

YOURSTORYRESEARCH

Q1'21 STARTUP FUNDING REPORT

STATE OF FUNDING ACTIVITY IN THE INDIAN STARTUP ECOSYSTEM AND
RELATED TRENDS IN Q1' 2021

Foreword



Shradha Sharma

Founder & CEO, YourStory

Last April, epidemiologist Marc Lipsitch evocatively wrote: "With COVID-19, we've made it to the life raft. Dry land is far away."

Exactly a year later, we find ourselves feeling a strong sense of déjà vu. It seemed like we had almost made it to dry land. Almost. But in hindsight it seems to have been a mirage of epic proportions.

The year 2021 seems to be following the pattern set by its predecessor, but with one huge difference.

The year 2020, an unprecedented one, taught the Indian startup ecosystem some valuable and unforgettable lessons that continue to stand us in good stead in the "new normal". Lessons on the importance of resilience and hardiness. Of hard work and buoyancy. Of optimism and sheer grit.

It also taught us the importance of hunkering down and showing up. Every. Single. Day. The hardiness, patience, and innovation displayed by Indian entrepreneurs was remarkable. A year later, when we evaluate the impact of the pandemic on the entrepreneurial ecosystem, it has to be said that entrepreneurs led the recovery from the front and are now poised to lead India into an entirely new direction. If resilience and empathy were the two tenets of 2020, recover and thrive seem to be the credos of 2021.

Twelve unicorns were born in 2020 - the highest ever for a year in India.

We are barely four months into 2021, and have already seen the birth of 10 unicorns. We have also witnessed the first gaming IPO with Nazara Technologies and BYJU'S acquisition of Aakash Educational, one of the biggest M&A deals in the Indian edtech sector.

It was expected that investors would be prudent in this unprecedented year, but there was an increase in funding activity in Q1'21, resonating the trust stakeholders place in Indian markets.

The Indian government's support – be it by extending the tax holiday or launching a Rs 1,000 crore seed fund for startups – and the SEBI's easing of the listing norms for startups indicates the value that the startup ecosystem has created in the past few years.

The Q1'21 Funding Report by YOURSTORY RESEARCH aims to highlight the growth of the Indian startup ecosystem. The report offers an in-depth view of the state of funding activity and key trends in the Indian startup ecosystem in January-March 2021, comparison 2015-2021, and the road ahead.

We may still be on the life raft, but we are now armed with oars to propel ourselves forward and navigate the choppy waters. India's growth story and its potential remain a strong bet, and moving further into this year we hope to open new chapters, resolve modern challenges, and see our entrepreneurs bring innovative solutions to the table.



Foreword

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Key takeaways



01

OVERALL INCREASE IN FUNDING ACTIVITY

- Indian startups raised a total of \$3.76 billion in funding across 257 deals in Q1'21.
- The total amount raised in Q1'21 increased 5 percent year on year with respect to \$3.5 billion funding raised in Q1'20. On a positive note, the total number of deals in Q1'21 grew 17.89 percent year on year from the 218 deals disclosed in Q1'20. This indicates that investors continued to adopt a cautious approach, thereby investing in small ticket-size rounds at an early stage.

02

INCLINATION TOWARDS EARLY, LATE-STAGE DEALS

- In Q1'21, startups raised \$529.37 million across 189 deals at the early stage and \$2.26 billion across 22 deals at the late stage. As COVID-19 battered the economy, Indian entrepreneurs battled hard, coming up with innovations and strategies to survive. This has pushed investors to test the waters in uncharted territories, as well as take bets on potential ideas at a higher pace. Also, with many startups looking to exit through the IPO route, there was an increase in late-stage funding activity as well. In Q1'21, late-stage funding zoomed 138 percent, while early-stage funding jumped 100 percent on basis of a consecutive Q-o-Q analysis.

03

GROWTH-STAGE STARTUPS SUFFERED

- Growth-stage startups raised \$605.5 million across 26 deals in Q1'21. In terms of the number of deals, growth-stage deals observed a 10.3 percent year-on-year decline from 29 deals in Q1'20. Further, growth-stage funding observed a quarter-on-quarter decline of 35.45 percent in amount raised and 23.52 percent in number of deals from Q4'20, where startups raised \$938.16 million across 34 deals. With the markets getting volatile and changing consumer preferences, investors seem to have adopted a wait-and-watch approach for growth-stage startups.

04

RISE IN NUMBER OF DEALS OF MORE THAN \$100 MILLION

- In Q1'21, there were 10 deals raising worth more than \$100 million each amounting to \$2.12 billion. On a year-on-year basis, there was an observed increase, as well as stability in the number of such high ticket-size deals. In Q1'20, this number was at 8 deals.

05

UNICORN COUNT CONTINUES TO RISE

- The unicorn club added three more startups in 2021 as of March 31. This included Digit Insurance, Innovaccer, and Five Star Finance. Earlier, Nasscom estimated 12 more startups would be added to the unicorn club in 2021, raising the total to 50. However, at this pace, it seems India will surpass this projection earlier than expected.

06

B2B STARTUPS AGAIN START TO GAIN GROUND

After a bumpy road in 2020, both B2B and B2C startups are coming back on track in Q1'21. In terms of value of funding raised, B2C surpassed B2B in this quarter.

- However, when compared on a year-on-year basis, B2B startups continued to gain a slightly higher ground in the investor circle. In Q1'21, the B2B segment attracted higher ticket-size deals. While B2B startups saw a quarter-on-quarter increase of 68.41 percent in total funding, B2C startups saw an increase of 72.91 percent from Q4'20. Overall, the sentiment was positive in terms of the number of deals in both the segments.

07

TIE-II CONUNDRUM CONTINUES

Before COVID-19 hit the ecosystem in Q1'20 it was expected that Tier-II would become a new expansion ground for startups as well as investors. In Q1'21, Tier-II startups saw a year-on-year increase in both the number of deals and amount raised. At the same time, there was a quarter-on-quarter decline of 54.73 percent in amount raised and a minimal rise in number of deals, compared to Q4'20, which saw \$73.9 million across 13 deals. This indicates that investors have again become more cautious towards their approach in Tier-II and a bumpy road can be expected in the next quarters.

08

THRISSUR BECOMES THE NEWEST TIER-II ENTRANT INTO TOP 10 CHARTS

- Over the past few years, many Tier-II cities have made a surprise entry into the top 10 charts by funding amount. Although the number of deals is always one or two, the amount raised creates a difference. In Q1'21, Thrissur in Kerala made it to the list. Healthtech startup Zaara Biotech, with only one deal of \$10 million, gets this Tier-II city a place in the top 10 (by funding value) in Q1'21. Overall, the Tier-I trio — Delhi-NCR, Mumbai, and Bengaluru — continues to lead the charts in terms of amount raised and number of deals.

09

GAMING TAKES THE HOT SEAT

- With Dream11's \$400-million funding, Nazara Technologies' IPO listing, and MPL expected to enter the unicorn club this year, the gaming segment is becoming immensely popular among investors, raising \$544.52 million across 10 deals. This is a substantial increase considering in Q4'20, the sector raised only \$4 million across 4 deals, while in Q1'20, the gaming industry disclosed a funding of mere \$0.4 million across 1 deal.

10

FINTECH TOPS THE CHARTS

- Fintech continues to lead the charts on a year-on-year basis. In Q1'21, fintech startups raised \$608.05 million funding across 47 deals, which is 1.76 percent more than \$597.49 million raised in Q1'20. This is also a 28.70 percent increase over Q4'20, when \$472.44 million was raised. Overall, in Q1'21, fintech was followed by edtech (\$560.81 million across 28 deals), gaming (\$544.52 million across 10 deals), ecommerce (\$525.14 million across 21 deals), and foodtech (\$250 million across one deal).

STATE OF INDIAN STARTUP FUNDING IN Q1'21

257
Number of deals

244
Unique startups funded

\$3.76B
Total raised amount

761
Number of active investors




Top 3 sectors *(by funding amount raised)*

Fintech	Edtech	Gaming
\$608.1M	\$560.8M	\$544.5M




Top 3 sectors *(by number of deals)*

Fintech	Healthtech	Edtech
47	28	28

Top 3 Indian VCs *(by number of deals)*

		
Inflection Point Ventures	Titan Capital	Venture Catalysts
10	9	7

Top 3 international VCs *(by number of deals)*

		
Sequoia	Accel	Better Capital
9	8	7

Top 3 cities



Delhi-NCR
82 deals, \$1.18B

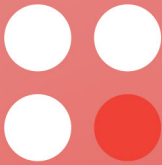


Bengaluru
79 deals, \$1.58B



Mumbai
54 deals, \$814M

SNAPSHOT



Top 3 angels in Q1'21

(by number of deals)



Kunal Shah
11



Rohit Bansal
5



Kunal Bahl
5



Ramakant Sharma
4



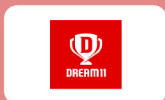
Anupam Mittal
4

Top 3 startups by funding in Q1'21

(by funding amount disclosed)



BYJU'S
\$460M



Dream11
\$400M



Udaan
\$280M

Top M&As



Aakash Educational Services, Scholr
(by BYJU'S)



PropsAMC, PropVR
(by Square Yards)

Unicorns in Q1'21



Innovaccer



Digit Insurance



Five Star Finance



Vebbler Technologies, Cognirel Technologies
(by VerSe Innovation)



Fitternity, Onyx
(by CureFit)

Soonicorn



BharatPe



BlackBuck



Urban Company

IPOs



Nazara Technologies

SNAPSHOT



Source: YourStory Research





6 Startup trends that defined Q1'21

Q1

01

CONTINUED RISE OF ONLINE HEALTHCARE; VACCINATION DRIVE

The first quarter of 2021 saw continued digitisation of healthcare, including increased adoption of remote monitoring devices, the use of deeptech in health services, and the rise in demand for teleconsultations, e-pharmacies, home care, and elder care

India's healthtech market is projected to grow by 39 percent to \$5 billion by 2023, as per an IAMAI-Praxis report.

The next few quarters will see telemedicine becoming more mainstream. *"Digitisation has enhanced access and quality of healthcare. It has helped us reach the unreachable,"* said Dr Sangita Reddy, Joint MD at Apollo Hospitals Group, during an industry event.

Additionally, riding on public-private partnerships and government impetus in terms of increased healthcare budgets, India also kick-started the world's largest COVID-19 vaccination drive in January 2021. Several startups and large corporate entities have committed to bearing the vaccination costs for their employees and families.

02

THE IPO GOLD RUSH

This quarter, Nazara Technologies made its debut on the Indian public markets with a bang. It was subscribed four times on its first day as retail investors latched on to India's first gaming IPO. The buzz around startup IPOs has peaked in the last few months, with some of India's category-defining unicorns and soonicorns — Flipkart, Zomato, Ola, Delhivery, Policybazaar, Freshworks, Nykaa — looking to go public in 2021.

Some, like Flipkart, are even considering going the SPAC (special purpose acquisition company) way of overseas listing, which has gained popularity lately. In February, clean energy startup ReNew Power became the first Indian company to list on NASDAQ via an SPAC merger with US enterprise RMG Acquisition Corporation at an \$8 billion valuation. The deal is expected to close in Q2 2021.

Industry estimates suggest close to 10 Indian startups are looking at the SPAC route for listing this year. This comes on the heels of the government's new draft regulations proposal, which allows companies to directly list on foreign bourses.

03

SEBI'S NEW REGULATION TO BOOST STARTUP LISTING

In March, market regulator SEBI unveiled new guidelines to ease the listing of Indian startups on the bourses NSE and BSE. The Innovators Growth Platform (IGP), designed specifically for the startup listing process, will now allow the issuer company to have 25 percent of pre-issue capital held by eligible investors for a period of just one year instead of the earlier two years. The stipulation regarding the trigger of open offer has also been relaxed from 25 percent earlier to 49 percent now.

SEBI has also allowed IPO-bound startups to allocate up to 60 percent of the issue size to any eligible investor with a lock-in period of 30 days on such shares. Earlier, startups going public were barred from making any such discretionary allotments. Industry experts reckon SEBI's move is aimed at encouraging Indian startups to list on domestic stock exchanges as opposed to foreign bourses. While IGP came about in 2019, it has found limited takers so far. That could change with the new rules.

04

RISE OF SAAS IN THE DOMESTIC MARKET

While SaaS may be one of India's greatest exports to the world, software services startups have begun to look for growth in the domestic market too. As businesses, especially small and medium ones, begin to rely on technology to drive operational efficiencies in a remote working set-up, SaaS startups such as Zoho, Freshworks, Druva, and Dockabl are finding lucrative opportunities in India too.

Indian businesses of all sizes have started to move their finance and HR operations to SaaS-based platforms in the first phase of adoption. The next phase of growth is likely to be driven by the need for customised white-labelled solutions for each function.

According to a December 2020 report by Bain and Co., the Indian SaaS market was worth \$6 billion in 2019, and is likely to reach more than \$20 billion by 2022. Some reckon that even the government will use SaaS solutions extensively in the next few years.

05

EDTECH SECTOR CONSOLIDATION

After witnessing explosive growth in 2020, the edtech sector is inching towards consolidation, with market leaders acquiring online and offline companies across segments — either to grow their customer base or enter new categories.

This quarter, India's largest edtech startup BYJU'S completed the acquisition of coaching centre chain Aakash Educational Services for reportedly \$1 billion. This is one of the largest edtech M&As in the world. BYJU'S is also in talks with K12 learning platform Toppr for a potential \$150-million buyout.

Between February and March, edtech unicorn Unacademy scooped up professional networking platform TapChief, along with acquiring Handa Ka Funda, a popular YouTube channel for test prep content. The other major edtech deal in Q1 involved Vedantu, which acquired doubt-solving startup Instasolv in February.

"Since the market share of each sub-segment is not very large right now, every player is trying to enter every segment to consolidate. Like it happens in other sectors, there will be space for all categories of players — large consolidated ones, niche ones, regional ones, and full-service players," an edtech sector analyst told YourStory.

06

STEADY GROWTH OF D2C BRANDS

Direct-to-consumer (D2C) startups gained immeasurably due to the pandemic last year and have seen uptick continue in Q1 2021. India has more than 600 D2C startups and the industry is poised to grow to \$100 billion by 2025, claims Aventus Capital.

