

India's startups lacking guardian 'angels'

May 8 2013, by Salil Panchal



Indian software developer Nischal Shetty (right), who developed Twitter application "justunfollow" at his office in Vashi, on May 7, 2013. It is seen as a land of entrepreneurs, economic growth and huge business potential, but India appears to be failing its promising startup companies which are struggling to find investors.

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While there is no lack of ideas among the country's vast young population, funding is declining from venture capitalists and rich "angel" investors, as they are known, who are often crucial to a young firm's success.

"Risk-taking appetite from investors is low," said [Internet entrepreneur](#) Nameet Potnis, who is trying to address the problem by setting up Nurtured.in, a platform to connect startups with early-stage investors.

"It is easy to set up an online business in India but very difficult to do business," he told AFP.

Three decades after [businessman](#) N.R. Narayana Murthy and six other Indians sat around a kitchen table and formed leading IT outsourcer Infosys, the country is yet to create a favourable business environment for new entrepreneurs.

Just five percent of thousands of Indian startups get funds from sources external to friends and family, analysts say.

It is one of the toughest countries in the world for a startup to flourish, according to a 2012 report by US-based research firm Startup Genome.

Venture capitalists invested \$1.09 billion through 222 deals in 2011, but this dropped by 30 percent to \$762 million through 206 deals in 2012, according to researchers at Venture Intelligence, based in southern Chennai city.

The decline could not come at a worse time for the young Indian professionals and business graduates who are risking branching out on their own, after losing or quitting lucrative jobs amid the [global downturn](#).

India's own [economic growth](#) slowed to an estimated 5.0 percent for the fiscal year that ended March, its slowest rate in a decade, but that has not deterred many youngsters from trying to turn their ideas into businesses.

Some of India's well-established startups include Nasdaq-listed online travel firm makemytrip.com, shopping website Flipkart and digital entertainment company Hungama.

In recent years, ventures have branched into areas as varied as pet care, gaming, restaurant guides and e-learning, and the startup bug is spreading into smaller Indian cities.

"More companies are coming up and not that much... money is being put in," said Sampad Swain, an entrepreneur who founded "Instamojo", which helps to sell digital downloads.

Jubin Mehta of Yourstory.in, an online site which tracks startups and entrepreneurs, said [venture capitalists](#) tend to look over 200 ideas before investing in one.

"Roughly 500 startups come up each month. And less than five percent—only about 25—receive external funding," he said.

Kulin Shah, an entrepreneur and former venture capitalist, said [angel investors](#) have become more demanding in the current economic climate, trying to avoid getting their money blocked in ventures for too long.

Angels are increasingly unwilling to fund firms that are clones of foreign startups or face intense competition, such as online car rentals, car pools and best-deal ventures, Shah said.

But too much caution can prevent investors spotting a hit, such as Nischal Shetty's Twitter application "justunfollow", which has more than

three million registered users including 10,000 paid customers.

When he set it up three years ago, he generated revenues from day one despite a lack of enthusiasm from external investors.

"Angels asked me: how will you make money from this?" he said.

There are a few signs of hope for budding entrepreneurs.

In southern Kochi city, a massive glass-and-metal campus called "[Startup village](#)" is nurturing young engineers and aims to launch 1,000 Internet and mobile firms in 10 years.

Nasscom, an IT trade body, says startups are a "critical pillar" of the industry and last month launched "10,000 startups", a programme which will shortlist and help fund as many ventures in the next 10 years.

"We have to create an environment where early-stage funding comes in," Nasscom president Som Mittal said at the programme's launch.

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Citation: India's startups lacking guardian 'angels' (2013, May 8) retrieved 13 July 2024 from <https://phys.org/news/2013-05-india-startups-lacking-guardian-angels.html>

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