

Is India on Its Way to Become the Silicon Valley of the World?

THOUGHT PAPER

Written by **Varun Sarin**



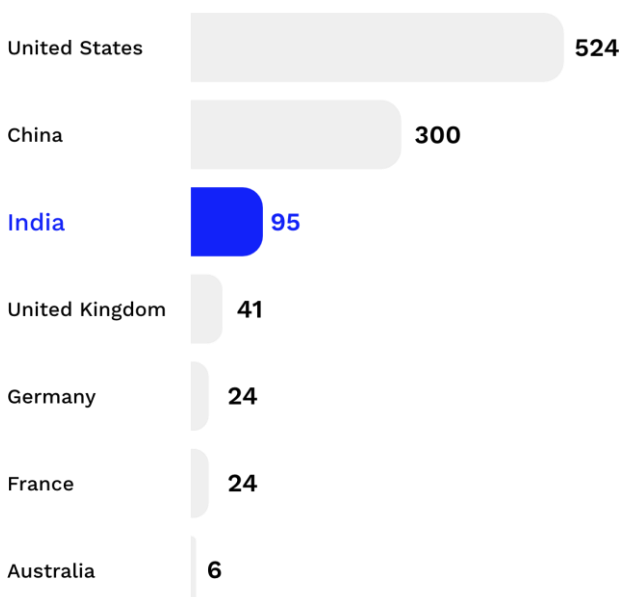
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- The Indian startup ecosystem is currently the [3rd largest](#) in the world.
- As of March 2022, India is home to [66,359 recognized startups](#).
- In Q4, FY 21-22 Indian startups raised [\\$8.4 billion in funding](#).
- India is home to [95 unicorns](#) out of which [13 were born in 2022](#) with a total valuation of [\\$319.67 Bn](#) as of 25th March 2022.

As India emerges from the shadows of the pandemic, the startup landscape of India is bustling with growth. Between October to December last year, Indian startups raised over [\\$7 Billion](#) in funding. Such huge surges in growth-stage funding and long-term investments, coupled with a few other favourable factors soon made 2021, the year of unicorns in India. Looking at the funding raised in Q4, FY 21-22, one can only predict that this year might be even better.

Today, with a steadily growing list of unicorns, India is the [3rd largest unicorn hub](#) in the world, right behind the USA (which has over 500) and China.

FIGURE 1
NUMBER OF UNICORNS, BY COUNTRY



Source: Venture Intelligence; and Failory.

The journey of startups in India

While the last two years have propelled the Indian startup ecosystem to unprecedented levels of success in many ways, this boom in technology-first companies has long been in the making.

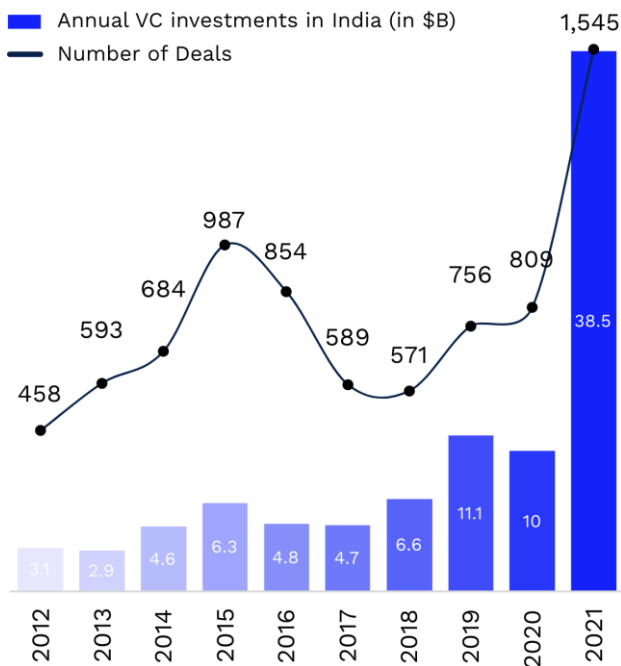
India's startup story began decades ago. Through the 80s, a handful of tech companies like TCS, Infosys, Wipro, Tally Solutions pioneered a new wave of IT services, putting India on the global map. The 90s witnessed the rise of private banking solutions with companies like ICICI Bank and HDFC Bank that fundamentally altered the way the common Indian sends, spends and saves money. These companies, while limited in number, empowered hundreds of entrepreneurial dreams. Soon, India's reputation as the IT services outsourcing hub was altered. The next generation of new-age companies was founded by entrepreneurs who had experience working with these established IT companies or had just returned from the US, having gained valuable insights from revolutionary tech companies in the Silicon Valley. As the country entered a new millennium, companies like Make My Trip, Flipkart, Myntra, Snapdeal, and Paytm started a digital movement of their own and set the tone for a new era of innovation.

