

# Startup's investor search

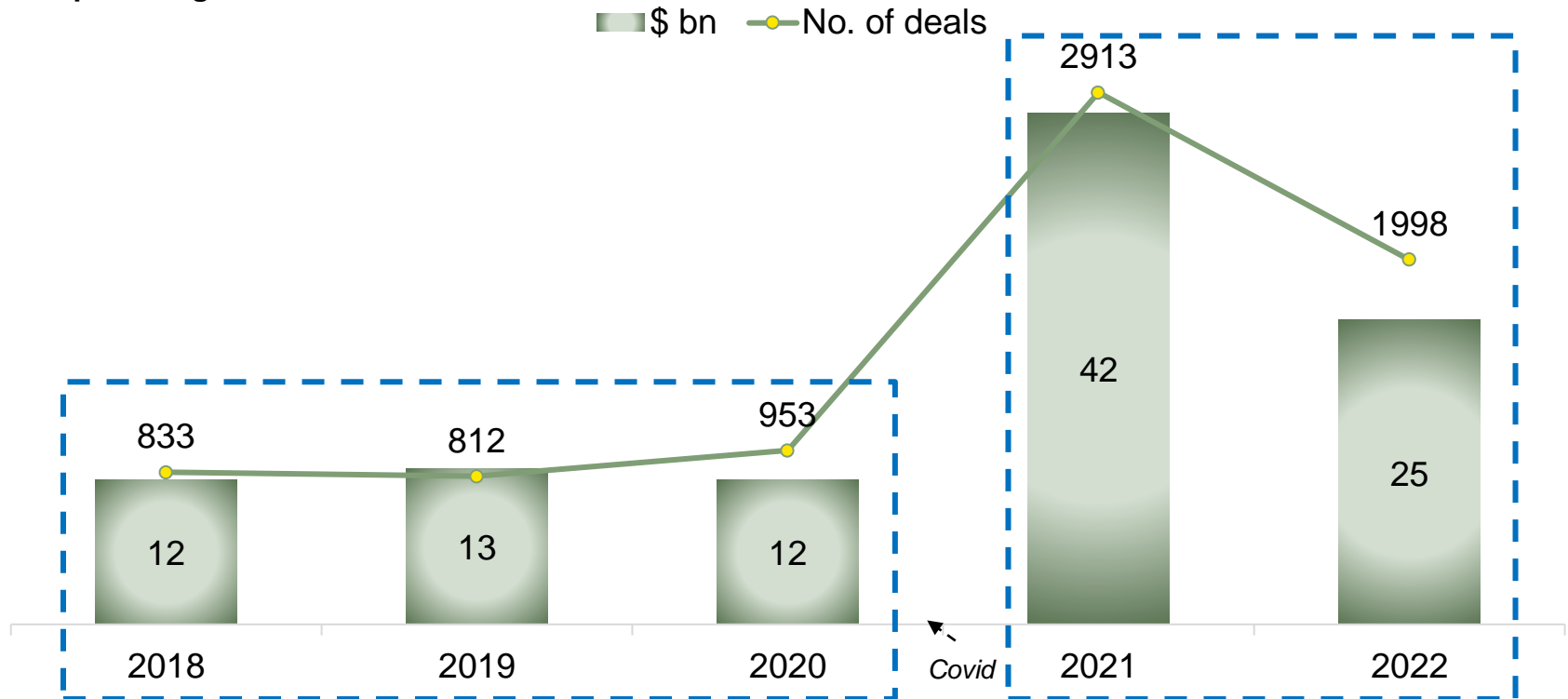
*A framework for the initial stage*

March 2023

# Startup funding trends in India

Though moderated in recent times, funding after covid has shot up

Startup funding trends in India



- While 2022 saw a drop in the number of deals and volume of funding, the drop in seed and early stage was lesser than late-stage
- Funding winter was prominently seen in the late-stage startups where funding dropped by 47% from \$33 bn to \$18 bn
- Bengaluru and NCR continue to dominate the funding landscape and accounted for 60% of funding in 2022

