

India's Startup Boom

– now the third largest startup nation in the world

India's economy is growing fast, as is the interest investors and foreign governments are showing in it. One area of the Indian economy that has really taken off lately is that of startups. In this report, Growth analysis' New Delhi office presents an introduction of the Indian startup ecosystem to Swedish stakeholders.

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Foreword

India's economy is growing fast, as is the interest investors and foreign governments are showing in it. One area of the Indian economy that has taken off lately is that of startups.

During his visit to India in February 2016, Swedish Prime Minister Stefan Löfven and his Indian counterpart Narendra Modi agreed to explore how the two countries could form an innovation dialogue.¹ Swedish research funders like Vinnova and the Swedish Energy Agency already have collaborative innovation projects with Indian partners.

With this background, Growth Analysis in New Delhi has taken the initiative to write this report, where we introduce the Indian startup ecosystem to Swedish stakeholders.

This report was written by Andreas Muranyi Scheutz and Felix Nyström, Growth Analysis in New Delhi

Stockholm, June 2016

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¹ Regeringen.se “Joint statement by Prime Minister Stefan Löfven and Prime Minister Narendra Modi”

Förord

Tillväxten i den indiska ekonomin är hög. Så är även intresset för landets ekonomi från investerare och utländska regeringar. En av de starkaste tillväxtsektorerna i Indien är startups.

När statsminister Stefan Löfven besökte sin indiska motpart Narendra Modi i februari 2016 kom de överrens om att utforska hur de två länderna skulle kunna utveckla en innovationsdialog. Svenska forskningsfinansiärer som Vinnova och Energimyndigheten samfinansierar redan innovationsdrivna forskningsprojekt med indiska motparter.

Med den bakgrunden har Tillväxtanalys i New Delhi tagit initiativ till att skriva den här rapporten, i vilken det indiska startup-ekosystemet beskrivs.

Rapporten är skriven av Andreas Muranyi Scheutz och Felix Nyström, Tillväxtanalys i New Delhi.

Stockholm, juni 2016

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Summary

In the last few years, India has emerged as one of the world's largest startup centers. It is expected that India is home to 4 200 startups, making it the third largest startup nation in the world, after the US and the UK. 2015 was a record year for startups in India both in terms of deals being made and in terms of the value of those deals. Similarly, the number of incubators and accelerators has also increased dramatically. The Indian government too, has stepped up its support for startups, launching a special fund to invest in startups as well as offering startups tax breaks and bureaucratic simplifications within the *Startup India* program.

India's young population and the country's fast economic growth coupled with the mobile revolution that India is experiencing are likely to lead to massive consumer growth. A lot of firms are betting that this growth will come from e-commerce, which is the number one business sector of Indian startups. Interestingly, due to India's large domestic market, most Indian startups, including all but one of its eight *unicorns*, focus on the Indian market.

Bengaluru is recognized as India's startup-hub. Moving forward, other cities are beginning to challenge Bengaluru as well as Delhi and Mumbai as the best places to set up a startup in the country. However, the trend of startups shifting headquarters abroad – primarily to Singapore – is picking up steam as companies want to get out of India's cumbersome bureaucracy, high taxes and poor record of successful public offerings.

More than launching the Startup India program, the key to sustaining India's startup boom is for the government to continue its efforts in making India easier to do business with – and in.

Sammanfattning

Under de senaste åren har Indien trätt fram som ett av världens främsta startup-länder. Enligt beräkningar finns det 4200 startups i Indien, tredje flest i världen efter USA och Storbritannien. 2015 var ett rekordår för startups i Indien, både vad gäller antalet investeringar och vad gäller värdet på dessa. Samtidigt har antalet inkubatorer och acceleratorprogram i landet ökat snabbt. Den indiska regeringen har i samband med detta lanserat satsningar för att främja startups i form av programmet *Startup India*, genom vilket en statlig riskkapitalfond bildats samt att olika skatter och byråkratiska lättnader erbjuds för startups.

Indiens unga befolkning kopplat till landets snabba ekonomiska tillväxt väntas leda till en omfattande ökning i konsumtion. Många företag tror att denna ökning kommer att ske inom e-handel, vilket är den största sektorn för indiska startups. Värt att påtala är att de flesta av landets startups (däribland de flesta av Indiens *unicorns*) fokuserar på den inhemska marknaden, tack vara dess storlek.

