deal size across sectors (Mn \$)



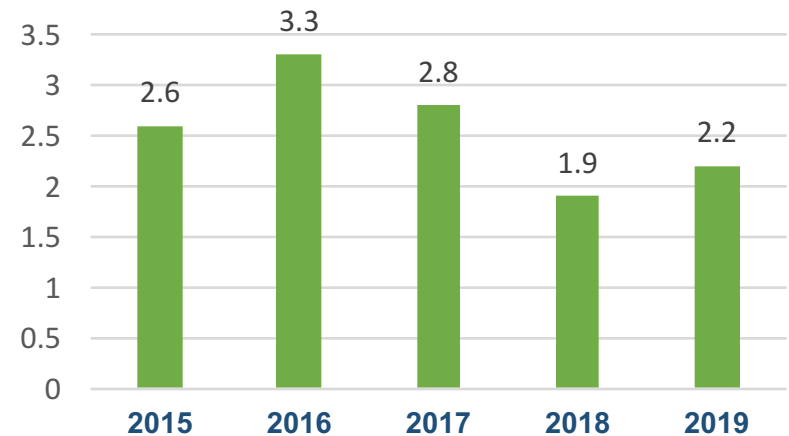
Average VC Investments Per Fund (Mn \$)



Average Deal Size Across Stages (Mn \$)



Average VC Deals Per Fund



JAPAN & INDIA: COLLABORATION BETWEEN THE TWO NATIONS

Relationship

- India is one of the largest recipient of Japanese official development assistance loans
- Japan is the 3rd largest investor in Indian economy
- Between 2000 to 2019: cumulative FDI inflows from Japan to India amounts to \$30.27 Bn

Trade between the two nations

| Trade in FY 2018-2019 | Amount in Bn \$ |
|-----------------------|-----------------|
|-----------------------|-----------------|

| | |
|--------------------|-------|
| Imports from Japan | 12.77 |
|--------------------|-------|

| | |
|------------------|------|
| Exports to Japan | 4.88 |
|------------------|------|

- Value of trade from Japan to India is growing at a rate of 4%
- India's imports recorded a growth of 102.7% in the last 12 years
- Key imports from Japan include electrical machinery, iron and steel, organic chemicals, etc.

Japan – India Startup hub

- Set up in Bengaluru as part of joint initiative signed on 1 May 2018
- The start-up hub is an online platform to enable:
 - promotion of information exchange
 - business collaboration
 - investments between the startup ecosystems
- JETRO and NASSCOM are the nodal agencies responsible for executing the startup hub
- For more information on the Japan – India Start-up Hub, please visit the [link](#).

Japan - India Fund of Funds

- Nippon India Digital Innovation AIF – Scheme 1, a fund of funds (FoF) set up with a mandate to invest in 15-20 India dedicated venture capital funds with investment portfolio of approximately 300+ startups
- The ticket size of investment by FoF: \$5-15 Mn
- Focus sectors: technology start-ups in AI, IoT, ML, fintech, healthcare, education & consumer robotics
- As per recent reports, Yokogawa Electric Corporation has agreed to invest in this FoF

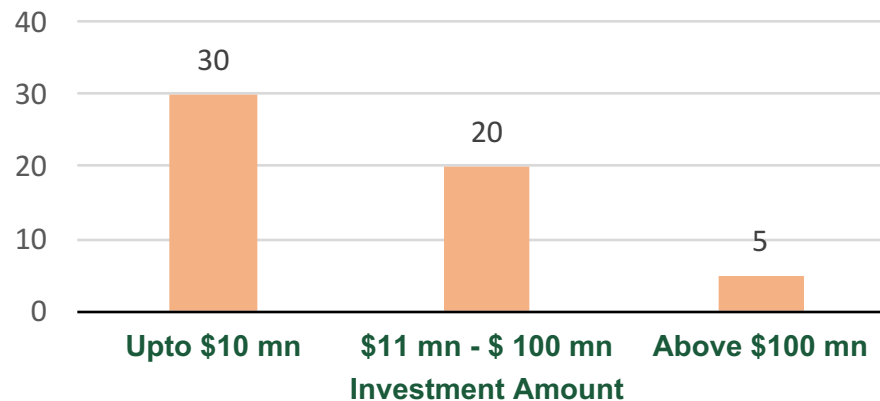
JAPANESE VC INVESTMENTS IN INDIA: OVERVIEW AND TRENDS

| Japanese VC Investments | Details as of end of 2019 |
|---|---------------------------|
| Active Japanese Investors in India | 50+ |
| Indian Start-ups backed by Japanese Investors | 105+ |
| Number of Unicorns invested by Japanese Investors | 12 |
| Deals participated in by Japanese investors | 136+ |
| Investment by Softbank in Indian Startups | \$10 Bn |