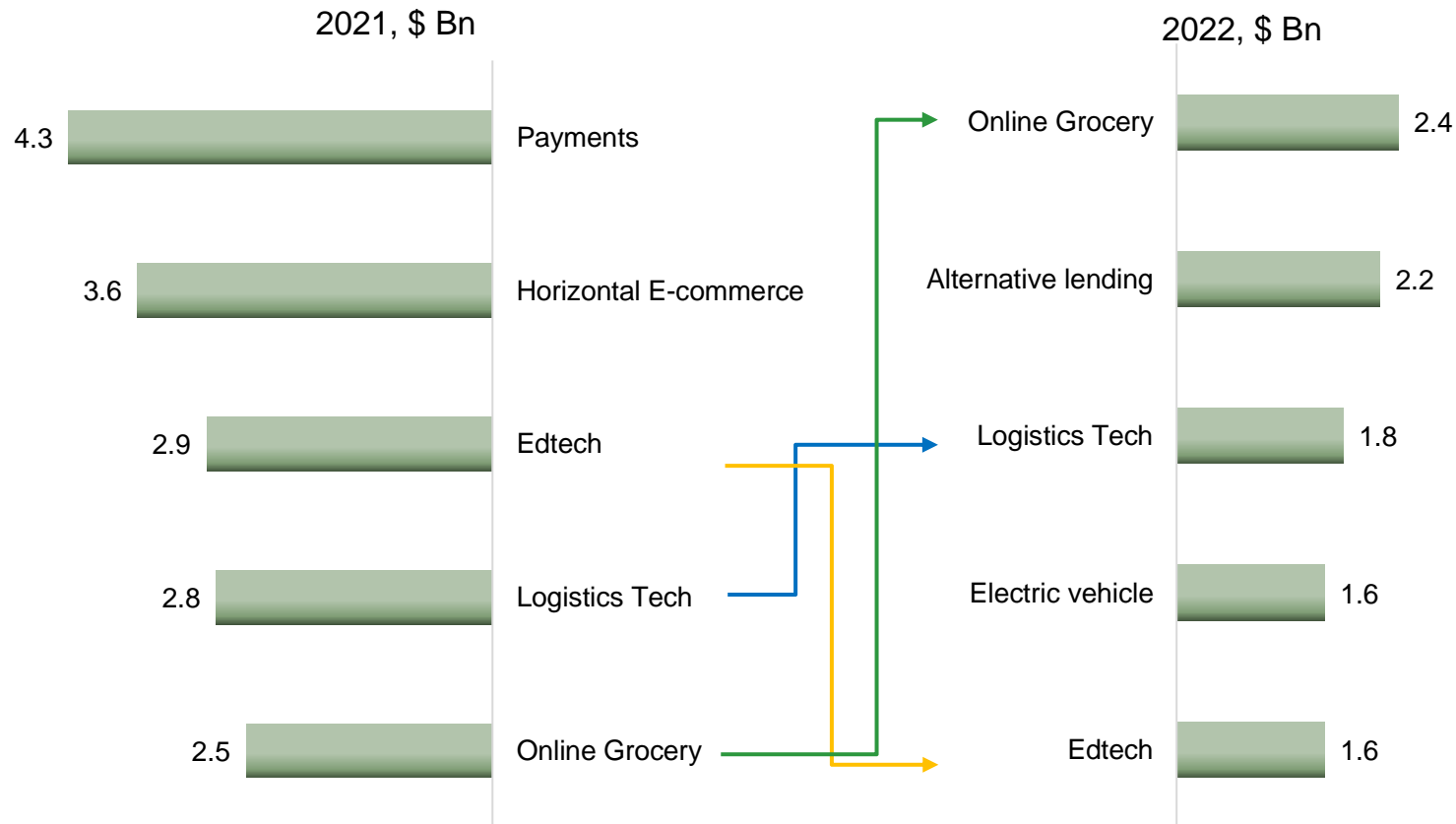
**In 2022, while there was a dip in funding, the average deal size increased to \$ 1.1 mn vs. \$ 0.8 mn in 2021**