As many of us would recall, it was during this time and through the years that followed, that Bengaluru held the unofficial title of 'the Silicon Valley of India'. Cut to the present, from Hyderabad to Pune to the National Capital - startups have begun sprouting across the nation, not only growing in numbers but also in diversity. Today, Bengaluru and Delhi together account for over 50% of the country's startups.

In just the last decade, India has witnessed large-scale shifts in the overall startup ecosystem. It is not only that the number of startups has grown, but the VC investing landscape in India has also evolved with time. The number of active VC funds in India incrementally grew over the last 10 years. From 2016 to 2019, the investments were fewer though higher in quality. This can be attributed to a lack of clarity in the investment environment back then. However, investing rules and the overall investment climate have changed today. The domestic public market is a lot more open to

high-growth tech companies than it was just 5 years ago. At the same time, as the country's startups moved beyond D2C e-commerce apps and into SaaS and Fintech sectors, it drove interest and showed VC investors a promising path forward.

FIGURE 2
OVERVIEW OF INDIA'S VC
INVESTMENT LANDSCAPE



Source: Bain VC deals database; Pitchbook; Venture Intelligence; AVCJ; VCCEdge.

2021 was a record year for VC funding growth. Last year, India surpassed China in VC deal value and volume, with investments growing nearly four-fold to a massive **\$38.5 billion** as compared to the year before. With public listings gaining momentum, investor confidence has only been reinvigorated by this pivotal year and 2022 promises to follow in the same footsteps.

What powers India's startup ecosystem today and in the future?

India is already on its way to becoming a startup superpower globally. The next few years will be critical in shaping the country's future in this regard. Now is the perfect time to introspect and ask ourselves: **What can accelerate this growth, how can Indian startups ensure sustainable growth and scalability and not just speed?**

1. Digital adoption

The pandemic has sped up digital transformation and technology adoption by several years. While fintech and e-commerce startups have been at the forefront of leveraging technology, other sectors like ed-tech, digital lending, logistics-tech, and food delivery have started a tech revolution of their own. Technology will continue to play a fundamental role in the growth of startups. From product innovation to setting up organizational processes - adopting new-age technology like data analytics, robotics, and AI to name a few, at every possible step will enable startups to bridge long-standing gaps in their industry and enhance the value proposition for their customers.

Tech adoption will look different for different sectors.

Take India's **growing logistics tech sector**, for instance, not too long ago, manual processes and practices were the norms for India's vast and fragmented logistics sector. Today, with the emergence of tech startups focusing on streamlining supply chain management, simplifying the warehousing needs of businesses, and enhancing last-mile connectivity, this landscape has been altered radically. While there may be still a long way to go, these companies have been able to address the deep-rooted challenges of high logistics costs and enable automation of processes to a large extent. Leveraging technology-automation, block chain, and big data analysis, allows startups to offer end-to-end logistics solutions to address the growing needs of today's consumers while enhancing the quality and reducing operational costs for manufacturers/ suppliers.

The rise in smartphone and internet penetration is the humble enabler of the Indian startup ecosystem. Technology is fast becoming all-pervasive across demographics and both, startup

founders as well as their investors, must make the most of this opportunity.

The fintech sector is no different.

By 2026, the Indian fintech market is expected to reach [INR 8.35 trillion](#). The volume of digital transactions made by Indians in 2021 broke its own records. According to NPCI, UPI transactions in India surged to [4.56 billion, worth INR 8.27 crore](#) in December 2021. For the first time, in October 2021, we saw UPI transactions exceed the [\\$100-billion](#) mark in a month. As one of the fastest growing fintech markets, India has over [2,100 fintech companies, with 1800+ startups of which 18 have already entered the unicorn club](#).