During Q1'21, D2C brands across categories such as fashion, FMCG, electronics, and home decor raised capital. These included boAt (which secured a \$100 million round from PE major Warburg Pincus), MyGlamm, PurpLe, Oziva, SUGAR Cosmetics, Bewakoof, True Elements, Juicy Chemistry, and Bombay Shaving Company. At least 16 D2C brands have crossed an annual turnover of \$60 million.

Investors reckon that many more digital-first niche brands will come up in the next few quarters to service both experienced and first-time shoppers. Some large brands are also expected to launch their D2C operations to scale up growth.

"[Earlier] the consumer had discretionary income to spend and their habits were shaped by social media. In this new world, a brand could access the consumer through their mind measure, based on their time spent on social media, and could use distribution through ecommerce to meet consumer needs. These two mega trends led to the rise of new D2C brands in India," Vinay Singh, Co-founder and Partner, Fireside Ventures, told YourStory.

UB

Analysis of Q1'21 startup funding activity





01

Q1'21 STARTUP FUNDING: TOTAL NUMBER OF DEALS AND AMOUNT RAISED

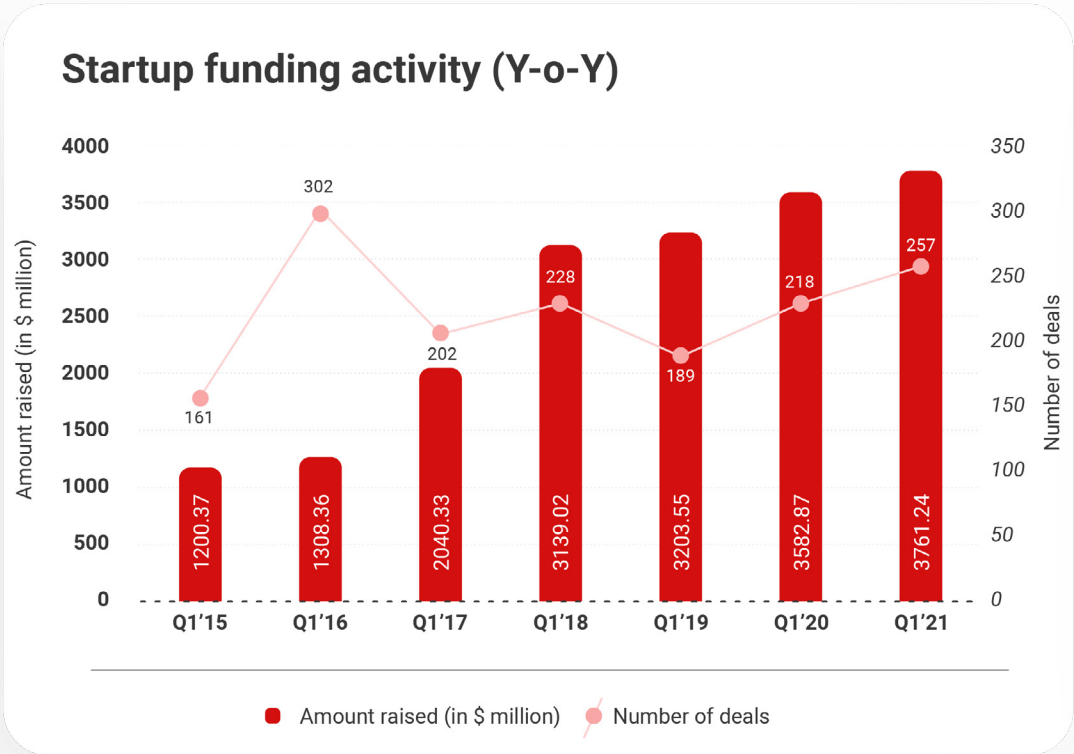
Indian startups raised a total of \$3.76 billion in funding across 257 deals in Q1'21. The total amount raised in Q1'21 increased 5 percent year on year with respect to \$3.5 billion funding raised in Q1'20.

However, in Q1'20, before the pandemic time, Indian startups raised \$3.5 billion across 218 deals. This was a 11.8 percent year-on-year increase in amount raised with respect to \$3.2 billion raised in Q1'19.

In comparison, the year-on-year growth between Q1'19 and Q1'21 saw a fall of 7.8 percent. So, although investors continued to sustain the momentum of funding, there was a decline in funding ticket size.

On a positive note, the total number of deals in Q1'21 grew 17.89 percent year on year from the 218 deals disclosed in Q1'20.

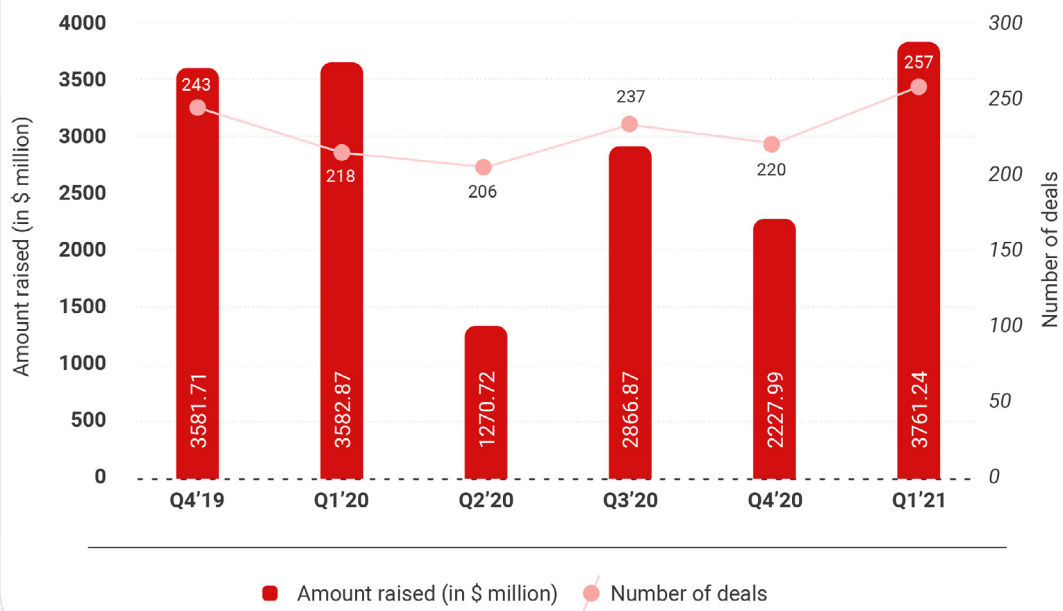
According to YourStory Research, across the past five consecutive quarters, the number of deals and amount raised by Indian startups in Q1'21 was the highest. Also, in Q1'21, the amount of funding raised was 68.81 percent more than Q4'20, a sign of positive sentiment in the investor and startup ecosystem.



Source: YourStory Research



Startup funding activity (Q-o-Q)



Source: YourStory Research

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FUNDING

DEBT

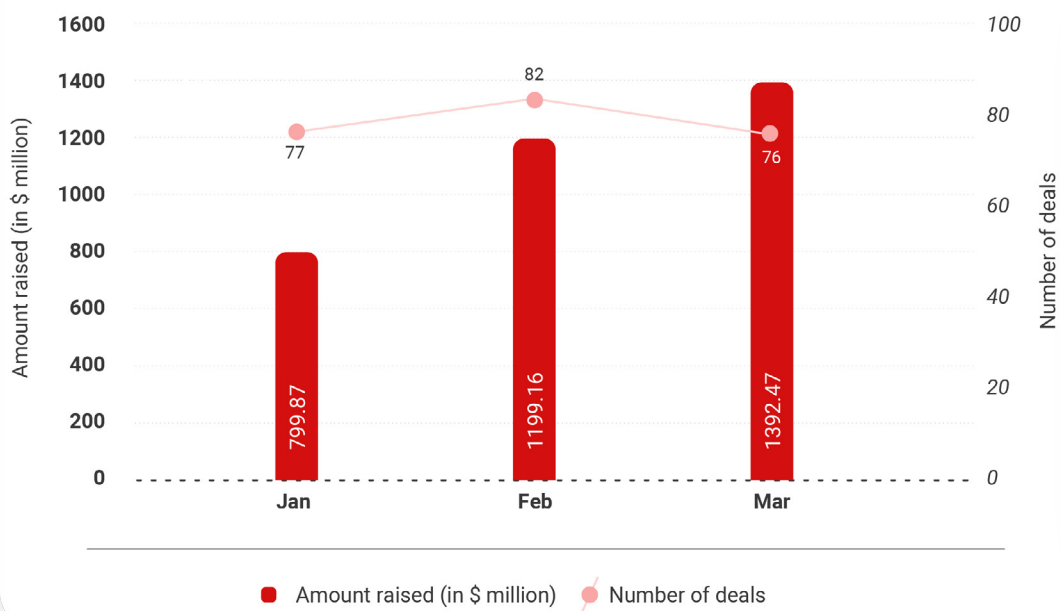
02

DEBT VS EQUITY FUNDING ACTIVITY IN Q1'21

Venture capital and private equity funding continued to see positive momentum in the first three months of 2021. Of the 257 deals, 92.21 percent were equity funding and 7.39 percent were debt. Startups raised a total equity funding of \$3,391.51 million across 237 deals and debt funding of \$369.72 million across 19 deals in Q1'21.

Between January and March, February was the most active month in terms of number of deals while by March, the amount raised was seen increasing.

Q1'21 Equity funding (Jan-Mar)



Source: YourStory Research

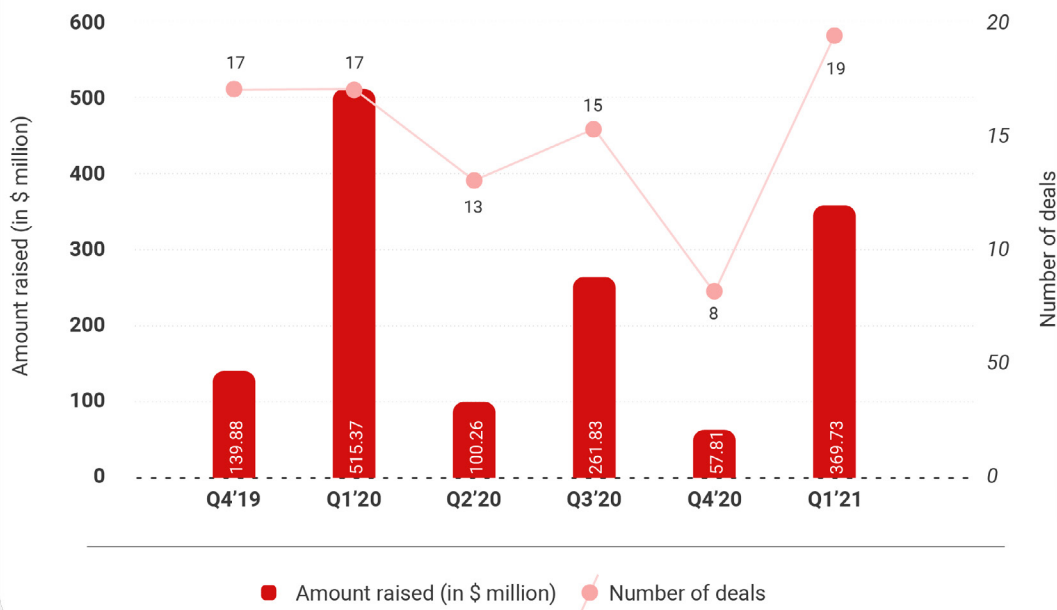
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DEBT FUNDING (Y-O-Y)

In Q1'21, debt funding deals saw a minimal increase in comparison to the same period in previous years (2017-2020). However, the amount of debt funding raised in Q1'21 was the lowest year on year since Q1'15. Before COVID-19 hit the ecosystem in Q1'20, debt funding was moving in an upward trajectory. Despite a drastic fall between Q2'20 and Q4'20, it regained momentum in Q1'21.

** the disclosed data for debt funding in Q1'15 and Q1'16 is not available.

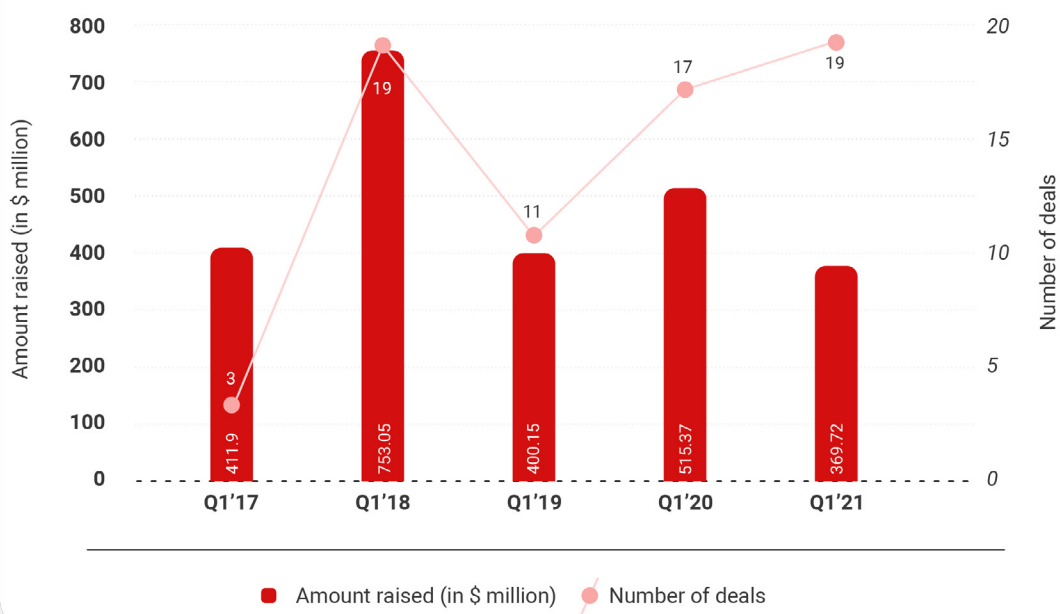
Debt funding (Q-o-Q)



Source: YourStory Research

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Debt funding (Y-o-Y)



Source: YourStory Research

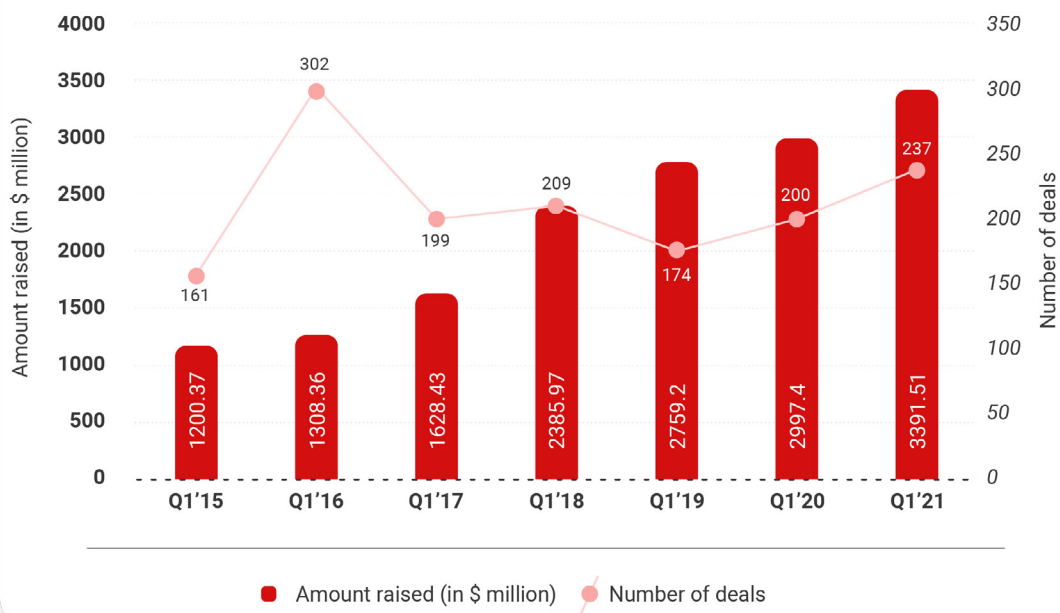
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EQUITY FUNDING (Y-O-Y)

Despite COVID-19, equity investment in India continued to boom with startups raising \$3.39 billion in Q1'21. This is an increase of 13.15 percent from Q1'20 (\$3 billion). Also, they secured 237 equity deals, up 18.5 percent from Q1'20 where startups secured 200 deals.