Bengaluru ses som Indiens startup-huvudstad. Framöver väntas fler städer ta upp kampen med Bengaluru, Delhi och Mumbai om var det är bäst att etablera sin startup. Samtidigt flyttar fler och fler framgångsrika startups utomlands – främst till Singapore.

Utöver lanseringen av Startup India-programmet är det därför viktigt för landets regering att fortsätta sina ansträngningar för att göra det lättare att göra affärer i och med Indien.

1 India's Startup Boom

1.1 Background²

In recent years, India has emerged as one of the world's largest startup centers. In fact, the more than 4 200 startups currently operating in the country make India the third largest startup nation in the world, behind the United States and the United Kingdom but before Israel and China. Among these are eight so-called *unicorns* (startups with a valuation of more than 1 billion USD), namely Flipkart, InMobi, MuSigma, Ola, Paytm, Quikr, Snapdeal and Zomato.

2015 was a record year for startups in India. Partly in the sense that a record 1200 new startups were founded and partly because of the massive inflow of funding to Indian startups. In fact, Indian startups were fueled with about 9 billion USD (73 billion SEK) of new capital in 2015, an increase of nearly 100 per cent compared to 2014. The capital was invested across 1000 deals, a three-fold increase over the year before. On the other hand, about a third of all funding went to just 7 companies (all the unicorns mentioned above, besides MuSigma).³ During 2015, eight out of the ten largest investors in Indian startups were foreign, primarily international venture capitalist firms.

Meanwhile, the number of incubation and accelerator centers in India has also risen dramatically in recent years, now totaling around 110.⁴ Also noteworthy is the young age of Indian entrepreneurs. 72 per cent are below the age of 35, making India the world's youngest startup-nation. This is in line with India's overall demographic trends, since 65 per cent of India's population (estimated at slightly above 1.3 billion people) is under the age of 35.

India's young population combined with its fast economic growth (7.5 per cent in 2015) and the mobile revolution (India will have 650 million smartphone users by 2019, according to one estimate)⁵ are key contributors to the increased interest among foreign investors in India as this is likely to lead to massive consumer growth. The e-commerce market is projected to reach 100 billion USD (810 billion SEK) in sales in 2020, up from 11.5 billion USD (93 billion SEK) in 2015.⁶

In 2014, start-ups created 65 000 new jobs in India, in 2015 a further 80 000 new jobs were created and by 2020 the number is expected to touch 250 000 annually. This might not seem like much in a country with a workforce of some 500 million people, but it's actually quite substantial, as this is a contribution to India's formal sector. The largest part of the work force (more than 90 per cent) are employed in the informal sector (primarily in agriculture), which bars them from welfare benefits (and also mean that they don't pay income tax). Interestingly, more and more graduates of India's top management and

² Nasscom (National Association of Software and Services Companies) Startup report 2015. When not otherwise quoted, this report is the source of a majority of information in this report and readers are encouraged to read it themselves. There is no universal definition of what a startup is, but one reads "a startup is an organization formed to search for a repeatable and scalable business model", see "What's A Startup? First Principles".

³ YourStory "Indian Startups Funding Report 2015".

⁴ Growth Analysis has previously reported on accelerators (in India and elsewhere), see "Hänt i världen hösten 2015 – Digitala accelerators koppling till industrins behov", 2015-10-08.

⁵ Economic Times "India to have 651 million smartphones, 18.7 million tablets by 2019", 2015-02-03.

⁶ Financial Times "Flipkart: midweek dinners and a job switch", 2016-04-06.

engineering schools are opting to start or join startups rather than joining big corporations, which used to be the norm.⁷ Overall, a recent study found that 90 per cent of Indians – irrespective of age – want to become entrepreneurs.⁸

Finally, this paper gives an overview of the Indian startup ecosystem, covering not only the startups themselves and the business sectors they operate in, but also topics such as funding, government support, prominent startup locations and examples of incubation centers and accelerator programs. This paper is not intended to act as an index of Indian startups nor incubators, rather it gives an introduction to the startup ecosystem in a condensed manner. The reader should also bear in mind that the report is written from an outsider's, in this case Swedish, perspective.

1.2 Indian Startups: some examples

With more than 4000 startups in India, one finds startups involved in all sectors imaginable. The biggest though, in terms of both numbers of startups and amount of funding received (in 2015), are found in the e-commerce, aggregators⁹ and consumer services sectors. Thanks to India's large and growing domestic market, most startups (and indeed the big unicorns) are India-focused rather than looking abroad. Promising verticals in the coming years are internet of things (IoT), analytics, health-tech and hyperlocal e-commerce. In this section, three of India's most famous startups (all unicorns), spanning two sectors, will be briefly introduced.