2. Policy intervention

Governments across the world have played a vital role in pushing their country's startups to success. In the last few years, changing reforms, government initiatives, and policies have helped startups scale. Startup India - the flagship initiative of the Indian government has been designed to boost startup growth in the country. With benefits like easy access to funds, 'tax holiday' for 3 years, and simpler processes, the initiative aims to build a stronger ecosystem. While these welcome changes will help strengthen new enterprises and encourage more startups to emerge, sustainable growth is only possible through long-term reforms. There is also a growing need for the government to invest in building a robust digital infrastructure that meets the increasing demand for digital services. A joint report by EY and Digital Infrastructure Providers Association states that the digital infra sector needs an investment of up to [\\$23 billion by 2025](#). For the startup revolution to take shape, such investments along with an open regulatory environment are vital.

3. Diverse investments

In what can only be described as a record-breaking year in the global startup ecosystem, Indian startups raised a whopping [\\$42 billion](#) in 2021. As mentioned earlier, the growth in VC funding has a fundamental role to play in this but it is angel investors who play an irrefutably crucial part in the formative years of a startup. Early-stage startups rely heavily on external investment support and a thriving angel investor community is essential to enable this growth.

In the backdrop of a mature ecosystem, a rising number of unicorns, and the number of startups going the IPO route, angel investments have increased substantially. Early-stage investor, LetsVenture's data shows a [75% YoY increase](#) in new angel investors in 2021, coupled with a significant rise in the number of investors from outside of India. An important observation here is that Indian startup founders must expand their investor search to the global terrains.

Another key shift noted in the angel investor network is the changing profile of Indian investors. Investments are no longer restricted to seasoned individuals. Today, a large number of Indians from different walks of life are keen on fostering entrepreneurship in the country. The typical investor profile now includes young tech executives, investors from non-metro cities, and a growing community of women investors. These changes paint a positive picture for the future of early-stage startups from different sectors and geographies.

4. CXO Talent

Given the current boom, it is only natural for startups to make ambitious hiring plans to strengthen their senior leadership. In 2022, Indian unicorns and soonicorns are set to [double their CXO hiring](#). This is a direct result of growing investments/ funding and the overall momentum of the startup economy. These factors also influence how top-level view startups. A recent survey of over [2,50,000 founders](#), investors, and senior leaders showed that [74% of senior professionals](#) would prefer to work in a startup than in a large enterprise. Following 'The Great Resignation' many C-level executives exited larger companies and moved to new-age ones. This trend is a big positive for startups as CEOs/CXOs are of the essence to the next burst of growth.

Way forward

[On the back of rapid digitization, the Indian startup economy is on the road to unprecedented progress, making it a massive strategic opportunity for global investors and companies. A more innovative and diverse startup landscape will only evolve when funding and investments for startups increase at all stages, from various avenues.](#)

About the Author



Varun has over 20 years of experience in the corporate world, of which the last 15 years have been in executive search where he has led and managed critical client relationships across diverse industries. While working at

EMA Partners, he managed engagements that span the sr. leadership suite with a special focus on Digital, Tech & IT Services, VC/PE-Portfolio and Professional Services. He was instrumental in developing firm's capabilities in the Digital & Technology space. Before co-founding PeopleAsset in December 2018, Varun was leading the tech practice at one the fastest growing executive search and hiring firm, headquartered in India.

Prior to joining EMA Partners, Varun was associated with Korn/Ferry where he was part of the Global Technology Markets (GTM) India practice. His areas of focus at Korn/Ferry included: Business & Professional Services, Business Information Services, IT/ ITeS, Electronics, Software & Emerging Technologies, Consulting, Big Data & Analytics, HR, and Finance. Earlier, between 2008-2011, Varun ran his own search firm before which he was associated with a niche economic, business and market research firm, IMA India.

Varun comes in with multi-domain, multi-functional expertise in Executive Search, and Leadership Coaching & Development. He had successfully completed Decision Dynamics Certification in the Executive Assessment Suite, is an Executive Coach, and regularly advises early-stage ventures/ entrepreneurs.

About PeopleAsset

PeopleAsset is a boutique Executive Search & Talent Advisory Firm geared to deliver high quality results. We help our clients dramatically improve performance through focus on leadership & talent.

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Varun Sarin is the Co-founder, Director at PeopleAsset.
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