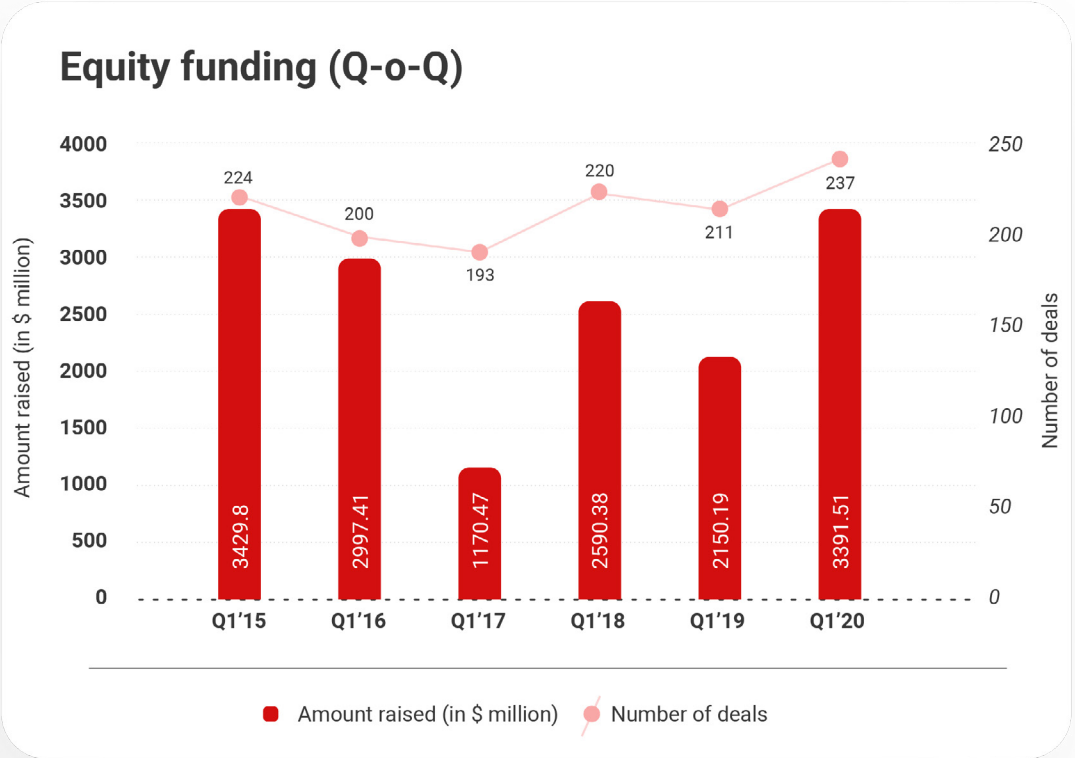
Investors continue with small ticket-size funds since COVID-19 struck, supporting existing portfolios as well as new companies. As a result, equity funding in Q1'21 almost touched pre-COVID-19 (Q1'19-Q1'20) level.

Equity funding (Y-o-Y)



Source: YourStory Research

YOURSTORY



Source: YourStory Research

YOURSTORY



03

STAGE-WISE FUNDING ACTIVITY IN Q1'21

In Q1'21, startups raised \$529.37 million across 189 deals at the early stage; \$605.5 million across 26 deals at the growth stage; and \$2256.63 million across 22 deals at the late stage.

EARLY STAGE

In Q1'21, the early-stage segment observed the most activity, with total funding raised jumping 73.45 percent year on year from Q1'20 (\$305.2 million). In terms of the number of deals, the early stage observed a 25.17 percent year-on-year increase from Q1'20 (151 deals), which is substantial considering the uncertainty prevailing in the ecosystem. On a quarter-on-quarter basis, the early-stage segment also observed a rise in both amount of funding raised and number of deals.

The amount of early-stage funding raised in Q1'21 is the highest between the period Q1'15-Q1'21, on a year-on-year basis.

GROWTH STAGE

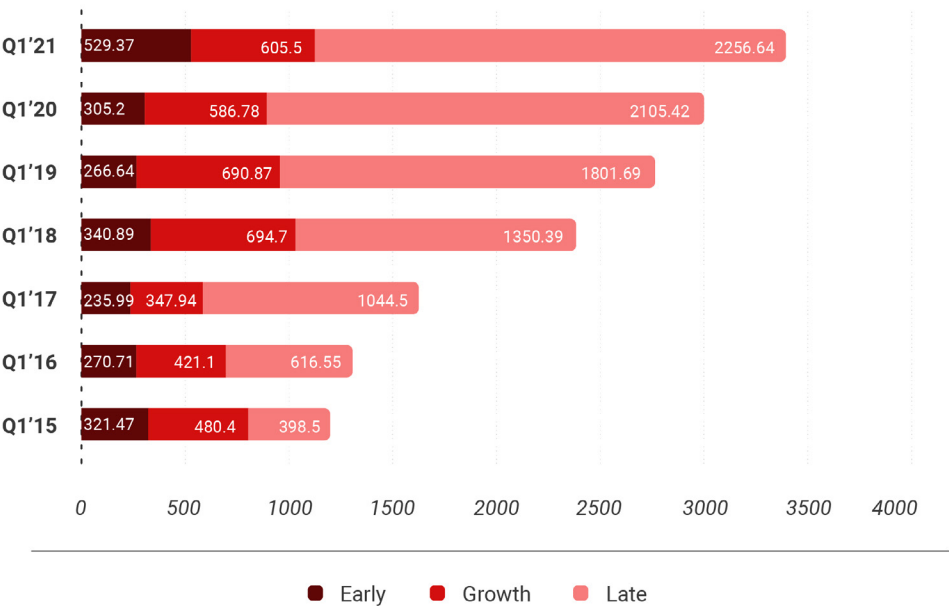
In Q1'21, the amount raised in growth-stage funding increased only 3.19 percent year on year from Q1'20 (\$586.78 million). In terms of number of deals, the growth stage observed a 10.3 percent year-on-year decline from 29 deals in Q1'20. Further, growth-stage funding observed a quarter-on-quarter decline of 35.45 percent in amount raised and 23.52 percent in number of deals from Q4'20, where startups raised \$938.16 million across 34 deals.

LATE STAGE

In Q1'21, the amount raised in late-stage funding increased by 7.18 percent year on year from Q1'20 (\$2105.42 million). In terms of number of deals, the late-stage observed a 10 percent year-on-year increase from 20 deals in Q1'20. Further, late-stage funding observed a quarter-on-quarter increase of 138 percent in amount raised and 29.41 percent in number of deals from Q4'20, where startups raised \$948.06 million across 17 deals. The enormous hike in late-stage funding can be attributed to an increase in the number of more than \$100 million deals, as well as the addition of three more unicorns to the club during the quarter.

Stage-wise funding (Y-o-Y)

Amount raised (in \$ million)

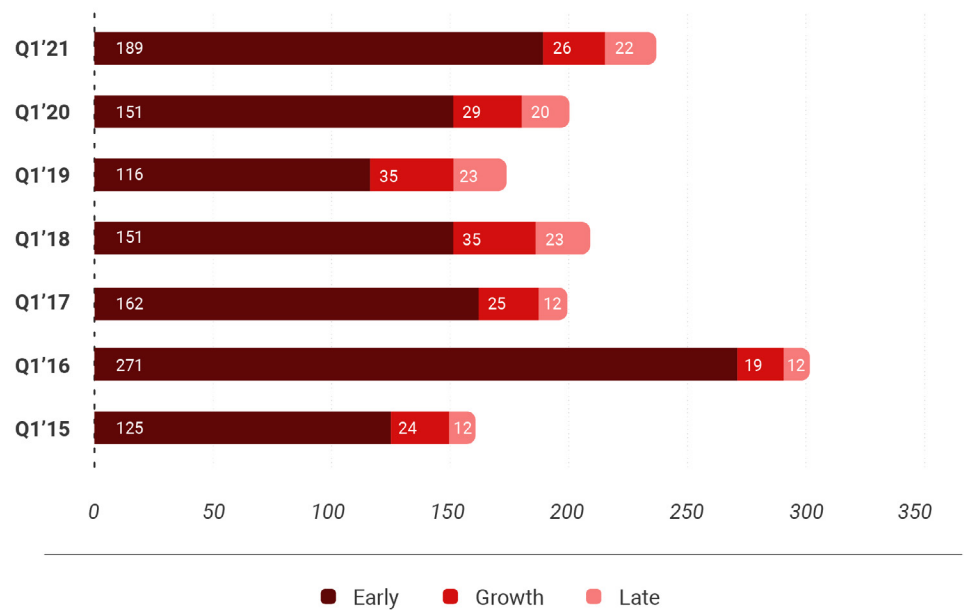


Source: YourStory Research



Stage-wise funding (Y-o-Y)

(Number of deals)

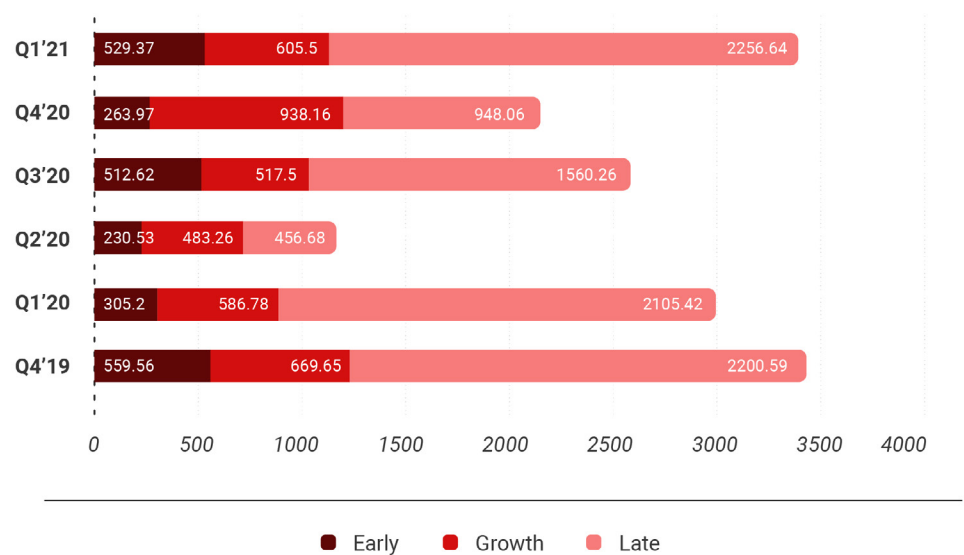


Source: YourStory Research

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Stage-wise funding (Q-o-Q)

Amount raised (in \$ million)

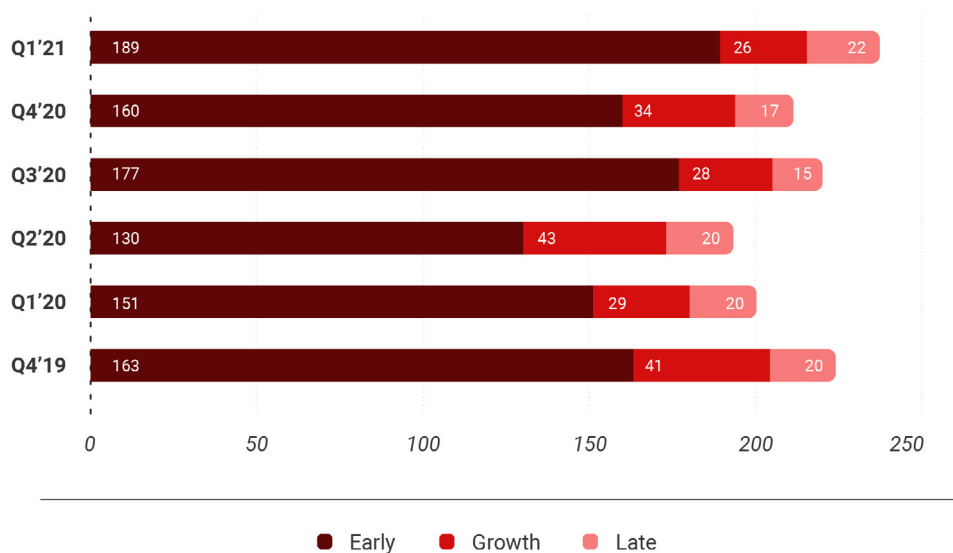


Source: YourStory Research

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Stage-wise funding (Q-o-Q)

(Number of deals)



Source: YourStory Research

YOURSTORY



BUSINESS MODEL

04.