Big players (like Flipkart and Snapdeal) aside, the average size of an Indian startup is somewhere around 25 to 30 employees.¹⁰

1.2.1 E-commerce: Flipkart and Snapdeal

With about a fifth of the total number of startups, e-commerce is the dominant sector in India's startup boom. The biggest of these are Flipkart and Snapdeal. From a Swedish perspective, it is worth noting that in April 2015 a major Swedish investment firm, Kinnevik, participated in a round of investment led by the global venture capital firm Tiger Global in online classified advertising platform Quikr. The total amount raised was 150 million USD (1.2 billion SEK) out of which Kinnevik put up 40 million USD (325 million SEK).

Flipkart

Flipkart was founded in 2007 by two IIT (Indian Institute of Technology) Delhi alumni. The company currently has more than 30 000 employees and is currently valued at 11 billion USD (90 billion SEK).¹¹ It currently has a 45 per cent share of the e-commerce market in India. Flipkart has also recently launched its own brand of electronics called *DigiFlip*, to be sold exclusively through Flipkart's website. The company currently ships 8 million packages a month.¹² The company is registered out of Singapore, but operations are run from Bengaluru. Recent rumors speculate that Flipkart might be taken over by

⁷ Economic Times "Young leaders: At top B-schools, more graduates opt for startups", 2016-03-04.

⁸ Hindustan Times "93% Indians want to be entrepreneurs: Study", 2016-04-13.

⁹ An aggregator can be defined as a website or computer software that aggregates a specific type of information from multiple online sources.

¹⁰ Estimate given by industry expert from iSprit (India Software Producer's Industry Roundtable).

¹¹ YourStory "Morgan Stanley slashes Flipkart's valuation by over 25 per cent", 2016-02-27

¹² Financial Times "Flipkart: midweek dinners and a job switch", 2016-04-06.

Amazon (which currently has a 12 per cent share of the Indian e-commerce market).¹³ Major investors include Accel Partners, Morgan Stanley, DST Global and Tiger Global, in other words many of the world's leading venture capital firms, as well as Singapore's sovereign wealth fund. In its biggest deal of 2015 (and indeed since it was founded), Flipkart received 700 million USD (5.6 billion SEK) in an investment round lead by Tiger Global.

Snapdeal

Snapdeal was founded in 2010, also by two IIT Delhi alumni. It currently has a 26 per cent share of the market (down from 32 per cent in 2014) and is valued at 6.5 billion USD (52 billion SEK). Although smaller than Flipkart, Snapdeal claims to have more transacting users than Flipkart and Amazon combined, at more than one million a day. The company's ambition is to reach 20 million daily transacting users by 2020.¹⁴ Major investors include Blackrock, Temasek Holdings, SoftBank, Alibaba and Foxconn. The latter three led Snapdeal's biggest investment round of 2015 (and, just like Flipkart, the biggest deal since its inception), totaling 500 million USD (4 billion SEK).

1.2.2 Aggregators

Numbering nearly 500 startups, aggregators are India's second largest startup sector. The sector received an estimated 1.1 billion USD (9 billion SEK) in funding in 2015, a majority of which was going to Ola. Another noteworthy startup in this sector is OYO Rooms (a platform for hotel bookings), which during 2015 acquired its fellow Indian startup – and rival – ZO Rooms.

Ola

Ola, or OlaCabs, is India's largest Taxi aggregator in harsh competition with global rival Uber. The company was founded in Mumbai in 2010 but is now headquartered in Bengaluru. Ola shifted its headquarters due to the fact that Bengaluru proved to be a much better place to find talented employees. It currently has more than 350 000 taxis registered on its platform, in more than 100 cities across India (although 90 per cent of bookings come from just seven cities) compared to Uber's 18.¹⁵ Ola claims to be growing its ridership at 40 per cent every month, and is currently valued at 5 billion USD (40 billion SEK). Ola has also entered into a partnership with China's biggest taxi aggregator Didi Kuaidi, allowing users to book taxis on each other's platforms. Major investors include DST Global, Tiger Global and SoftBank.

1.3 Startup-hubs

Over the last years, three cities have emerged as the most-favored locations for founding and setting up startups, namely Bengaluru, Delhi and Mumbai, in that order. These three cities combined hosts two thirds of all Indian startups. Other cities such as Hyderabad and Chennai also have solid startup ecosystems in place. Below these will be introduced briefly, while also giving examples of noteworthy incubators and accelerator programs in the respective cities.