# Top fund-receiving startup sectors in India

## Top five

### Startups funding in India: Top sectors



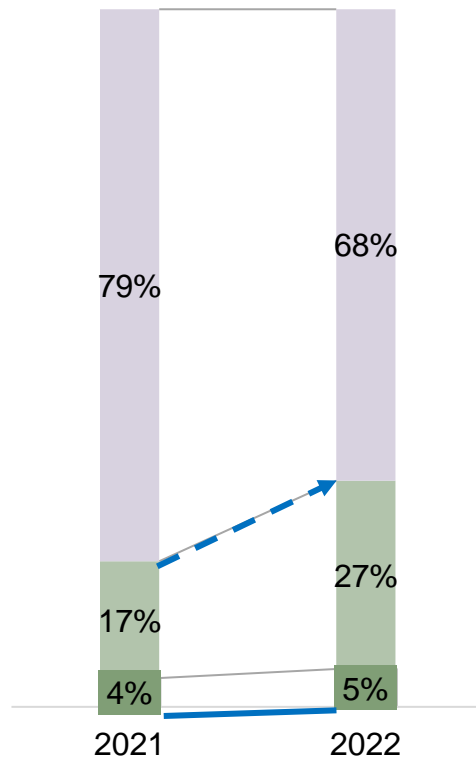
**Online grocery, logistics tech and edtech in top five sectors in 2021 and in 2022**



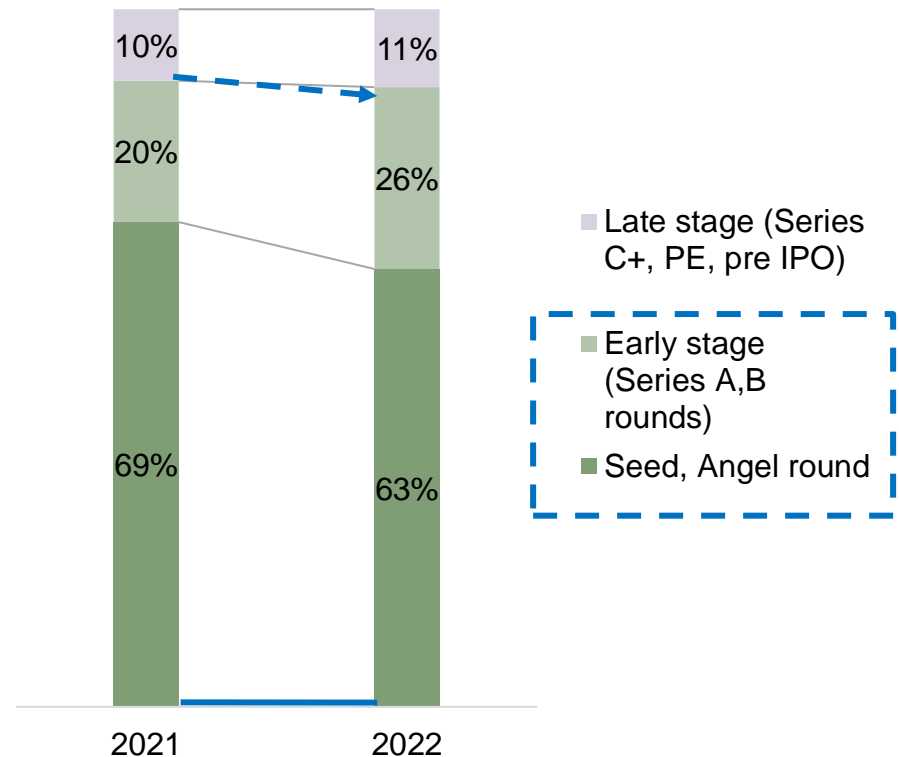
# Startup funding in India, by stage of funding

## Seed, angel and early stage funding much prominent in India

Share of funding stages in India, by value



Share of funding stages in India, by no. of rounds



The share of funding by value, of initial-stage rounds has increased significantly



# Potential investors | 'Dry powder'

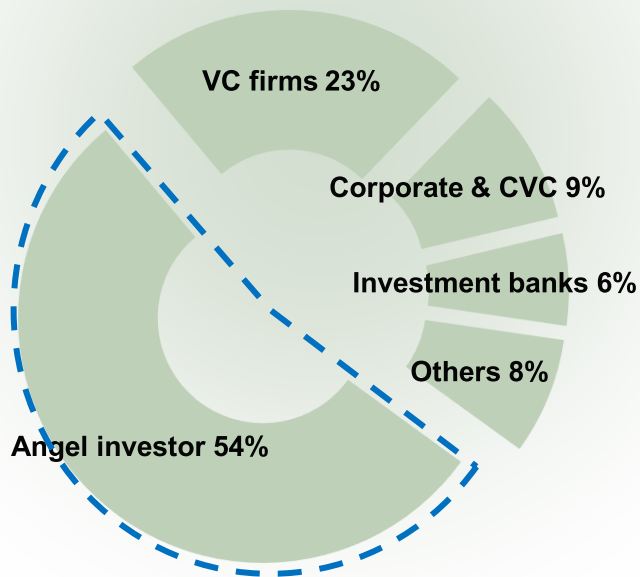
Angel investors form the bulk of the investors followed by VC firms