Q1'21 FUNDING ACTIVITY BY BUSINESS MODEL

In Q1'21, B2B startups raised \$1,134.37 million across 92 deals, while B2C startups raised \$2,570 million across 156 deals.

B2C

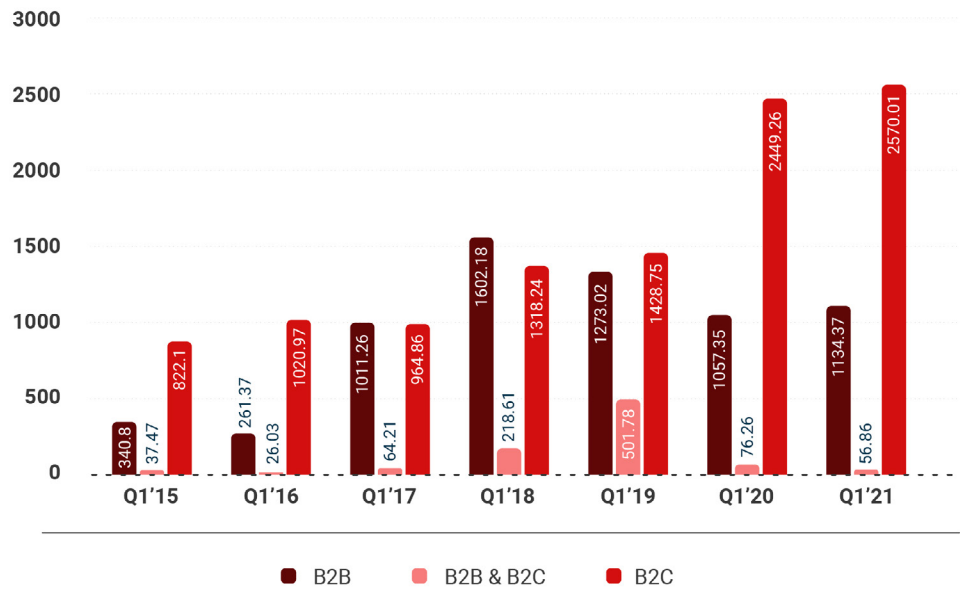
In Q1'21, the amount raised across B2C startups increased by almost 5 percent year on year from Q1'20 (\$2449.26 million). In terms of number of deals, B2C startups observed a 40.54 percent year-on-year increase from 111 deals in Q1'20. Further, B2C startups observed a quarter-on-quarter increase of 72.91 percent in amount raised and 43.11 percent in number of deals from Q4'20, where startups raised \$1486.28 million across 109 deals.

— **B2B**

In Q1'21, the amount raised across B2B startups increased by almost 7.28 percent year on year from Q1'20 (\$1057.35 million). In terms of number of deals, B2B startups observed a 4.16 percent year-on-year decline from 96 deals in Q1'20. Further, B2B startups observed a quarter-on-quarter increase of 68.41 percent in amount raised and decline of 7.07 percent in number of deals from Q4'20, where startups raised \$460.81 million across 99 deals.

Business model-wise-funding (Y-o-Y)

Amount raised (in \$ million)

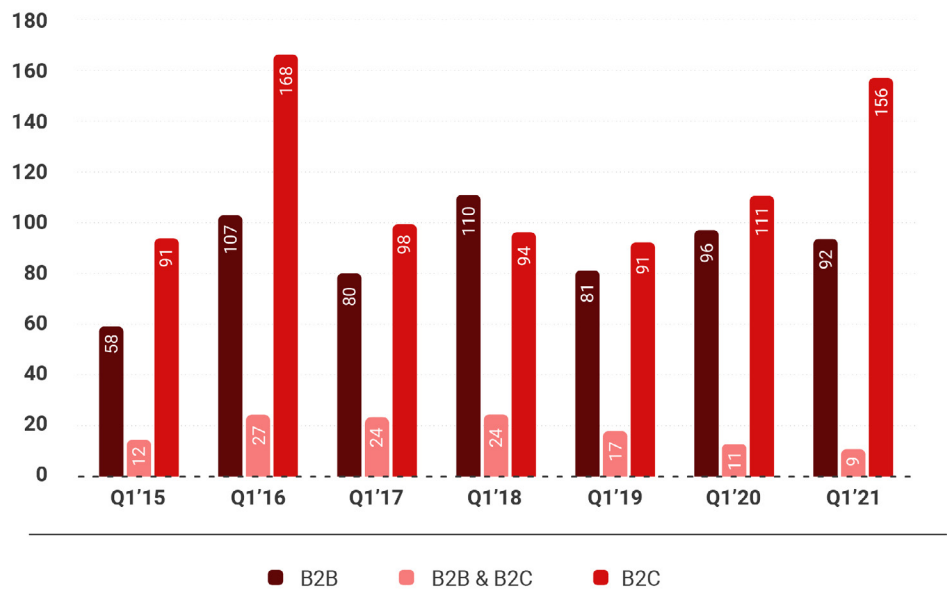


Source: YourStory Research



Business model-wise-funding (Y-o-Y)

(Number of deals)

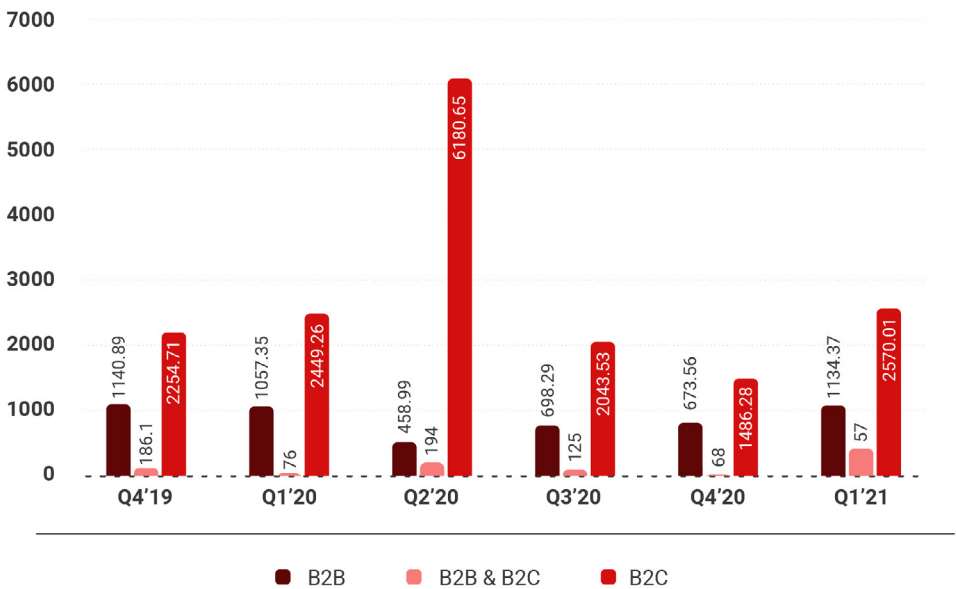


Source: YourStory Research



Business model-wise-funding (Q-o-Q)

Amount raised (in \$ million)

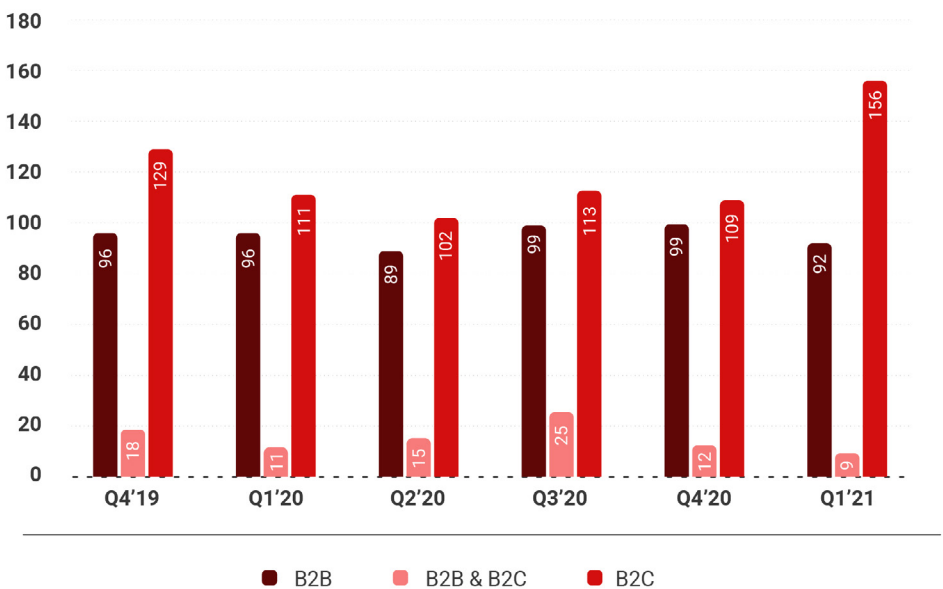


Source: YourStory Research

YOURSTORY

Business model-wise-funding (Q-o-Q)

(Number of deals)



Source: YourStory Research

YOURSTORY



05

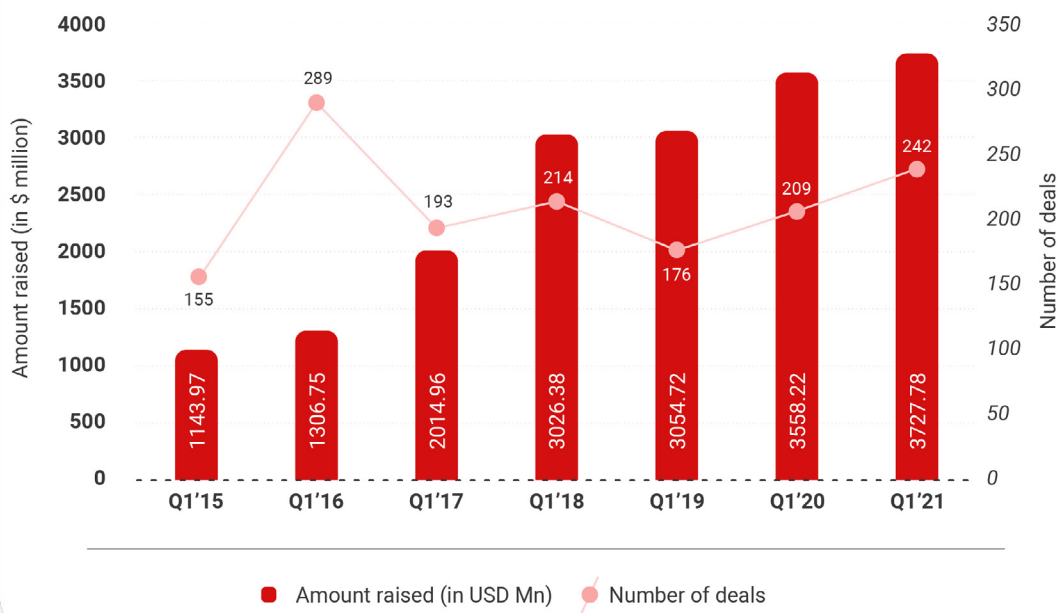
TIER I & II CITY-WISE STARTUP FUNDING ACTIVITY IN Q1'21

In Q1'21, Tier-I startups raised \$3,727.78 million funding across 242 deals, while Tier-II startups gained \$33.45 million across 15 deals.

TIER-I

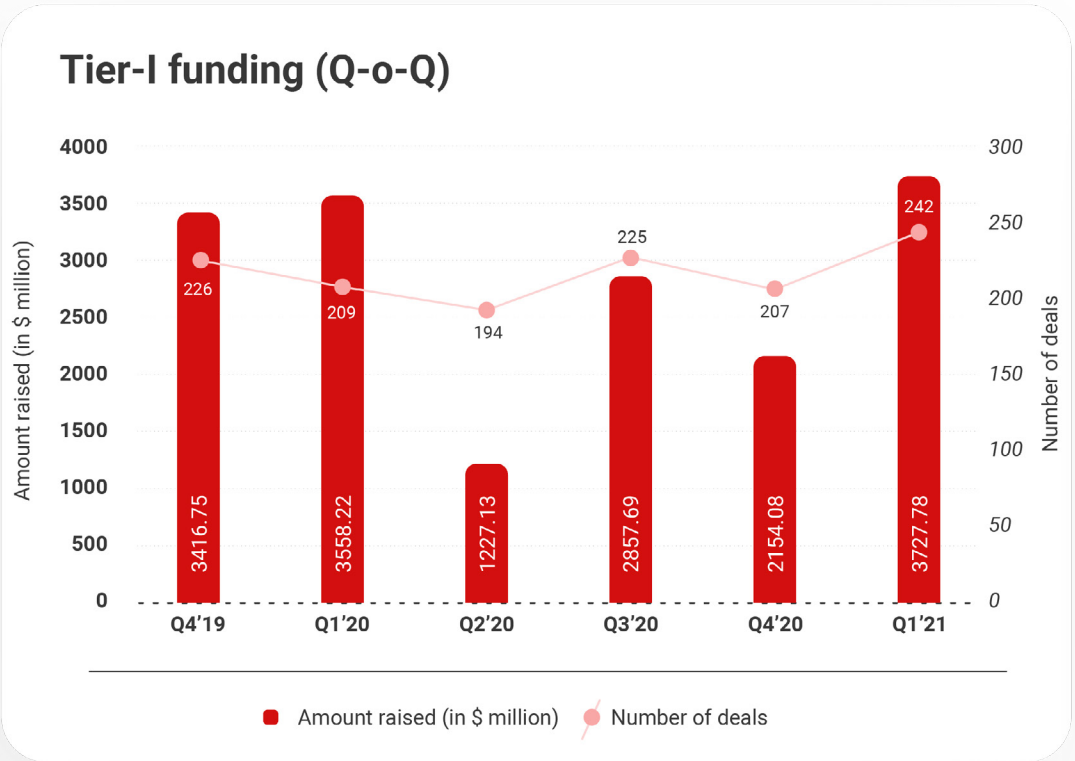
In Q1'21, the amount raised across Tier-I cities increased by 4.76 percent year on year from Q1'20 (\$3558.2 million). In terms of number of deals, Tier-I observed a 15.78 percent year-on-year increase from 209 deals in Q1'20. Further, Tier-I observed a quarter-on-quarter increase of 73.05 percent in amount raised and 16.90 percent in number of deals from Q4'20, where startups raised \$2154.08 million across 207 deals.