¹³ TechCircle "Flipkart & Amazon – Can a marriage work?", 2016-03-17.

¹⁴ Economic Times "Etail giants like Snapdeal, Amazon lose market share in 2015; small etailers emerge as real winners" 2016-02-26

¹⁵ The Hindu "Ola to pump in Rs. 200 crore to ramp up CNG fleet", 2016-03-17 och The Financial Express "Taxi aggregator Ola: The big numbers in 10 points", 2015-10-27.

1.3.1 Bengaluru

Bengaluru has about 8.5 million inhabitants and is considered the “startup capital” of India. In a global ranking of the best startup ecosystems, Bengaluru was ranked 15th.¹⁶ About 26 per cent of all Indian startups are headquartered in Bengaluru, making it the biggest startup-hub in India and the third largest in the world. Sometimes also called “the Silicon Valley of India”, Bengaluru is the nation’s largest IT services exporter, serving as a base of many multinational IT-companies. Previously known primarily as an outsourcing center, Bengaluru is now full of innovative start-ups. Some of the major startups based out of Bengaluru include Flipkart and InMobi (who have since moved their corporate headquarters to Singapore), Ola, Quikr and MuSigma.

Major tech companies like Infosys and Wipro are headquartered here, as is the Indian Space Research Organization (ISRO). Global IT industry players like Cisco, Oracle and Yahoo also have a big presence in Bengaluru. Airbus and Visa also has technology centers in the city. Many of India’s leading educational institutes, like the Indian Institute of Science (IISc) and Indian Institute of Management Bangalore (IIMB) are also located in Bengaluru. For the reasons stated above, global consultancy firm Capgemini has cited Bengaluru as the world’s fifth highest ranking innovation center.¹⁷

According to the Nasscom report cited earlier, the focus areas of startups in Bengaluru are e-commerce, Consumer Services, Hyperlocal e-commerce and Analytics.

Notable incubators in Bengaluru include the Society for Innovation and Development (SID) at IISc, focusing on science-driven startups in general; the NS Raghavan Centre for Entrepreneurial Learning (NSRCEL) at the IIM-B¹⁸, focusing on ICT, cleantech and embedded systems; the Innovation Centre at the International Institute of Information Technology Bangalore (IIIT-B), focusing on IT; and c-Camp at the National Centre for Biological Sciences, focusing on entrepreneurship related to bioscience. On the private side, Microsoft Ventures runs successful accelerator programs in Bengaluru, as does TLabs, which is run by the newspaper group Times of India. Airbus has recently launched its BizLab accelerator program in Bengaluru, too.

1.3.2 Delhi

Delhi’s metropolitan population is estimated at around 25 million people, including cities such as Gurgaon (or *Gurugram*, in Haryana) and Noida (in Uttar Pradesh). The Delhi area is home to 23 per cent of Indian startups, many of which are indeed headquartered in Gurgaon and Noida. The focus areas for startups in the area are e-commerce, enablers¹⁹, aggregators and hyperlocal e-commerce. Noteworthy is the fact that Delhi-based startups received the highest amount of funding in India in 2015.

Famous startups headquartered in the region include Snapdeal, Zomato and Paytm. Good examples of incubators include the Technology Business Incubator (TBI) at IIT Delhi, focusing on technology entrepreneurship; and the privately run Indian Angel Network

¹⁶ Compass.co “The Global Startup Ecosystem Ranking 2015”, August 2015

¹⁷ Capgemini “Digital Dynasties: The Rise of Innovation Empires Worldwide”, June 2016.

¹⁸ IIM Bangalore was recently ranked as India’s number one business school in a central government commissioned ranking. Bangalore’s official name has been changed to Bengaluru (just like other cities earlier, like Bombay being changed to Mumbai and Madras to Chennai), but some institutions have kept their original names.

¹⁹ Enablers are firms offering specialized services to support operations of other firms.

(IAN) Incubator, focusing on IT, telecom, education technology (edtech) and healthtech among others.

1.3.3 Mumbai

Mumbai is India's financial and commercial capital and home to many of India's largest conglomerates and banks. Mumbai is home to about 20 million people and 17 per cent of India's startups. The sectoral focus here is primarily towards aggregators, e-commerce and hyperlocal e-commerce.