Recent Trends

- 2015 to 2018: 2X surge in deal participation by Japanese investors
- Preferred funding stage: growth stage (Series A and Series B)
- Preferred sector: enterprise tech
- Active Japanese investors: Softbank, Strive, Beenos, Incubate Fund, SBI Holdings and individual investors like Hiro Mashita (M&S Partners)

Japanese VC Investor Trends



Driving factors for Japanese Investments in India

- Young population
- Rising income
- Fastest growing consumer market
- Increased foreign investors' confidence
- Increasing growth stage ecosystem
- Government support & initiatives

FIN-TECH: SECTOR OVERVIEW

India's position

- Fin-Tech adoption rate of 87%, higher than the global rate of 64%
- 2nd highest funded sector after e-commerce
- 3rd largest Fin-Tech ecosystem globally
- Factors driving growth: widespread identity formalization, banking penetration, increase smartphone penetration, growing disposable income, key government initiatives such as UPI and Digital India and middle-class expansion resulting in demand and growth

Components

Details

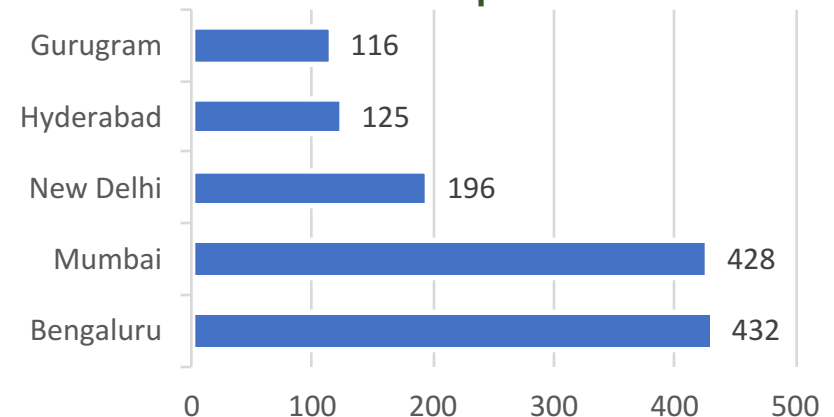
| | |
|-----------|---|
| Segment | Payments, lending, insurance and wealth management |
| Investors | Alibaba, Berkshire Hathaway, SoftBank, Temasek Holdings, Visa, PayPal, MasterCard |
| Companies | PayTM, MobiKwik, PhonePe, PolicyBazaar, LendingKart, Freecharge, ETMoney, Mswipe |

Segment

Figures

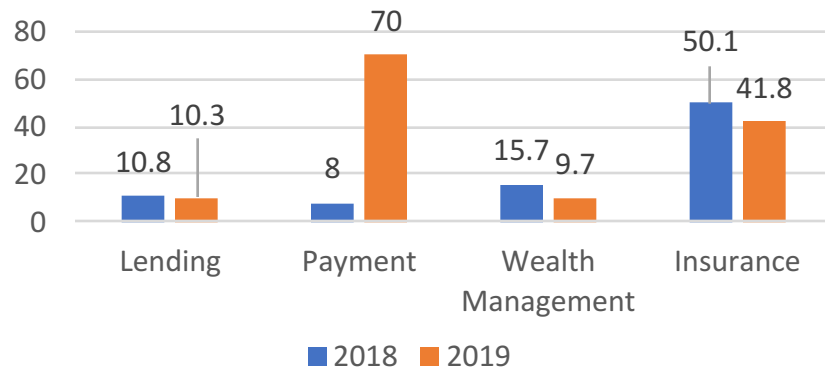
| | |
|---|----------------------------|
| Fin-Tech software market as of July 2020 | \$2.4 Bn |
| Digital payments market in 2019 | \$65 Bn |
| Digital Payments market growth | At a CAGR of 20% till 2023 |
| FDI investment in financial sector between April 2000 to March 2020 | \$82 Bn |
| Number of WealthTech startups as of July 2020 | 440+ |