Tier-I funding (Y-o-Y)



Source: YourStory Research

YOURSTORY

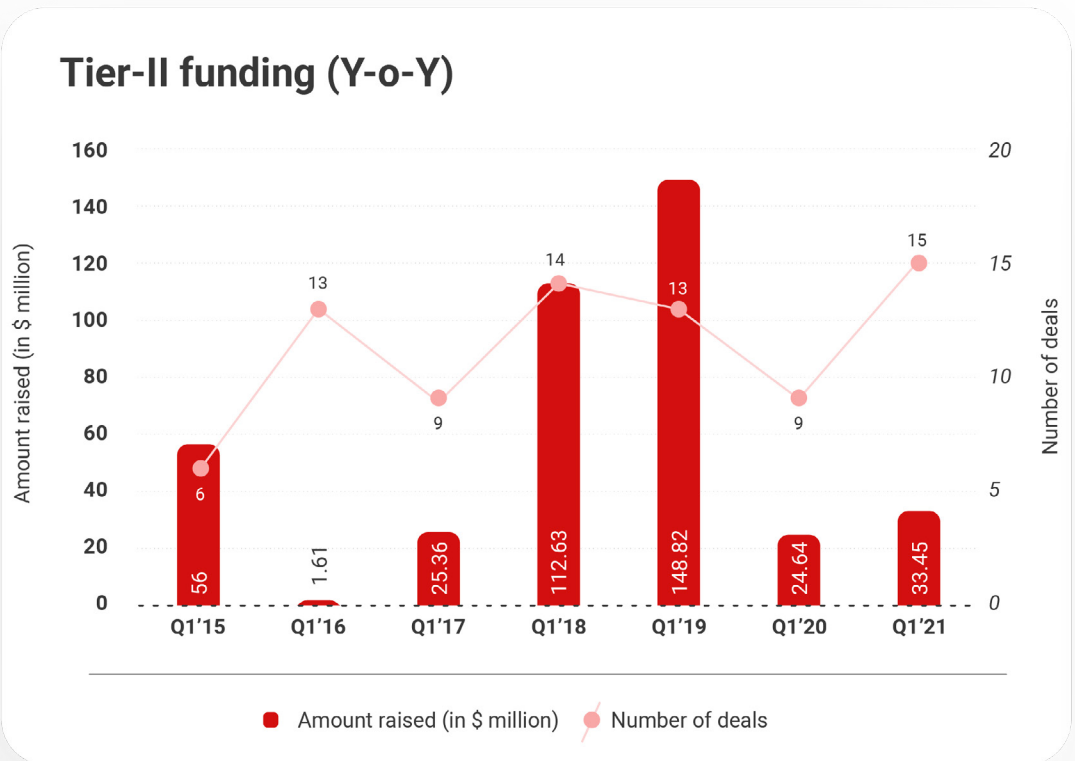


Source: YourStory Research

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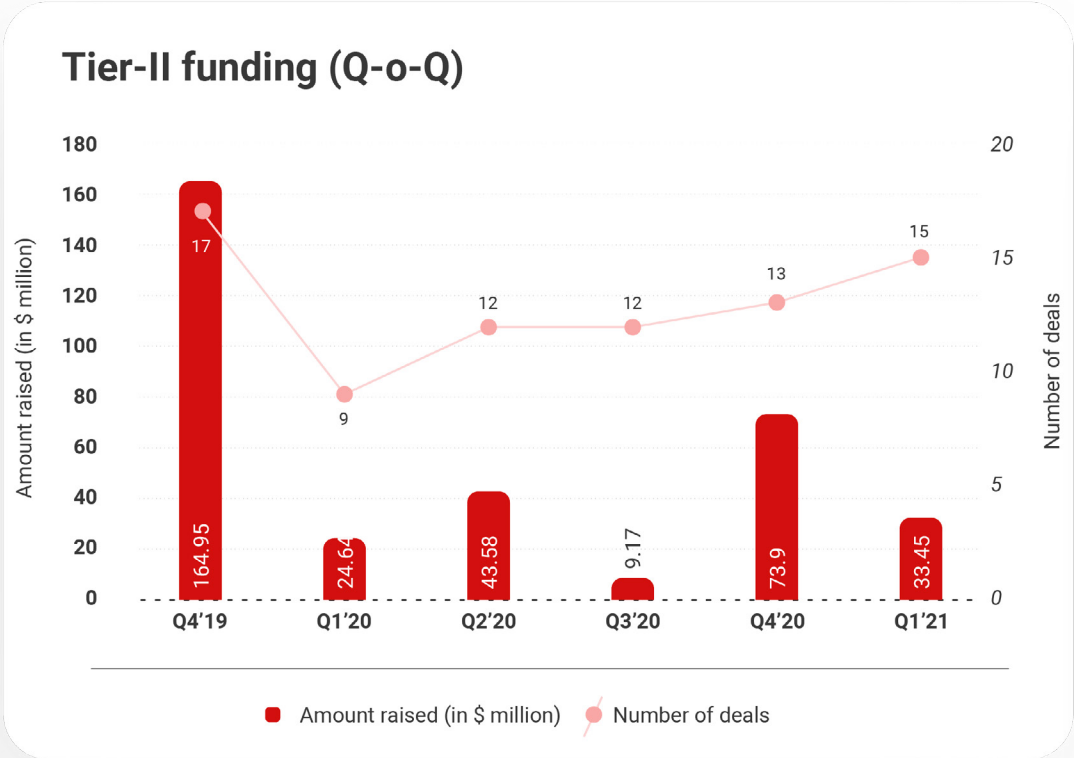
TIER II

In Q1'21, the amount raised across Tier-II cities increased by 35.75 percent year on year from Q1'20 (\$24.64 million). In terms of number of deals, Tier-II observed a 66.66 percent year-on-year increase from 9 deals in Q1'20. Further, Tier-II observed a quarter-on-quarter decline of 54.73 percent in amount raised and an increase of 15.38 percent in number of deals from Q4'20, where startups raised \$73.9 million across 13 deals.



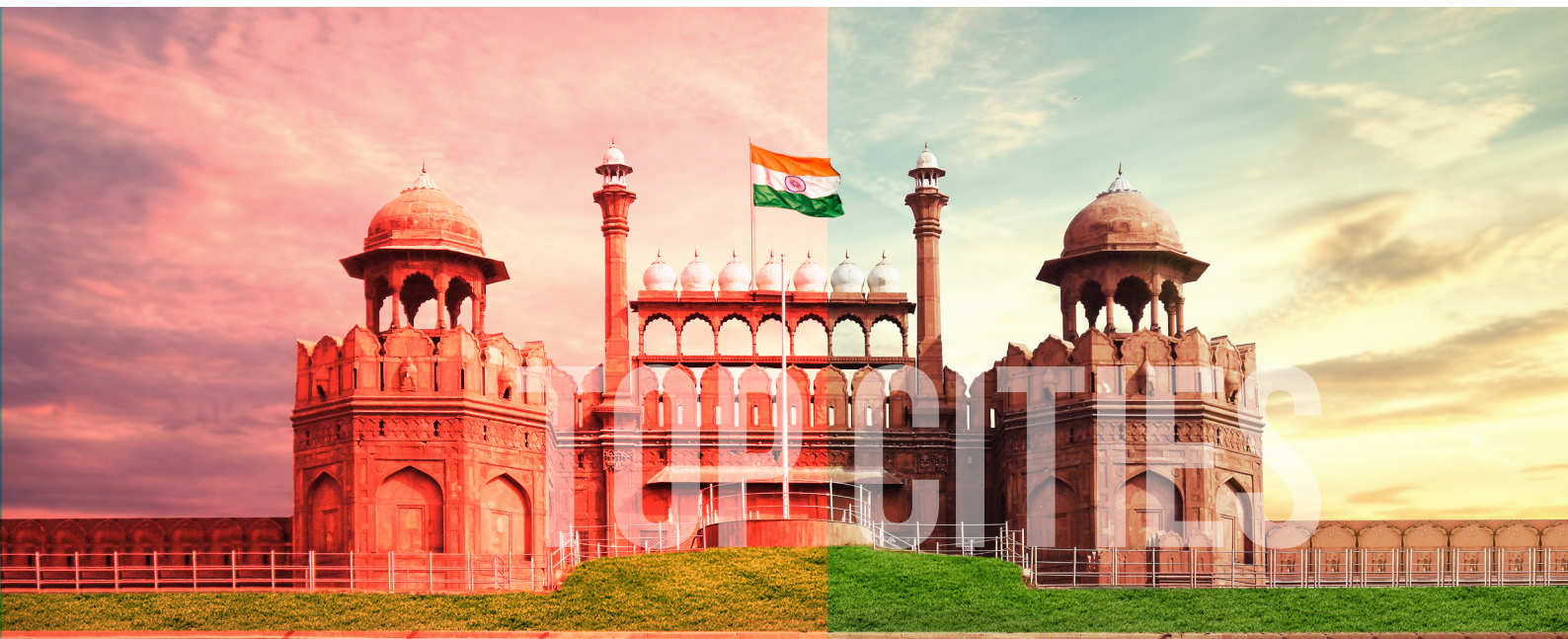
Source: YourStory Research

YOURSTORY



Source: YourStory Research

YOURSTORY



06

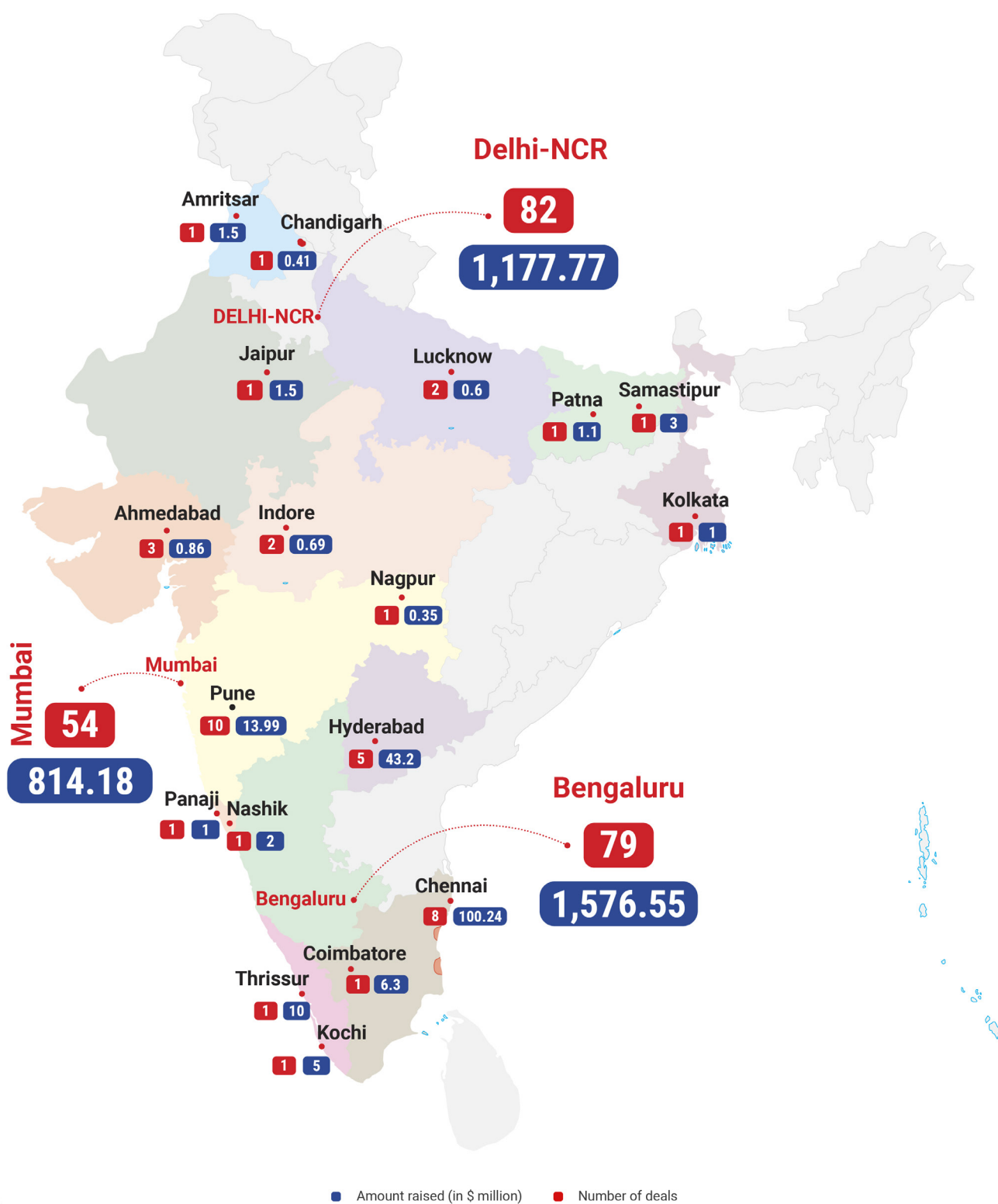
STATE OF FUNDING IN Q1'21: CITY-WISE SPLIT

TOP CITIES

- The infographic below depicts the spread of funding activity across the country in Q1'21. With the last-minute addition of the \$460 million funding raised by BYJU'S, Bengaluru tops the charts in terms of funding. Startups from the 'Silicon Valley of India' secured \$1576.55 million in Q1'21, followed by Delhi-NCR (\$1177.77 million), and Mumbai (\$814.18 million).

In terms of the number of deals, Delhi-NCR leads with 82 deals in Q1'21, followed by Bengaluru (79), and Mumbai (54).