Ola was founded in Mumbai, but has since moved its base to Bengaluru. Famous incubators in the city include the Society for Innovation and Entrepreneurship (SINE) at IIT Bombay, focusing on technology entrepreneurship; and Zone Startups India (ZSI) a joint venture between the Bombay Stock Exchange (BSE) and Ryerson University from Canada, focusing on technology entrepreneurship, primarily within the B2B-segment.²⁰

1.3.4 Hyderabad

Hyderabad is the capital of the newly formed (June 2014) state of Telangana and has about 8 million inhabitants.²¹ Like Bengaluru, Hyderabad has been successful in attracting foreign IT-companies, with the likes of Microsoft, Google, IBM, Yahoo, Dell and Facebook, among others, having established themselves there. Hyderabad is also a center for the Indian pharmaceutical industry, being the headquarter of big players like Dr Reddy's Laboratories and Aurobindo Pharma. After forming a state of its own, the government of Telangana has been very forward-looking in developing business-friendly policies and incentives to attract new investments. It has singled out Bengaluru as its main rival for investments and wants to gain a greater share of India's IT-exports. It also wants to challenge Bengaluru's role as India's startup capital, with the state government sponsoring institutions to nurture Hyderabad into being more startup-friendly. Nonetheless, it is already home to 8 per cent of India's startups.

In Hyderabad, the state government of Telangana has recently launched T-Hub as the center of all entrepreneurship and startup activities in the state. T-Hub has an incubation program of its own, while also teaming up with accelerators from across the state. T-Hub also offers facilities for co-working spaces, meetings, mentoring, networking sessions (with mentors and investors affiliated with T-Hub) and conferences.

1.3.5 Chennai

Chennai has around 7 million inhabitants and is known as the "Detroit of India" for its booming automobile industry. 30 per cent of India's automobile industry and 40 per cent of its auto components industry is based here. It is also the base of telecom and electronics manufacturers like Dell, Wipro, Foxconn and Siemens. Furthermore, Chennai is second only to Bengaluru when it comes to IT exports out of India. Chennai hosts 6 per cent of India's startups, primarily focusing on enterprise software (Software as a Service, SaaS) and analytics.

Noteworthy incubators include the Incubation Cell at IIT Madras, focusing on technology- and knowledge-based ventures.

²⁰ Growth Analysis has previously reported on ZSI, see "Zone Startups India", 2016-03-10.

²¹ For more information regarding Hyderabad, see Growth Analysis report "Innovativa metropoler" – Hur attraherar världsstäder kunskaps-intensiv verksamhet?", 2016-05-13.

1.4 Government initiatives

1.4.1 Indian government initiatives

Private players play the dominant role in the nurturing of startups in India, particularly in the form of accelerators and incubators. The Indian Government is, however, involved in promoting the start-up culture by developing new policies, including for instance early-stage funding.

In early 2016, the Indian government launched the *Startup India* initiative, the first of its kind in India. The program incentivizes startups by exempting them from both corporate taxes for a period of three years and certain labor laws as well as promising improved processing times when dealing with government bureaucracy and the setting up of a 100 billion INR (12,7 billion SEK) fund-of-funds for investments into startups. The government also released the criteria a company must adhere to in order to receive these benefits, namely that it is no more than five years old; has a turnover not exceeding 250 million INR (32 million SEK); and that it works in the field of innovating, developing or commercializing new products, processes or services that are driven by new technology or intellectual property. As such, the Indian definition is somewhat similar to that of a recently released report by the Swedish Ministry of Finance on taxation of stock options (which primarily relates to startups) in the way that it incorporates size (in terms of both number of employees and turnover) and the age of the company as a parameter in determining if the company is eligible for the tax break.²² Currently, state-run incubators will “license” startups for eligibility of the program, but the government is about to allow private incubators to do this as well.²³ Around 60 per cent of Indian startups are estimated to be eligible to take part in this program.²⁴

Moreover, in the central budget of the financial year 2016/17, a significant part of the 17 per cent appropriation increase of the Department of Science and Technology (DST, under the Ministry of Science and Technology) is intended to go to increased support of incubators and to some extent funding of startups. 25 tech-focused incubators will be established and DST will fund 50-80 startups with 5 to 10 million INR each (0.6 to 1.2 million SEK).²⁵

Incubators

The origin of incubation centers in India is quite a recent phenomenon, according to a study by Innovation Centre Denmark in India (ICDK).²⁶ The same report found that a majority of the university-linked incubators in India, funded by the government, follow a similar revenue model, which is a combination of rent, equity and revenue share. The process of incubation is also similar, whereas the focus sectors of incubators differ. The study found that university students working as interns at the incubated companies are a key element in the development of the startups as well as the incubation centre itself. In terms of focus areas, it was found that the number of institutions focusing on nurturing technology-driven ventures is the most common. The same report also found that most university-linked incubators are open for applications of startups without any prior