Major FinTech Hubs in India & Number of Start-ups

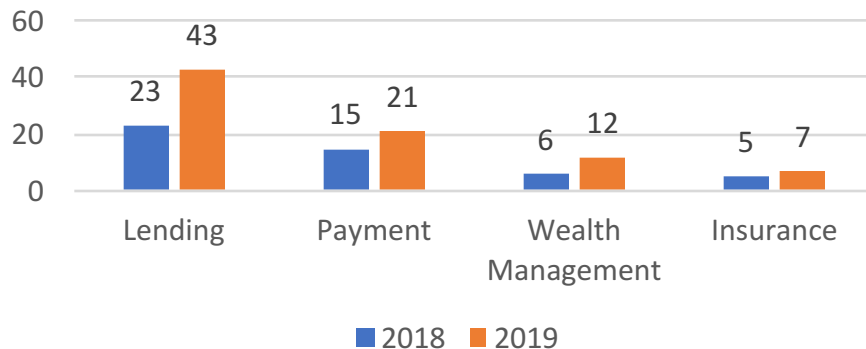


FIN-TECH: SECTOR OVERVIEW

Average VC deal size (Mn \$)



Number of Investments across different segments



Recent Deals

| Target | Investors | Amount (in Mn \$) |
|--------------------------------|---|-------------------|
| ADJ Utility Apps (Khatabook) | Investors led by Facebook co-founder Eduardo Saverin's B Capital Group | 60 |
| LendingKart | Fullerton Financial Holdings, Bertelsmann India Investments, Sistema Asia Fund and India Quotient | 42 |
| Aye Finance | Investors led by CapitalG, the private equity arm of Google parent Alphabet | 27.7 |
| BrokenTusk Technologies (Setu) | Investors led by Lightspeed Venture Partners | 15 |

- In Q1 FY20, Fin-Tech startups have attracted investments of \$330 Mn in comparison to China which has seen an investment of \$270 Mn

HEALTH-TECH: SECTOR OVERVIEW

India's position

- One of the largest sectors in terms of revenue and employment
- Competitive advantage: large pool of well-trained medical professionals and low cost
- By FY 2022
 - Healthcare industry expected to increase to \$372 Bn
 - Hospital industry expected to grow 16-17% CAGR to reach \$132.84 Bn

Focus Areas

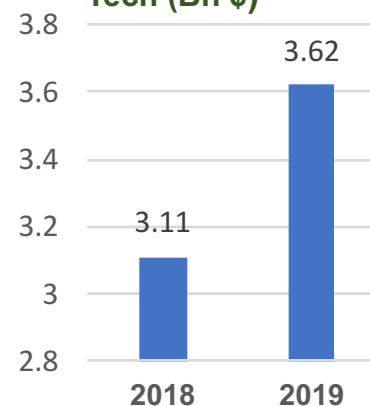
- Increase in accessibility to health care services
- Improvement in quality of care
- Use of cloud computing & IT solutions
- Enhancement of patient experience & continuous engagement
- Convenience in managing day to day healthcare & wellness needs

Key Statistics

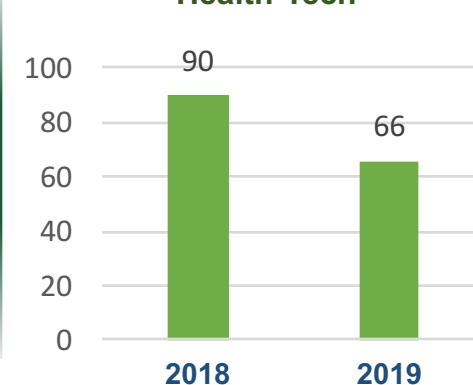
Details as of 2019

| | |
|---|-----------|
| Number of Health-Tech startups | 3000+ |
| FDI inflows in hospitals and diagnostics between April 2000 to March 2020 | \$6.7 Bn |
| Medical tourism market | \$7-8 Bn |
| Diagnostics industry | \$4 Bn |
| Primary care industry | \$13 Bn |
| Value of M&A in hospital sector in 2019 | \$1.09 Bn |

Investment in Health-Tech (Bn \$)