City-wise startup funding activity in Q1'21



Source: YourStory Research

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NEW TIER-II ENTRANTS IN TOP CHARTS

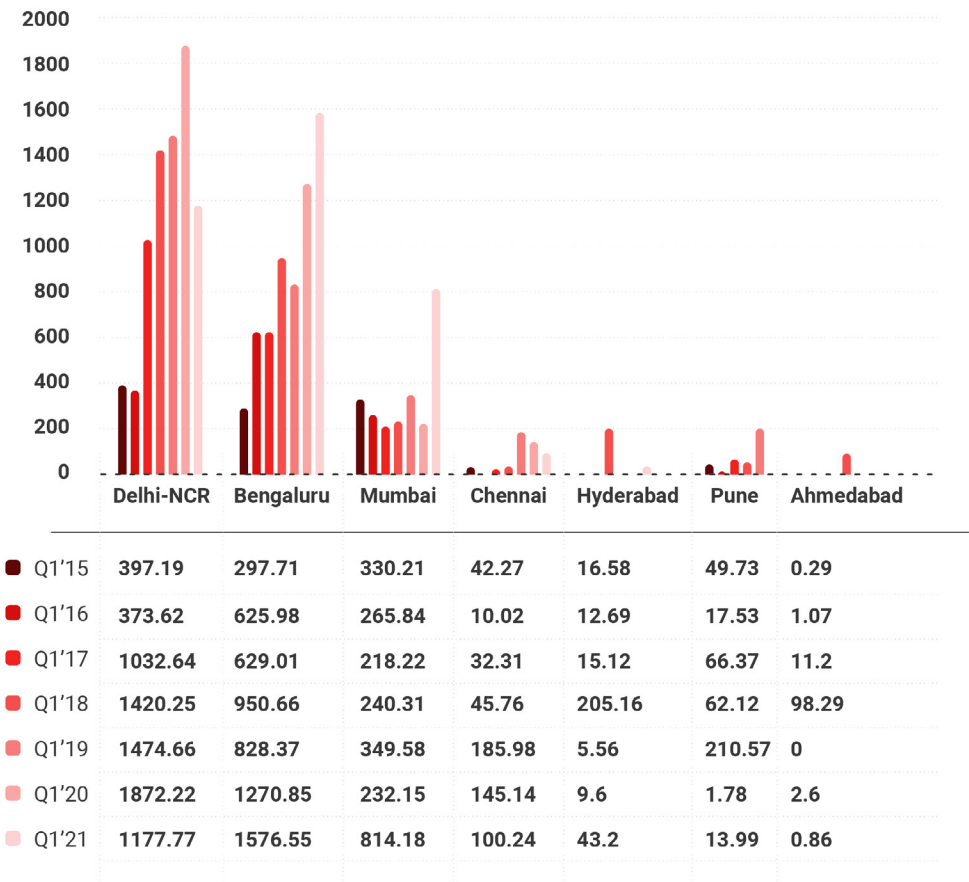
Over the past few years, many Tier-II cities have made a surprised entry into the top 10 charts by funding amount. Although the number of deals is always one or two, the amount raised creates the difference. In Q1'21, Kerala city Thrissur made it to the list. Healthtech startup Zaara Biotech, with only one deal of \$10 million, got this Tier-II city a place in the top 10 (by funding value) in Q1'21.

Q1'21 TOP CITIES (Y-O-Y COMPARISON)

Overall, Tier-I trio Delhi-NCR, Mumbai, and Bengaluru continues to lead the charts in terms of amount raised and number of deals. Of other Tier-I cities, Pune continues to show a year-on-year growth trajectory. However, others, including Hyderabad, Ahmedabad, and Chennai, were still seen in a recovery mode.

Top city-wise funding (Y-o-Y)

Amount raised (in \$ million)

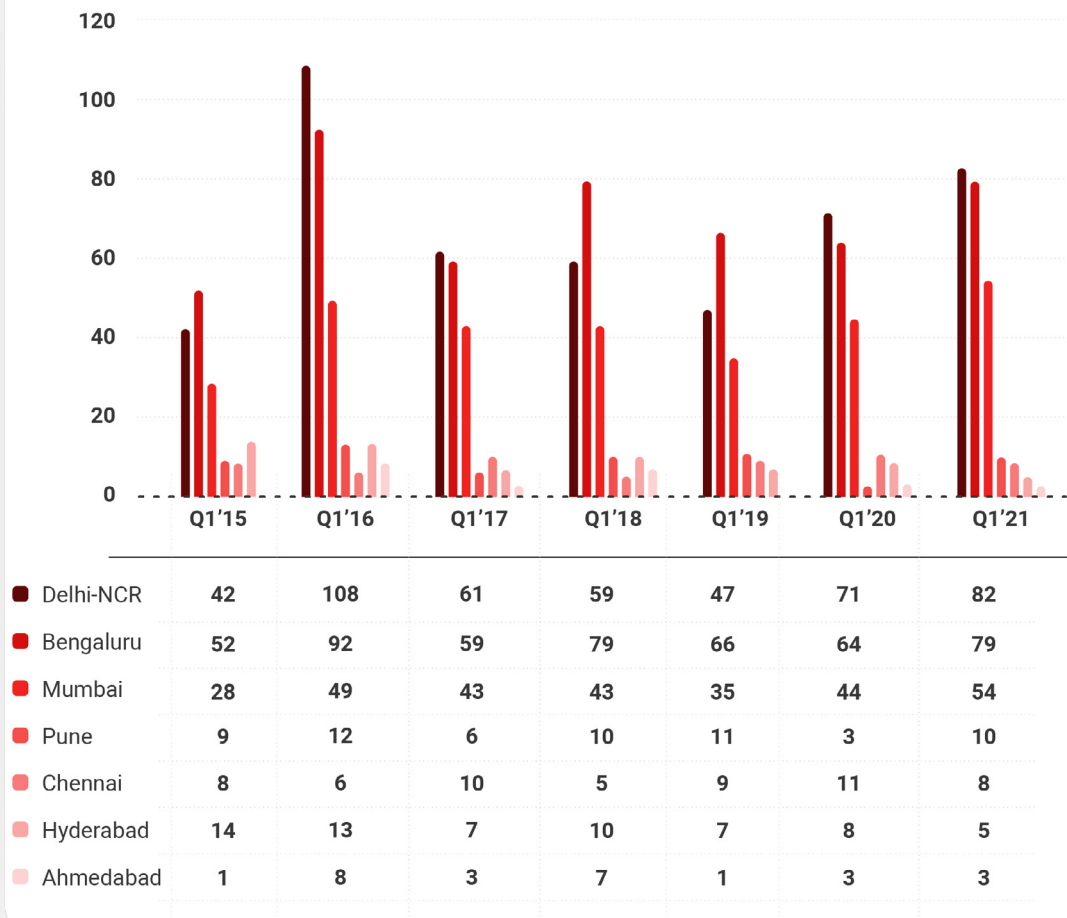


Source: YourStory Research



Top city-wise funding (Y-o-Y)

(Number of deals)



Source: YourStory Research

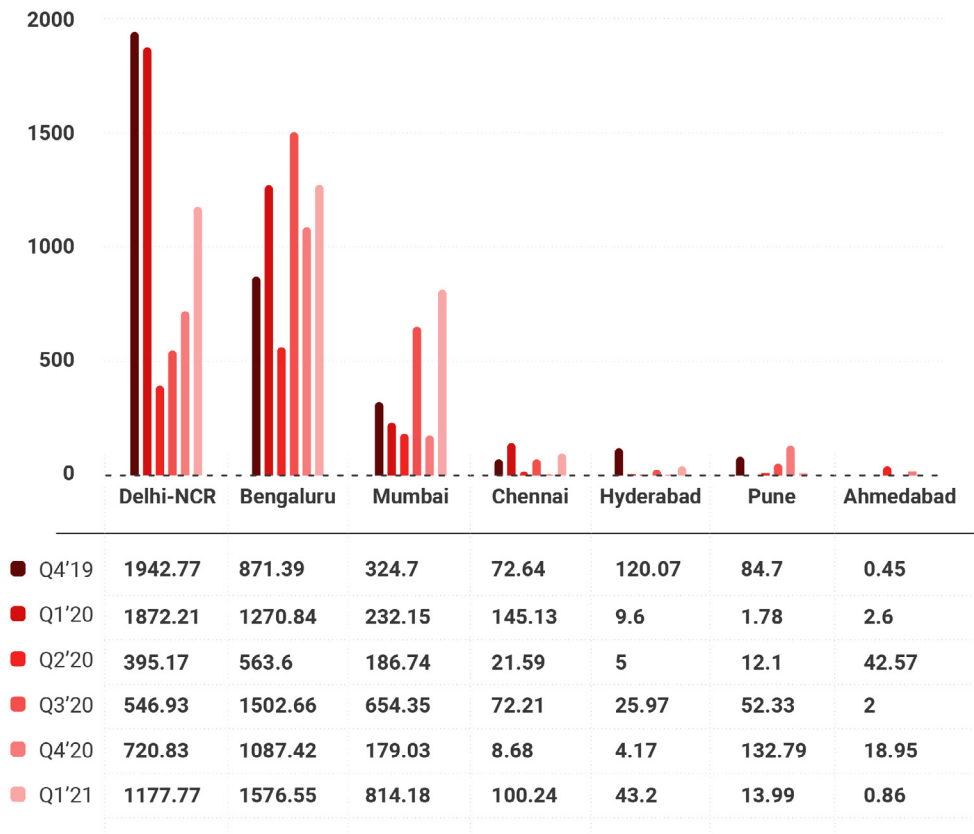
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Q1'21 TOP CITIES (Q-O-Q COMPARISON)

On a Q-o-Q basis, Mumbai, Chennai, and Hyderabad have made a marked recovery since the outbreak of COVID-19. In Q1'21, the funding raised by startups in these cities grew 354.77 percent, 1054.83 percent, and 935.97 percent respectively in comparison to Q4'20. However, in terms of Q-o-Q growth in the number of deals, Delhi-NCR (64 percent), Mumbai (22.72 percent), and Chennai (14.28 percent) took the lead, in comparison to Q4'20.

Top city-wise funding (Q-o-Q)

Amount raised (in \$ million)

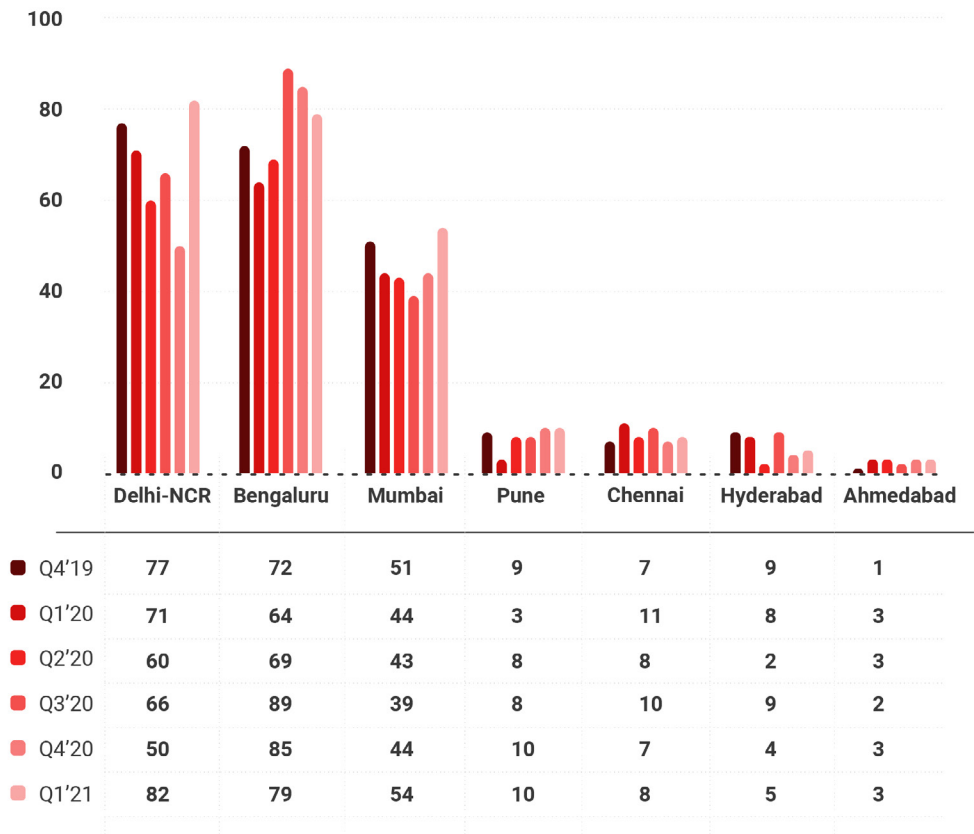


Source: YourStory Research

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Top city-wise funding (Q-o-Q)

(Number of deals)



Source: YourStory Research

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07

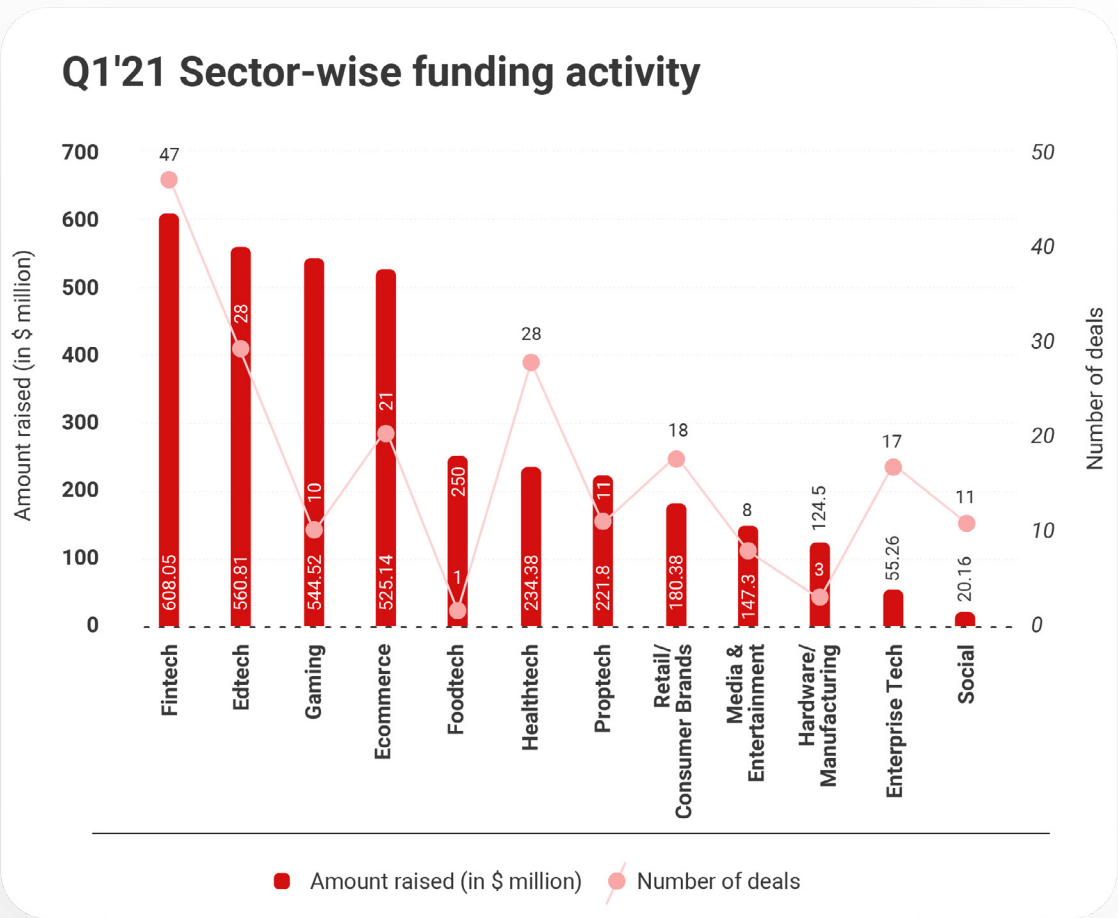
SECTOR-WISE FUNDING SPLIT IN Q1'21

In Q1'21, fintech topped the charts raising \$608.05 million across 47 deals. A large chunk of this was due to NBFCs (\$113.25 million across 10 deals) and insurtech (\$136.2 million across 7 deals).