## Who funded startups in India in 2022:

Over 9,500 investors, including

- VC firms
- CVC funds
- investment banks
- accelerators
- government bodies
- angel investors

backed Indian startups in 2022



## Potentially ready investors:

**Venture capital and private equity firms** have **dry powder** worth \$590 billion globally.

This amount was supposed to be invested in CY21 and CY22

*According to a report by PWC*

India-focused private equity and venture capital (PE/VC) players are sitting on **unallocated capital of \$12.88 billion** — the *highest* since at least 2016

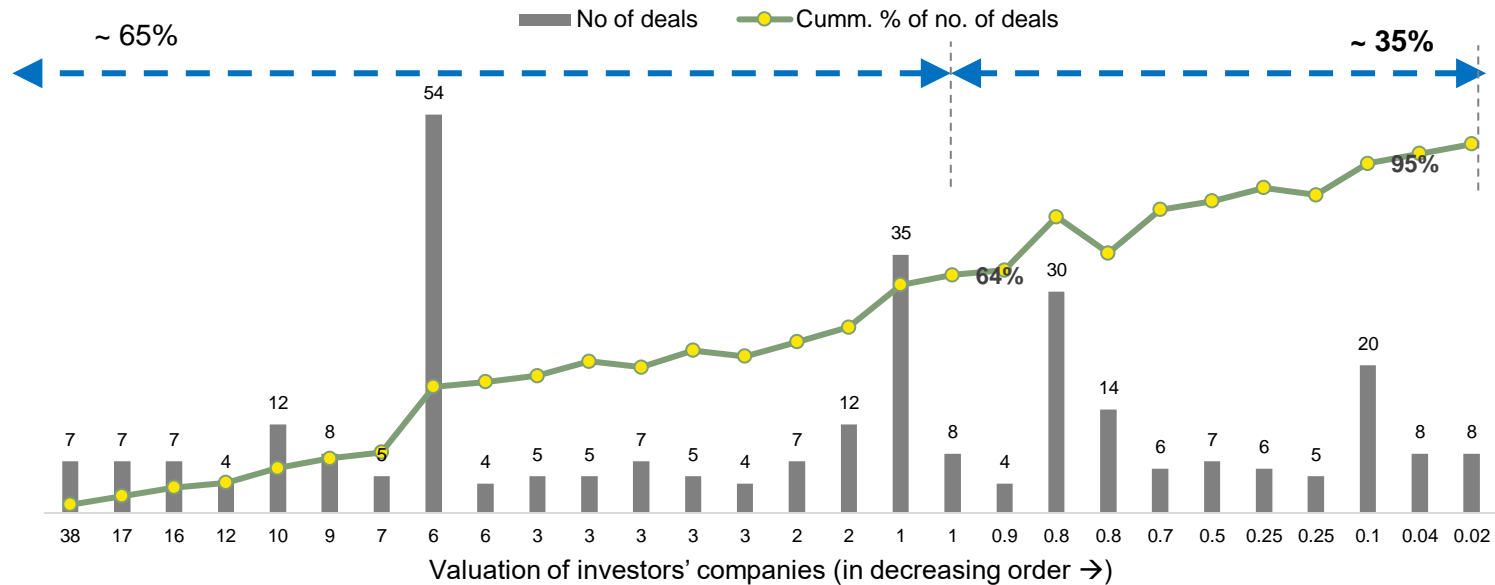
*According to investment data firm Preqin. Reported by Business Standard 25 Dec 2022*