Number of VC deals in Health-Tech



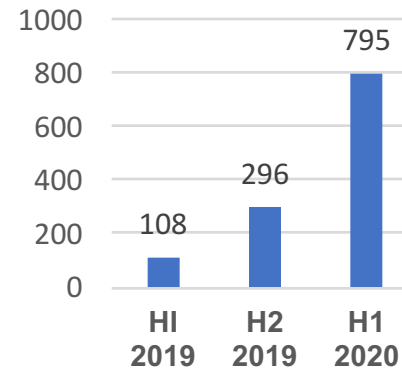
HEALTH-TECH: SECTOR OVERVIEW

| Components | Details | Recent Deals | | |
|---------------------------------|---|---|--|-------------------|
| Components of healthcare sector | Hospitals, medical devices, telemedicine, medical tourism, health insurance and medical equipment | <ul style="list-style-type: none"> Investment in Q1 of calendar year 2020: 0.4Bn\$ | | |
| Health-Tech segment | Telemedicine, wearables & devices, genomics, virtual reality, robotics and electronic medical records | Company | Investor | Amount (in Mn \$) |
| Prominent startups | PharmEasy, CureFit, Practo, MedLife & CallHealth | Innovaccer | Mubadala Investment, M12, WestBridge, Tiger Global and others | 70 |
| | | Religare Health Insurance | Kedaara Capital | 56 |
| | | CureFit | Temasek | 114 |
| | | HealthPlix Technologies | JSW Ventures, the venture capital arm of Sajjan Jindal-led JSW Group | 6 |

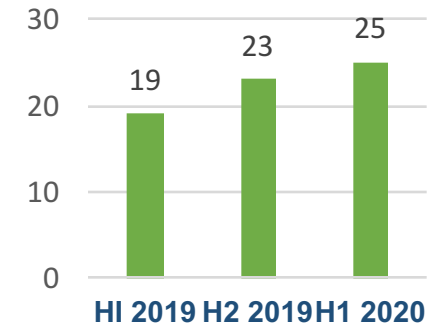
EDU-TECH: SECTOR OVERVIEW

| Details | Figures |
|---|--|
| India's position | India has 2nd highest number of Edu-Tech companies |
| Segments | Test prep and online certification & skill development |
| Between 2014-2019 | Investment of \$1.8 Bn |
| | Online test preparation: \$515 Mn (prominent players: Byju's and Unacademy) |
| Expected market size by 2021 | Online certification & skill development: \$463 Mn (prominent players: Simplilearn, GreyCampus, Whitechat Jr, Quizizz) |
| Number of unique EdTech Startups which received funding in 2019 | 194+ |

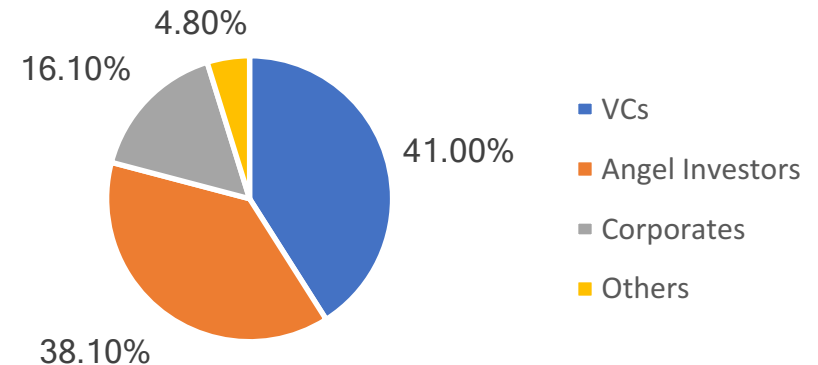
Investment (Mn \$)



Number of VC deals



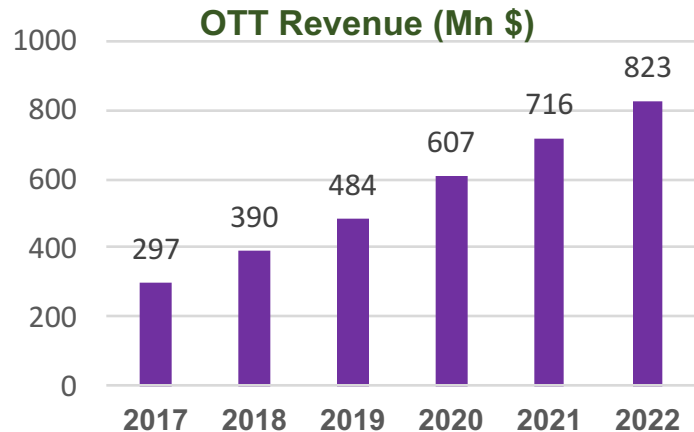
Investments in Edu-Tech in 2019



OTT: SECTOR OVERVIEW

India's position

- India will be 10th largest market for OTT media streaming in terms of revenue by 2022.
- Mobile Internet subscribers set to double from 406 Mn in 2017 to 805 Mn in 2022.
- Factors driving growth: Increased focus on localized content consumer content demand, lower internet prices, portability preference



