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Deluge of startups, sector bias affect early-stage funding

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Ahmedabad: Funding winter? Probably! Angel investors in Gujarat are treading with caution when it comes to pumping in money into early-stage startups: A problem of plenty and sector bias appear to be among the key reasons. The fund raised by early-stage startups in Gujarat has declined from $206 million in 2021 to $153 million this year, according to data compiled by GVFL (formerly, Gujarat Venture Finance Limited).

Explaining the phenomenon, Mihir Joshi, CEO, GVFL, said, "There is no particular dearth of capital amongst investors. However, there is an inherent demand for the right investments by most VCs. This is true across the board. Investors be it VCs or angel investors will only put in funds where returns are promising."

According to industry players, sector-bias is also one of the reasons due to which investors are cautious.

“For instance, soon after the Covid-19 pandemic, there was a wave of Ed-tech startups that pulled huge funding. However, with educational institutions and campuses resuming offline operations, the buzz fizzled out. This year, very few Ed-tech startups managed to raise funds,” Joshi further added.

Startups operating on a cash-burn model are being increasingly evaluated more critically. “A slew of startups in pharma distribution and online retail segment operate on a cash-burn model. These entities basically burn cash or say invest heavily into customer acquisition. However, investors are now closely monitoring the cost of customer acquisition and the efforts put in by startups to improve their market acceptability,” said Professor Satya Ranjan Acharya, director, Cradle, EDII’s startup incubator.

According to industry players, macro-economic factors such as inflation and slowdown in certain sectors have had little impact on investors’ wealth. However, their quest for returns remains. “The quantum of deals or funding rounds are pretty much the same in 2022 as compared to 2021. This clearly suggests that the bull run for all venture capitalists has now ended. Most investors tend to look for exits from startups within 4-5 years. This year, they’re not easily convinced and are taking into account impact of macroeconomic factors on startup performance too,” said Umesh Uttamchandani, co-founder, DevX.