²² Regeringen “Beskatning av incitamentsprogram”, (page 253), 2016

²³ Economic Times, “Private incubators too may be allowed to certify startups”, 2016-06-08

²⁴ YourStory, “Are you eligible for schemes under ambitious Startup Action Plan?”, 2016-01-18

²⁵ TechCircle “Startups get five-fold hike in budget funding”, 2016-03-10

²⁶ “Entrepreneurship and Startup Activities at Indian Higher Education Institutions”

connection to the university. Typically, the incubators provide the companies with working spaces as well as mentorship and networking activities. An index of incubators, both publicly and privately funded, is available in the appendix of this report. As mentioned below, there are also numerous private incubator facilities in India. As might be expected, with the number of startups in India being so high, most startups are not involved with these incubators. However, as for all startups irrespective of location, being accepted to a renowned incubator provides the firm with a lot of validation.

1.4.2 Private initiatives

Arguably, one of the most important roles played by the private sector in the startup ecosystem is that of early-stage investor. Across the cities mentioned in this report, and others, networks of angel investors invest in promising companies. This will be described further in the next section on funding. This section will instead focus on giving some examples of private incubation initiatives. An organization worth noting, despite not being an incubator is iSprit (India Software Producer's Industry Roundtable). iSprit is a think tank dedicated to promoting existing Indian software product companies and by developing policy recommendations to nurture that as well as a successful startup environment.

Private incubators such as T-Hub and Microsoft Ventures have already been introduced, as well as TLabs with operations in both Delhi (Noida) and Bengaluru. TLabs operates a four month program, supported by a network of some 60 mentors. The incubator currently has a success rate at over 65 per cent (meaning the share of startups receiving funding after being incubated). TLabs itself offers 50 000 USD (400 000 SEK) in investment for 8 per cent equity and over 100 000 USD worth of free tech tools and infrastructure support.

Another example is Zone Startups India (ZSI) in Mumbai. ZSI continuously incubates around 30 startups in various stages of development. While at ZSI, companies get credits for cloud storage at the likes of Amazon, IBM, Microsoft and Google. After a four month incubation period, ZSI takes an equity share of between 0.5 to 5 per cent of the company as well as a nominal fee for office space to continue working with the startups. While at ZSI, entrepreneurs continuously meet with investors (angels as well as institutions). Every year, ZSI also offers Indian startups (that don't necessarily have to be affiliated with ZSI) a chance to go to Canada for a few months in an attempt to establish themselves on the North American market in cooperation with ZSI's "sister incubators" in Canada. Conversely, ZSI also offers foreign startups the opportunity of a "soft landing" at their facilities in Mumbai. For a fee of 2500 USD (20 000 SEK) a month, companies get access to the same networking opportunities as incubated companies.

A third example is the industry body Nasscom's 10 000 Startups-initiative. The project aims to enable incubation, funding and support for 10 000 startups in India over the next ten years. Partly through incubation at Nasscom's own "Startup Warehouses" (in Bengaluru and Kolkata) and partly in aiding companies to raise funds and getting accepted into acceleration programs.

1.4.3 Foreign government initiatives

As this paper is addressing the Indian Startup System from a Swedish perspective, it is certainly interesting to note what other countries are doing in the Indian context.

Canada's involvement in the Indian startup-sphere has already been introduced through the joint effort by Ryerson University and the Bombay Stock Exchange in ZSI.

Innovation Centre Denmark, aims to invite Danish startups to India (and other markets) based on the idea of “prototyping”, which is an approach to develop and launch innovation that helps companies to determine if they are ‘building the right it’ before they invest a lot of time and effort ‘to build it right’. ICDK also has the opportunity to seed fund promising Danish startups that wants to explore the Indian market.

Switzerland’s Consulate General in Bengaluru is the home of Swissnex India, which among other things supports Swiss entrepreneurship and innovation. Swissnex helps startups, and indeed SMEs, with elementary market intelligence, recruitment and office space at Swissnex in Bengaluru, while also getting access to Swissnex’ network of potential business partners and funders.²⁷

The European Commission-backed Startup Europe initiative recently teamed-up with some members of the Indian startup ecosystem to establish the Startup Europe India Network (SEU-IN), hoping to bridge the gap between the startup ecosystems of Europe and India.