*2018 onwards is projected data

Details

Figures

Number of OTT players as of November 2019

35+

Current online subscribers

53.1 Mn

Expected market size by FY 2023

Grow at 21.8% CAGR to INR 11,976 bn

Estimated online subscribers by FY 2023

500 Mn +

Prominent International OTT players

Netflix, EROS Now, Amazon

Prominent domestic OTT players

Zee5, Disney-Hotstar, Netflix and MX player

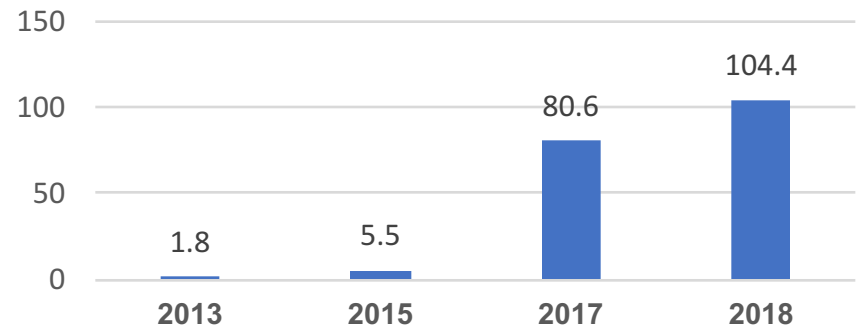
ONLINE GAMING: SECTOR OVERVIEW

| Details | Figures |
|---|---|
| India's position | 2 nd largest market worldwide for app download |
| Growth rate | 22% CAGR |
| Value of online gaming industry by 2024 | \$3,750 Mn |
| Investment between 2014-2019 | \$350 Mn |
| Number of online gaming startups | 400+ |
| Largest Section | Mobile gaming, constituting 85% of online gaming |
| Emerging platforms | Games2Win, WinZo Games, Hitwicket, Gamerji and Rummy |

Sector's Future

- Projected Growth in Social Gaming revenue from 2017 to 2022 is \$1988 Mn
- Game Developing Firms in India have increased ten-fold from 25 in 2010 to 250 in 2018
- Factors for growth: Continuous upgradation for bigger and better experiences,, increased smart-phone penetration, development of e-sports into legitimate competitions

PE & VC Investments in Digital Gaming Sector (Mn \$)

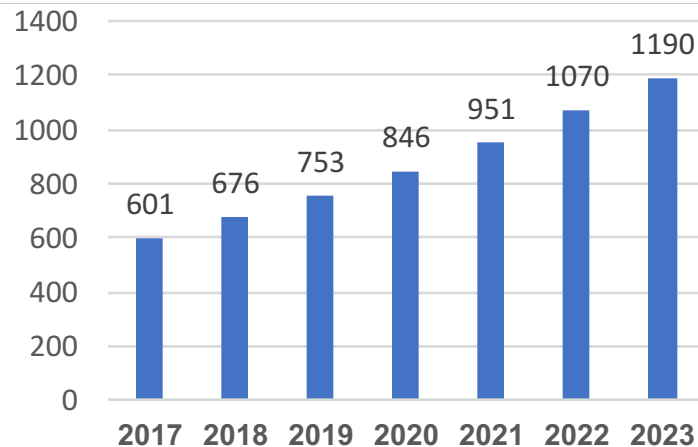


AGRI-TECH: SECTOR OVERVIEW

India's position

- India is home to more than 450 AgriTech startups.
- Agritech startups growing at a rate of 25% year-on-year.
- Close to 100 Mn small and independent farmers
- Factors driving growth: Increasing smart-phone penetration, easing of regulations, increasing organization of farmers

Indian Agriculture Industry (Bn \$)