Fintech was followed by edtech (\$560.81 million across 28 deals), gaming (\$544.52 million across 10 deals), ecommerce (\$525.14 million across 21 deals), and foodtech (\$250 million across 1 deal).

With the last-minute addition of BYJU'S \$460 million funding in March 2021, edtech replaced foodtech (\$250 million) in the top 3 sectors in Q1'21. Overall, in terms of number of deals, fintech (47) was followed by edtech (28), healthtech (28), and ecommerce (21).

Here's the spread of amount raised and number of deals for the top sectors (by funding amount):



Source: YourStory Research



Q1'21 TOP SECTORS (Y-O-Y COMPARISON)

Here are a few sectors which showcased better year-on-year performance:

EDTECH

On a Y-o-Y basis, there was a fall of 5.23 percent in edtech funding amount raised in Q1'21 as compared to Q1'20. Also last year, Indian edtech startups raked in \$591.75 million funding, which is almost a 6x increase from \$88.2 million raised in Q1'19. Thus, a slowdown in funding was bound to happen.

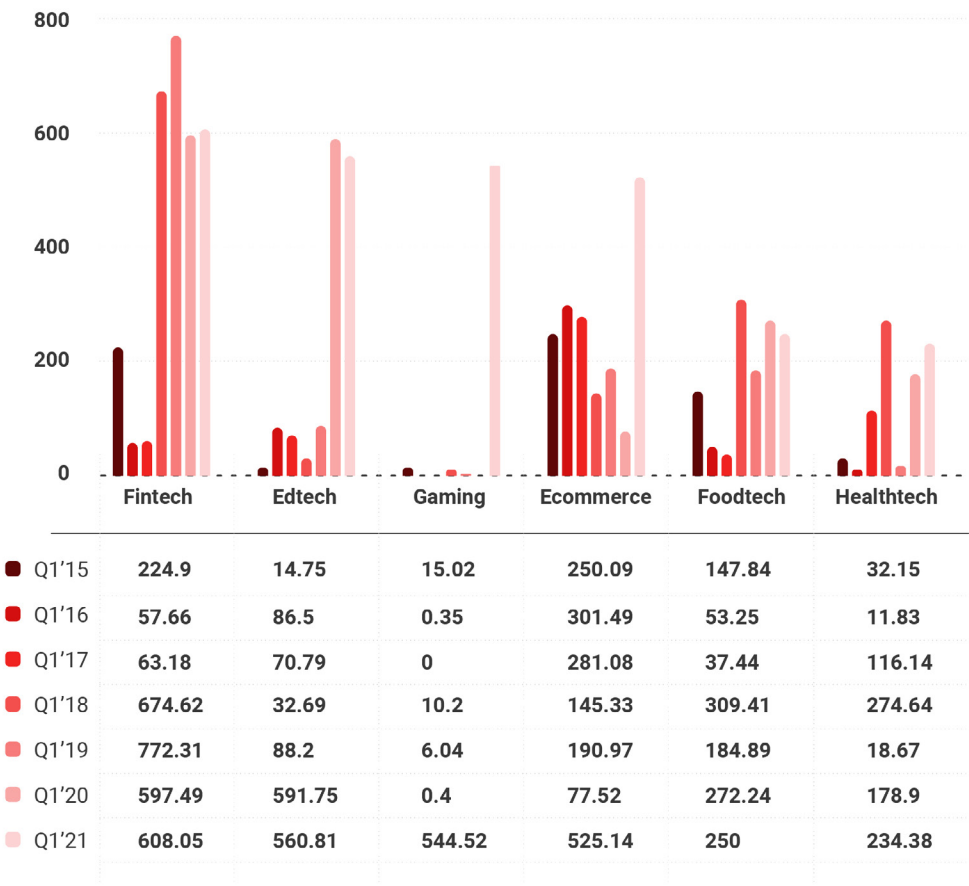
GAMING

With Dream11's \$400 million funding, Nazara Technologies' IPO listing and MPL expected to enter the unicorn club this year, the gaming segment has taken a hot seat among the investors. With a total of 10 deals, the sector raised \$544.52 million in Q1'21. This is a phenomenal leap considering that in Q1'20, only one deal raising \$0.4 million was recorded in this space.

ECOMMERCE

On account of increased B2C deal activity, ecommerce has again picked up pace in Q1'21 after receiving a setback in Q1'20, due to factors such as the nationwide lockdown, logistics bottlenecks, hindered supply chain, among others. With 21 deals in Q1'21, ecommerce startups raised \$525.14 million, a year-on-year increase of 5.7x.

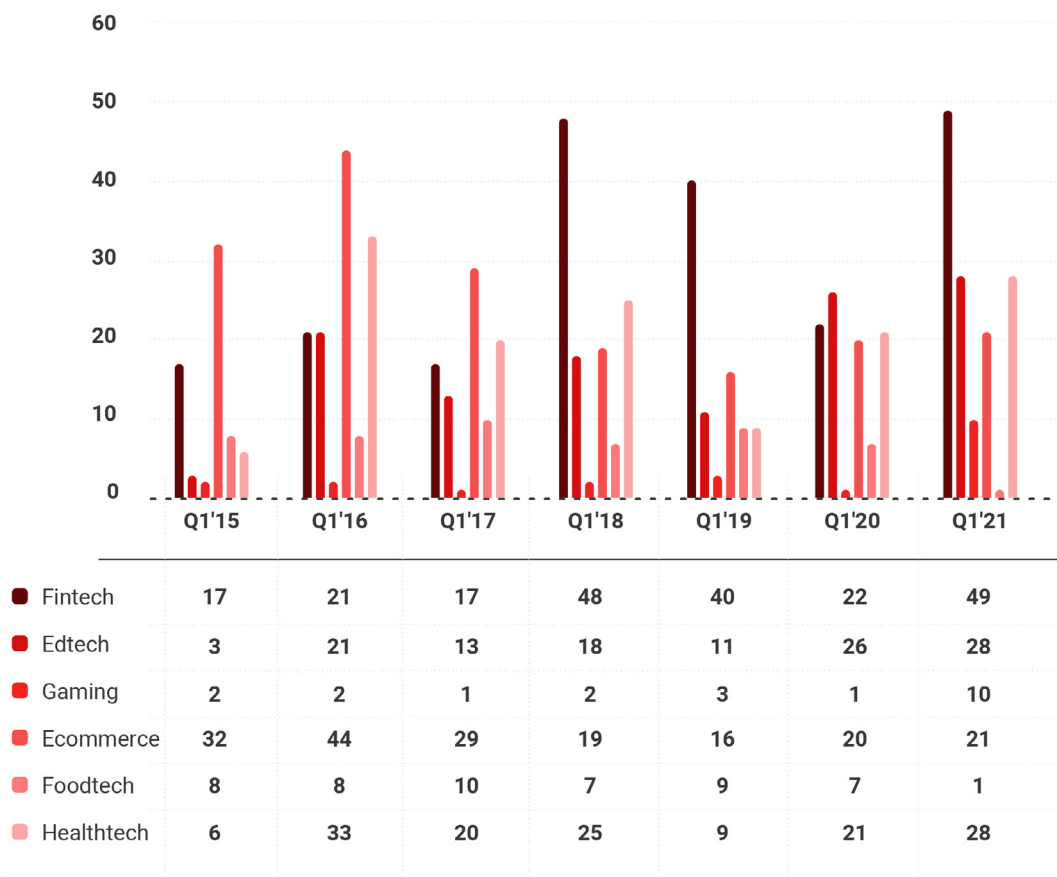
Q'21 Top sectors by amount raised (Y-o-Y)
(in \$ million)



Source: YourStory Research



Q1'21 top sectors by number of deals (Y-o-Y)



Source: YourStory Research

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Q1'21 TOP SECTORS (Q-O-Q COMPARISON)

Here are a few sectors that showcased better quarter-on-quarter performance:

FOODTECH

With Zomato raising \$250 million, foodtech secured a place in top sectors. However, between January and March 2021, only one deal was recorded in the sector, which is significantly less compared to the 8 deals recorded in Q4'20. Overall, the sector showed signs of recovery on a Q-o-Q basis.

ECOMMERCE

The ecommerce sector raised \$525.14 million across 21 deals in Q1'20, a quarter-on-quarter increase of almost 9.5x and 0.6x respectively with respect to Q4'20.

HEALTHTECH

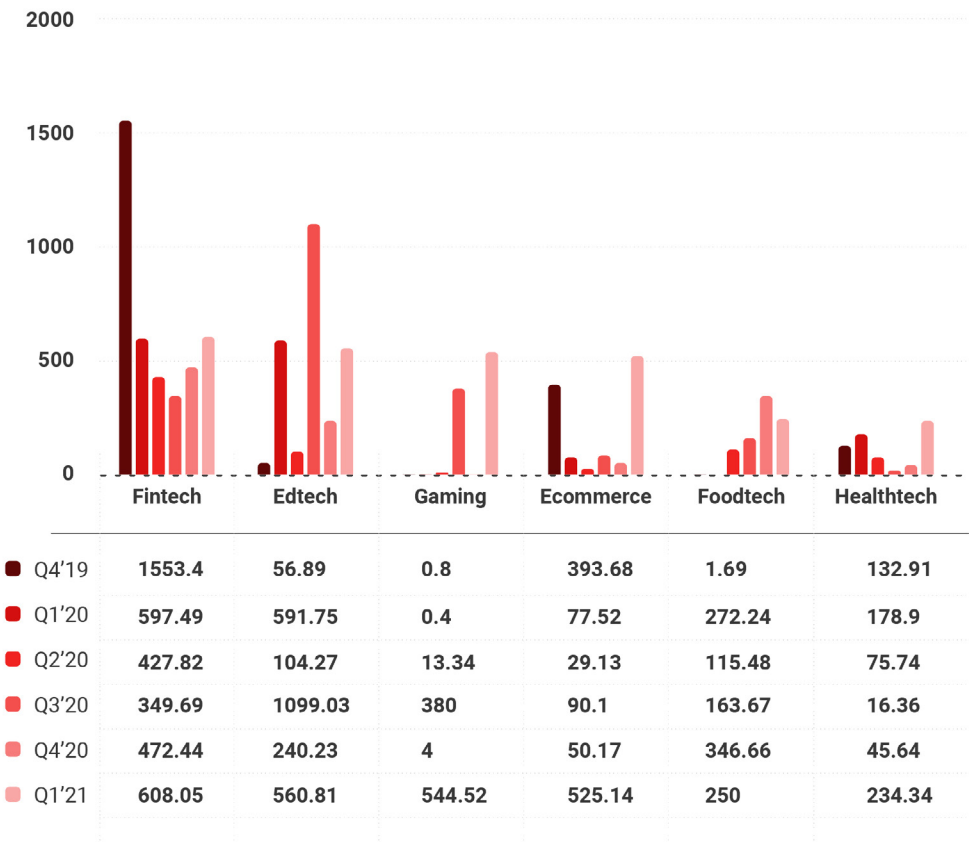
The healthtech sector raised \$234.38 million across 28 deals in Q1'20, a quarter-on-quarter increase of almost 4x and 0.12x respectively with respect to Q4'20.

GAMING

The gaming sector raised \$544.52 million across 10 deals in Q1'20, a quarter-on-quarter increase of almost 13.5x and 1.5x respectively with respect to Q4'20.