1.5 Availability of Funding

As was mentioned in the introduction, 2015 was a record-breaking year in terms of funding for Indian startups. 2015 also saw more than a tripling of active investors in India, moving from 220 in 2014 to 490. This massive increase in funding was primarily driven by investors’ high expectations of the Indian market, but also the fact that valuations of foreign startups offering similar products our services (as those of Indian startups) went up, which lead funders to prioritise the “affordable” Indian startups.²⁸

Although the lion’s share of the funding went to just a few companies, the total number of companies being funded more than doubled in 2015. As was pointed out in the short introductions of Flipkart, Snapdeal and Ola, global investors and corporates are betting big on the Indian startup scene. Tiger Global, Sequoia Capital, Softbank, Warburg Pincus, and Alibaba are among the top investors, having all participated in deals worth more than 500 million USD (4 billion SEK).

In terms of number of deals executed, Sequoia Capital was the most active with 46 deals, followed by Tiger Global at 35, Accel Partners at 33, IDG Ventures with 32 and SAIF Partners with 26. SAIF partners being the only Indian funder among the top-five.²⁹

These are later-stage funders though. When it comes to seed financing, India has big communities of angel investors in all major cities. Examples of these are Mumbai Angels, Indian Angels Network (IAN) and Let’s Venture.³⁰ The Angel communities of Indian cities are well-connected, and it’s not uncommon that startups get to pitch for Angel networks across India.

After the funding frenzies of 2014 and 2015, figures from the first quarter of 2016 show a marked decline. In the first three months of 2016, the number of deals dropped by a quarter compared to the same period 2015. Moreover, the total value of the deals made during the first quarter took an even sharper turn as they tumbled by 80 per cent from 1.79 billion

²⁷ For more on Denmark and Switzerland, see Growth Analys’ report “Samspelet mellan innovations- och handelsfrämjande – Danmark på hemmaplan och i fält” and ”Samspelet mellan innovations- och handelsfrämjande – Schweiz på hemmaplan och i fält”

²⁸ Economic Times, “Venture capital funds total to Rs 15,600 crore into Indian startups this year; surpasses inflow in all of 2014”, 2015-06-29

²⁹ YourStory “The top ‘Jedi Master’ investors of Indian startups in 2015”, 2016-01-04

³⁰ A list of Angel networks is available at “The Top 37 Most Active Angel Investors of India For Startups”, 2016,01-19

USD to 337 million USD (14.5 billion SEK to 2.75 billion SEK). On the other hand, one should keep in mind that 2014 and 2015 really were extraordinary in terms of funding.³¹

1.6 Issues

When discussing startup-hubs however, it is also important to note that some of India's most successful startups have shifted their headquarters to Singapore, which has become somewhat of an Indian startup-hub abroad. Two examples of this are unicorns like Flipkart and InMobi, but a lot of smaller companies seem to be doing the same. According to one estimate, approximately 200 Indian startups relocate to Singapore every year, and the trend is increasing. Singapore's ranking as the world's easiest place to do business (according to the World Bank's index) compared to India's position as number 130 is the major reason for this. More specifically, corporate taxes are lower, paying those taxes is easier and compliance norms are smoother. As such, startups that move their headquarters to Singapore typically keep their operations and almost all of its employees in India as this is still their main – and often only - market.³²

Some of the issues faced by startups in India include the overall difficulty of doing business in India. Improving this ranking stands high on the government's agenda though. When looking at startups specifically, regulation in terms of reoccurring payments (the major source of revenue for software companies offering their products on a subscription basis) forces a lot of firms to set up business abroad in order to process these. Another issue is the difficulty in complying with bureaucracy, which the government hopes to address by the reforms in the Startup India program.

Regarding some of the components of the Startup India program, experts that Growth Analysis has been in touch with say that the tax breaks on profits during three out of the first five years as offered in program are unlikely to have a big effect, as startups tend to not make any profits during their first years.

1.7 Opportunities for Sweden?

For any startup looking to massively scale up their customer base, India offers a unique opportunity with its large population of young people and its fast rise in usage of smart phones. Meanwhile, the Indian market is very complex, Swedish stakeholders might therefore consider exploring the Indian market, while keeping in mind India's state of development.

If interested, a Swedish startup registering itself in India would in principle be eligible for the Startup India scheme, provided its product or service lives up to the specified criteria. Swedish startups considering venturing into India might also consider contacting Business Sweden (who has special programs for SMEs wanting to venture abroad), or applying to some of the incubators mentioned in this report.