*2020 onwards is projected data

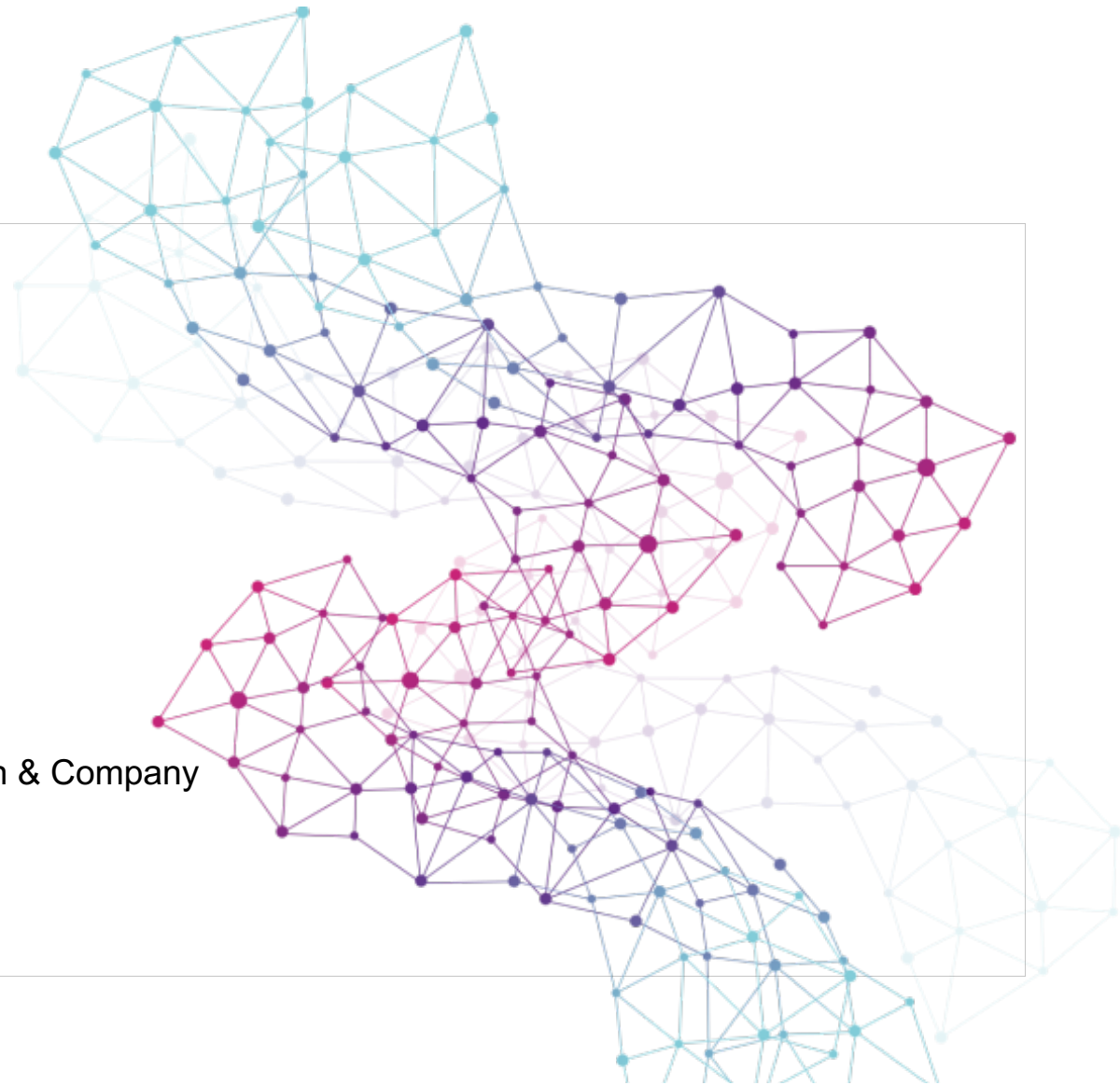
Details

Figures

| | |
|--|---|
| Total funding until June 2019 | \$248 Mn, increased by 350% from 2018 |
| FDI inflow between 2000-2019 (agriculture and allied industries) | \$ 9.98 Bn |
| Number of AgriTech startups | 450+ |
| Prominent players | Ninjacart, Agrostar, Stellops, Cropin, and Jumbotail |
| Prominent investors | Omnivore, Accel and Ankur Capital |
| Market opportunities | Supply chain & digital agriculture and production & financing |

SOURCES

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THANK YOU !

If you need any further information or clarification relating to information and data presented in this note or if you need an in-depth analysis or understanding of any of the sectors or segments as set out in this note, please feel free to contact:

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