Q1' 21 Top sectors by amount raised (Q-o-Q)

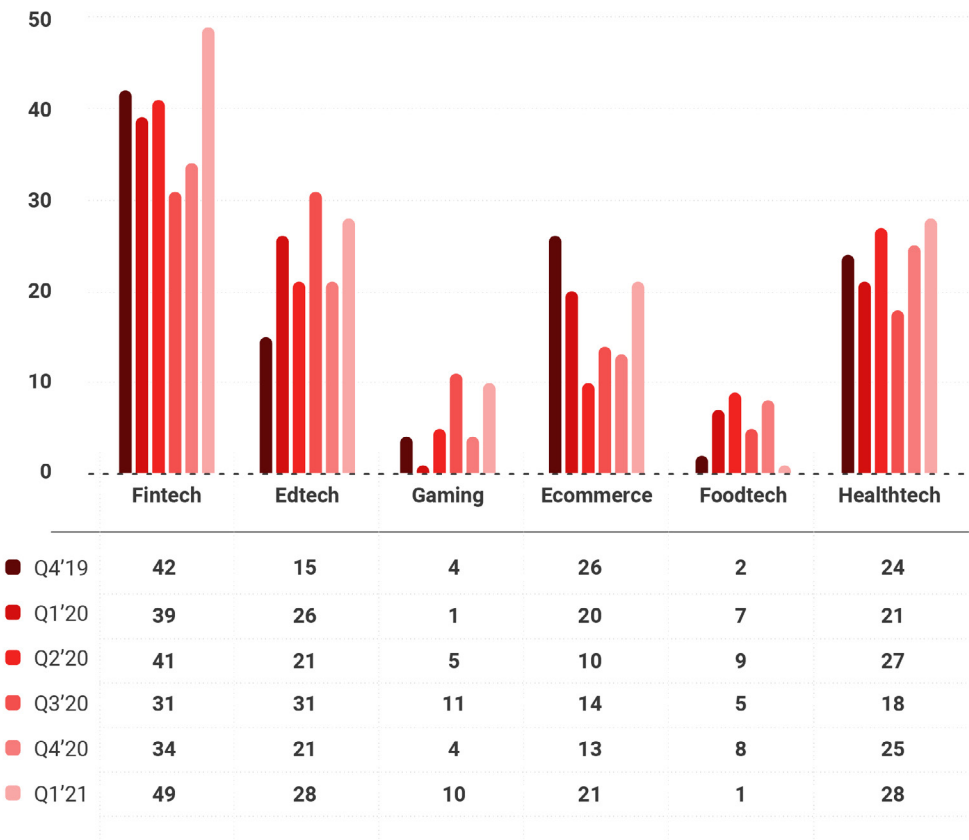
(in \$ million)



Source: YourStory Research

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Q1'21 Top sectors by number of deals (Q-o-Q)

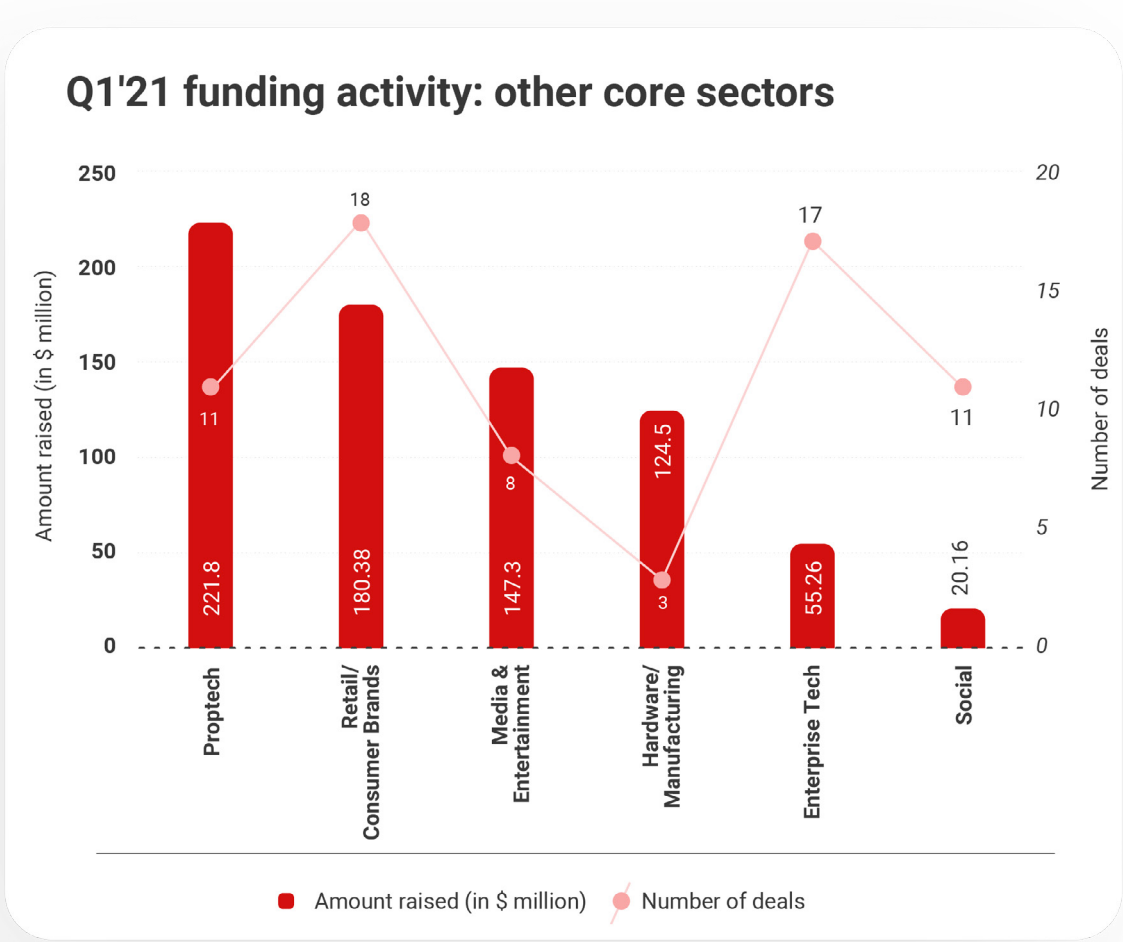


Source: YourStory Research

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OTHER TOP SECTORS OBSERVED

Post COVID-19, investor inclination has again shifted to the core sectors. Apart from the top sectors, there are others like proptech, hardware/manufacturing, and enterprise tech, among others gained significant interest from the investor community in Q1'21.



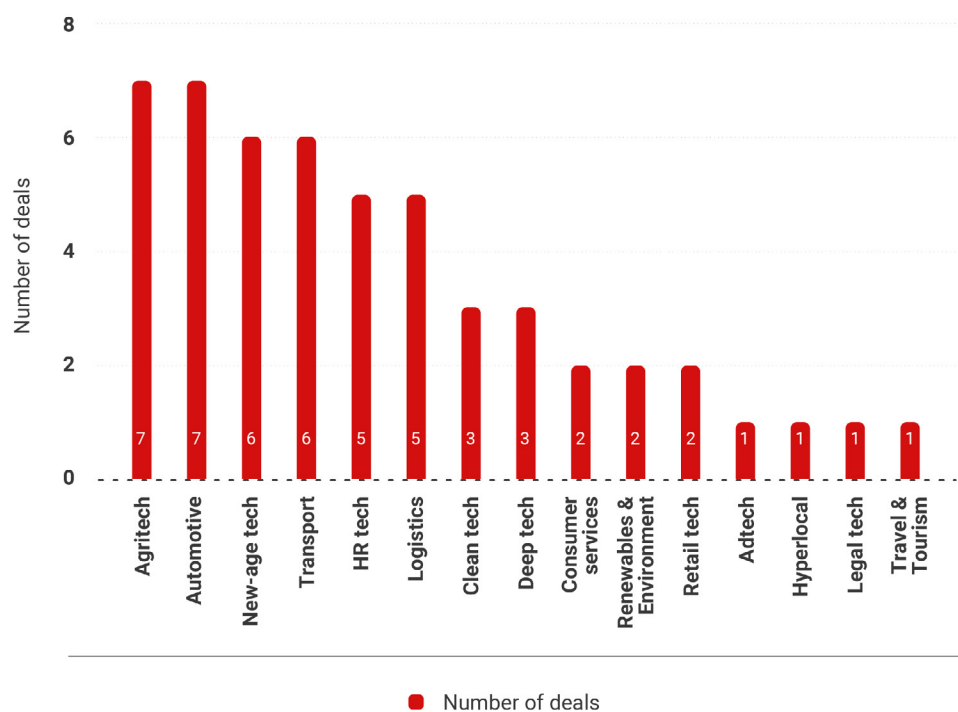
Source: YourStory Research



OTHER NICHE SECTORS ON INVESTOR RADAR

Post COVID-19, several other niche sectors were also seen on investor radar. Although these sectors garnered much less funding than top sectors, they were successful in grabbing the investor's attention in Q1'21.

Other sectors on investor radar



Source: YourStory Research

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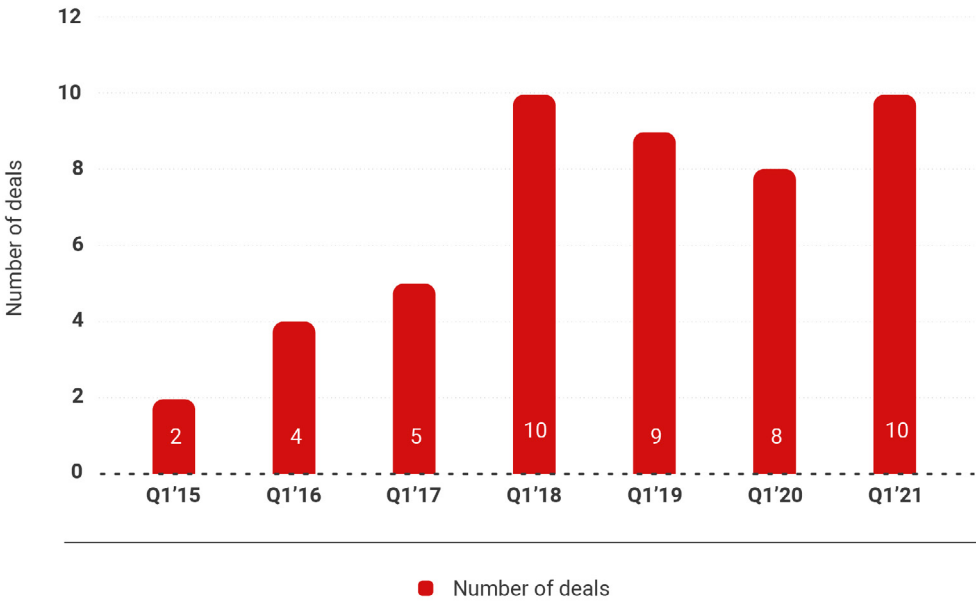


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NUMBER OF DEALS WORTH MORE THAN \$100 MILLION

In Q1'21, the ecosystem observed 10 funding deals wherein startups secured more than \$100 million amount, totaling to approximately \$2118 million. On an Y-o-Y basis, this is an observed increase, indicating a certain stability in the number of such high ticket size deals.

Q1'21 Deals over \$100 Million (Y-o-Y)



Source: YourStory Research



Road
ahead



04

The Indian economy is set to rise to its pre-COVID-19 path by the second quarter of 2021, thanks, in part, to the government's accommodative policy stance, a recent Morgan Stanley report stated.

Globally, the tailwinds to recovery are expected to come from expansive emerging markets such as Asia, and India will likely play a big role there.

What this means is that growth will now pick up in Q2, presenting several opportunities for Indian businesses of all shapes and sizes to run at full capacity, with stable stock markets, greater investment opportunities, more investor money on the table, and an increased risk tolerance.

However, it might be some time before the full impact of an economic recovery is realised, given the looming threat of yet another round of COVID-19-triggered preventative measures as the second wave gains momentum.

Investors are already easing off the gas pedal when it comes to investing in the stock market, and the second wave might hit their risk appetites further, especially in private equity.

On the other hand, it's worth noting that businesses today are much better armoured to deal with the pandemic — even something as drastic as a lockdown-like situation — than they were the first time around. Various processes for remote working have been put in place, as have manufacturing capabilities to handle continuous production even with reduced manpower.

All in all, Q2 is expected to herald a growth period for the Indian startup ecosystem, but maybe not as strongly as was earlier expected.

Here's a quick breakdown of what the second quarter holds:

— **HIRING BY STARTUPS SET TO INCREASE**

In a survey by Innoven Capital, 72 percent of startup founders said the pace of recruitment is expected to see an overall increase this year. Startups in digital media, ecommerce, and deeptech sectors are the most bullish about hiring, InnoVen Capital said in its annual startup outlook research report.

The increased hiring is in contrast to the layoffs and salary cuts that took place last year.

With companies now increasingly digitising, positions across the tech sector are opening up, especially in healthtech, SaaS, and fintech companies, that notably, continued to hire in 2020 as well.

"With demand back and a favourable funding environment, most founders have a higher bias towards growth versus profit, and it will have a positive impact on hiring," Ashish Sharma, CEO of InnoVen Capital, said in the report.

— **HEALTHTECH TO REMAIN IN FOCUS**

With the COVID-19 vaccination drive underway, startups in domains such as remote health monitoring, online health consultations, e-pharmacies, and ancillary health startups that offer alternative medicinal preparations — like Ayurvedic teas and immunity boosters — are expected to continue to see upticks.

Startups directly working in conjunction with logistics companies to ensure safe transportation of the vaccines, as well as MSMEs manufacturing injections, syringes, and protective kits are also expected to see strong growth in Q2, especially as the vaccination drive expands to other age groups.

— SHIFT TOWARDS LOWER-TIER CITIES TO CONTINUE

Tier-II and lower cities and villages in India are the startup ecosystem's new darlings with new startups emerging to solve the many specific challenges the demographic there faces. With the internet boom, thanks to Jio, the realisation that there is traction in non-metro cities for internet-based services and products has opened up a whole new set of target audience — thereby, a revenue stream — for the ecosystem.

Existing startups are now designing services and products that could cater to this new segment, which is attracting investor money, while new, specialised startups are coming up to more closely follow shifting trends there.

— AGRITECH FUNDING TO SEE AN UPTICK

Investments in India's agritech sector have been steadily increasing over the past four-plus quarters, thanks to rising tech adoption among farmers that helps them optimise their yields.

Also, given that while for most sectors, the overall growth rate was sluggish through 2020, barring sectors such as edtech, fintech, healthtech, and SaaS, agritech saw solid and steady growth because it's generally resilient to extreme distress.

Increased demand for health and nutritional products, especially due to the pandemic, is expected to keep providing tailwinds to the sector into Q2 as a fresh wave of the virus hits. A shift towards healthy eating, farm-to-table format, as well as an emphasis on safely and organically produced agricultural products, backed by technology, will also contribute to a boom in the sector.

In cities such as Bengaluru, Mumbai and Delhi, farm-to-table is becoming quite popular and amassing a large user base.

— EDTECH AND FINTECH TO CONTINUE SEEING MORE CONSOLIDATION

The two superstar sectors of the pandemic are expected to continue seeing more deals and M&As in Q2. Most of these deals are expected to stem from within the startup community by bigger players, although, in the case of fintech, a lot of acquisition demand is coming from institutional financial bodies, such as banks and asset management companies, looking to get in on the retail fintech action. Consolidation, at this point, is more meaningful because these two sectors are already saturated, experts have said in the past, and one of the few ways to see any meaningful growth — especially for smaller startups — would be to leverage a bigger player's existing user base.



05



ACKNOWLEDGEMENTS

YourStory Research, the research arm of YourStory Media, is the definitive source for data-led insights and analysis of trends impacting the Indian entrepreneurial and tech ecosystem. YourStory Research focuses on market research, market intelligence, startup discovery, and consulting in the startup ecosystem in India.

YourStory Media Private Limited is India's leading digital platform for positive, inspirational stories of change makers and entrepreneurs across India.

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**Q1'21
STARTUP
FUNDING REPORT**