Finally, due to India's large domestic market, most Indian startups focus on the domestic market, as mentioned earlier. However, as Sweden is considered a world leader in innovation, Indian startups might consider tapping in to the Swedish innovation system as they expand abroad. Swedish stakeholders should plan – and promote – accordingly.

³¹ Economic Times "Venture capital deals in Indian startups fall by 35% during first quarter of 2016 to 90", 2016-04-02

³² Deal Street Asia "Why a majority of Indian startups are in a rush to relocate to Singapore" från 2015-10-15. Growth Analysis has previously reported on this, in "Hämt i världen våren 2016 – Born Globals: internationellt snabbväxande företag"

Appendix 1 Index of Indian incubators

This index comprises of incubators highlighted by Innovation Centre Denmark in India in their report listed earlier as well as incubators visited by Growth Analysis. One of India's leading tech entrepreneurship magazines, Inc42, has also done a ranking of India's top-20 incubators, which is well worth a look.³³

NAME	LOCATION	FOCUS AREA(S)
Society for Innovation & Development (SID)	Indian Institute of Science (IISc), Bangalore	Multiple
NS Raghavan Centre for Entrepreneurial Learning (NSRCEL)	Indian Institute of Management (IIM), Bangalore	ICT, cleantech, embedded systems
Innovation Centre	International Institute of Information Technology (IIIT), Bangalore	IT
Xavier Institute of Management & Entrepreneurship	Bengaluru	Multiple
C-CAMP	National Centre for Biological Sciences (NCBS), Bangalore	Bioscience
Microsoft Ventures	Bangalore	Technology entrepreneurship
TLabs	Bangalore and Delhi	Technology entrepreneurship
Technology Business Incubator (TBI)	IIT Delhi	Technology entrepreneurship
Society for Innovation & Entrepreneurship (SINE)	IIT Mumbai	Technology entrepreneurship
Centre for Entrepreneurship Development (CED)	S.P. Jain Institute of Management & Research, Mumbai	Multiple
Zone Startups India (ZSI)	Mumbai	Technology entrepreneurship

³³ Inc42 "The top-20 startup incubators in India", 2014-08-25

Technology Business Incubator (TBI)	Birla Institute of Technology & Science (BITS), Hyderabad	IT software, manufacturing, healthcare, energy
T-Hub	Hyderabad	Multiple
Incubation Cell	IIT Madras, Chennai	Technology, knowledge-based ventures
SIDBI Innovation & Incubation Centre (SIIC)	IIT Kanpur	Technology engineering
Centre for Innovation, Incubation and Entrepreneurship (CIIE)	IIM Ahmedabad	Agriculture, cleantech, healthcare, ICT
Innovation and Entrepreneurship Centre	IIT Gandhinagar (near Ahmedabad)	Technology entrepreneurship

Tillväxtanalys, myndigheten för tillväxtpolitiska utvärderingar och analyser, är en gränsöverskridande organisation med 60 anställda. Huvudkontoret ligger i Östersund och vi har verksamhet i Stockholm, Brasilia, New Delhi, Peking, Tokyo och Washington D.C.

Tillväxtanalys ansvarar för tillväxtpolitiska utvärderingar, analyser och internationellt kontaktskapande och därigenom medverkar vi till:

- stärkt svensk konkurrenskraft och skapande av förutsättningar för fler jobb i fler och växande företag
- utvecklingskraft i alla delar av landet med stärkt lokal och regional konkurrenskraft, hållbar tillväxt och hållbar regional utveckling

Utgångspunkten är att forma en politik där tillväxt och hållbar utveckling går hand i hand. Huvuduppdraget preciseras i instruktionen och i regleringsbrevet. Där framgår bland annat att myndigheten ska:

- arbeta med omvärldsbevakning och policyspaning och sprida kunskap om trender och tillväxtpolitik
- genomföra analyser och utvärderingar som bidrar till att riva tillväxthinder
- göra systemutvärderingar som underlättar prioritering och effektivisering av tillväxtpolitikens inriktning och utformning
- svara för produktion, utveckling och spridning av officiell statistik, fakta från databaser och tillgänglighetsanalyser
- tillhandahålla globala mötesplatser och främja internationellt kontaktskapande inom tillväxtpolitiken

Svar Direkt:

Här redovisar Tillväxtanalys de uppdrag myndigheten får i dialog med våra uppdragsgivare och som ska redovisas med kort varsel.

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