**'Dry powder' available with PEs / VCs**



# Potential investors | Angel investors profile

65% of top 30 angel investors comprise founders of *unicorn* startups\*



- Majority of the top 30 angel investors comprise startup founders
- These investors range from founders of smaller startups to founders of unicorns
- In 2022, maximum (~ 65%) no of deals was carried out by founders of unicorn startups
- At the same time, even smaller founders (whose valuations are less than \$ 1 bn) are investing significantly (~35%)

**It is observed that in only a handful of instances, two or more investors had notable investments across common investee companies**

**This shows that investors' choices are varied and successful fundraising depends on widespread reach-out to the target set of investors**



# Typical gaps in the approach to investor search


Pertaining to (quality of) **investor deck** and investor **reach-out strategy**

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## A. Investor deck (quality)

- 1) Which **need / problem** are we solving? For which **market / customers**?
- 2) What is the **objective** of fund raising, and the **deployment** roadmap?
- 3) **What is in it** for the potential investors – strategically and/ or financially?
- 4) What is the **desired investment outcome** that investors are looking for?
- 5) What **pre-requisites** do investors seek in a startup before investing?
- 6) Are there **gaps** between what we have or are offering as against what investors desire? How do we fill the gaps?



## B. Investor reach-out strategy

- 7) What **nature** of investment fits our purpose vis. Strategic, financial, ad hoc, etc.?
- 8) Who and where could be our potential / **target** investors?
- 9) How do we target them? What customer need / problem that we are solving, should we *actually* **communicate** to the target investors? How?



# Sample investor search framework

Investor reach-out depending on the investor profile and fund raising objective

Investor segment →		Professional Investors	Corporates	Incubators and accelerators	Ad hoc Investor
Investor profile	Investment objective	Financial	Strategic	Support and develop startups	Flexible
	Desired investment outcome	<ul style="list-style-type: none"> <li>Capital growth</li> <li>Investment diversification</li> <li>Steady returns – dividend</li> <li>Capital protection</li> <li>Tax saving</li> </ul>	<ul style="list-style-type: none"> <li>Access to market / customers                             <ul style="list-style-type: none"> <li>Leverage synergies</li> <li>Access to resources</li> </ul> </li> <li>Balance sheet expansion - asset acquisition</li> <li>Business capability enhancement</li> </ul>	<ul style="list-style-type: none"> <li>Recognition</li> <li>Business ecosystem enhancement</li> </ul>	<ul style="list-style-type: none"> <li>Capital growth</li> <li>Early stake</li> </ul>
	Potential investors types	<ul style="list-style-type: none"> <li>Angel Investor</li> <li>Venture capital</li> <li>Private equity                             <ul style="list-style-type: none"> <li>I-bank</li> </ul> </li> <li>Family investment office</li> <li>Funded-entrepreneur turned investor</li> </ul>	<ul style="list-style-type: none"> <li>Corporate incumbents.</li> <li>Cos. looking for India entry</li> <li>Corporates looking to enter the sector (to which the startup belongs)</li> </ul>	<ul style="list-style-type: none"> <li>Corporate incubators</li> <li>Academic/ scientific Incubators</li> </ul>	<ul style="list-style-type: none"> <li>Friends and family                             <ul style="list-style-type: none"> <li>HNIs</li> </ul> </li> <li>Social network (funding) group</li> <li>Crowd funding</li> </ul>
Reach-out strategy	Fund raising objective	Growth	<ul style="list-style-type: none"> <li>Business strengthening</li> <li>Leveraging synergies</li> <li>Brand association</li> </ul>	<ul style="list-style-type: none"> <li>Startup expertise and knowledge</li> <li>Business management tools                             <ul style="list-style-type: none"> <li>Enhance network</li> </ul> </li> <li>Route to further investment</li> <li>Increase chances of getting acquired</li> </ul>	<ul style="list-style-type: none"> <li>Exploratory/ trial (POC stage, proving the product)</li> <li>Seed/ formation assistance</li> </ul>
	Reach-out methodology	Formal investor deck, harness professional network, 'carpet bombing', business acumen matters, due diligence, financial matters: valuation, shareholding, returns	Cultivate network, leverage relationships, 'Surgical strike', formal reach out, professional approach, strong value proposition, POC and pilot, technical detail matters	Formal application to incubator, clearly articulated technical / product idea, inhouse presentation to potential investors (through incubator)	Personal / social network, references, trust and relationship, easy to understand attractive idea



# Thank you

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