

# Why are Indian Startups are failing despite getting Funded?

A Research by Attentio Corps

It is really strange to note that while entrepreneurial activity & funding of Startups in India is at an all-time high, increasing no of startups are going belly up. Through this research paper, we try to delve into the reasons behind this trend.



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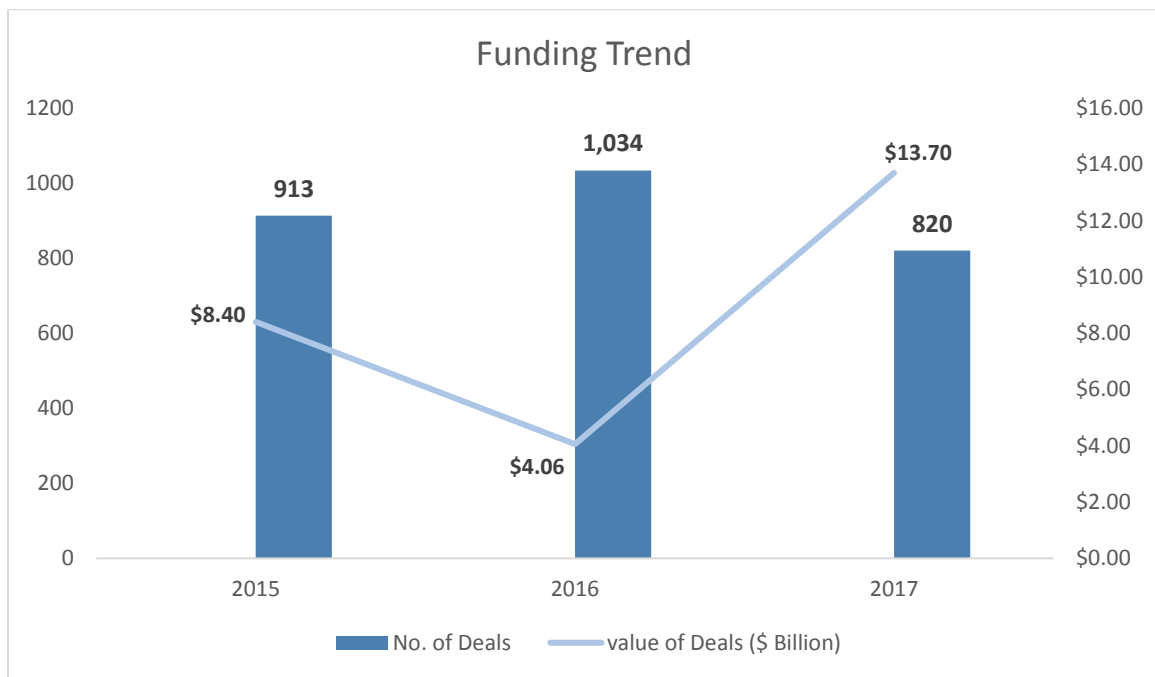
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## Why are Indian Startups are failing despite getting Funded?

In the past few years, India experienced its biggest-ever startup boom, with entrepreneurs founding thousands of companies.

2017 closed with a record \$13.7 billion invested into the Indian startup ecosystem across 820 deals; which is higher compared to 2016 and 2015, when funding was at \$4.06 billion and \$8.4 billion respectively. However, 2016 and 2015 saw a larger number of deals, at 1,034 and 913 respectively.<sup>1</sup>

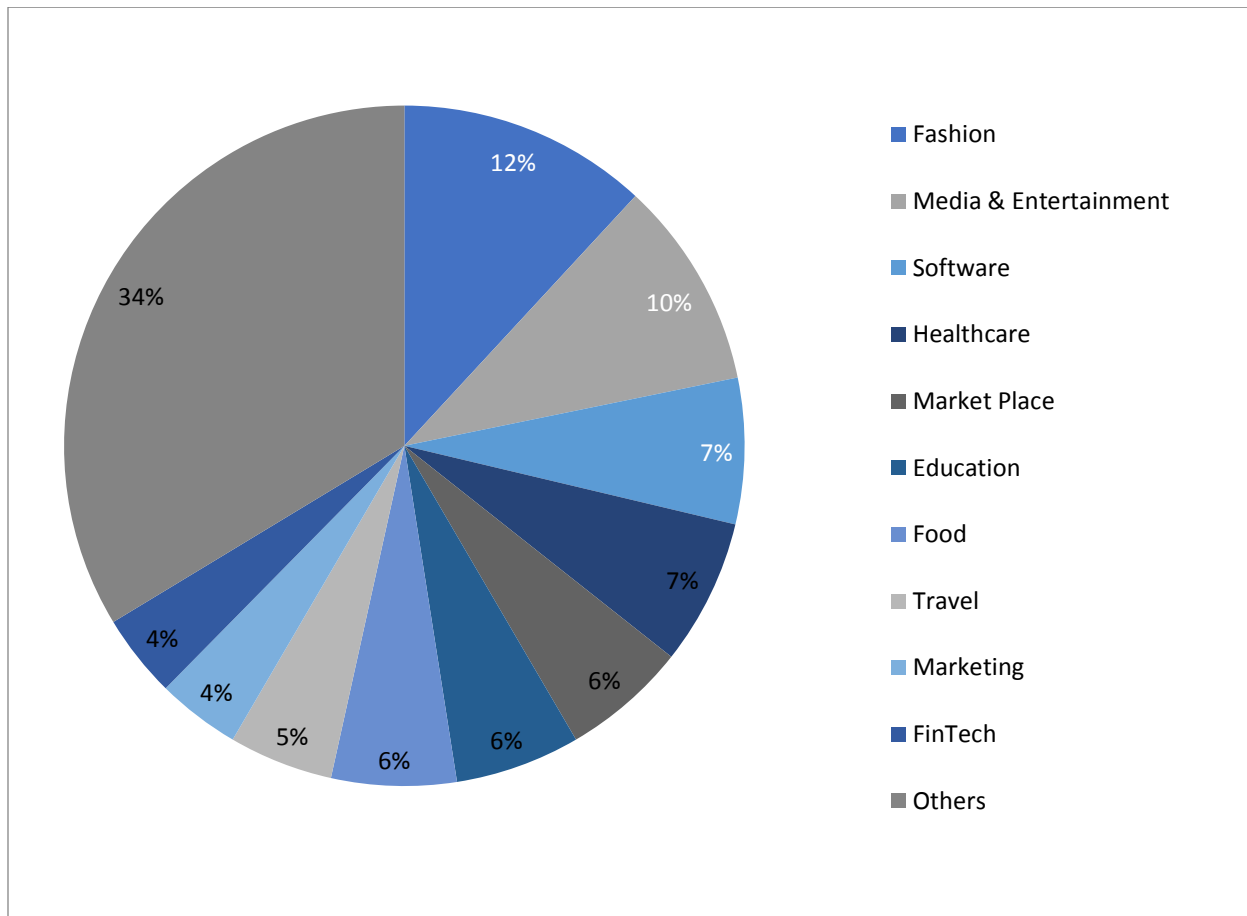


For this research, we have analysed all the funded companies in India that have been closed (dead pooled ) from 1<sup>st</sup> January,2014 to 30<sup>th</sup> June 2018 and have compiled the data from website [www.tracxn.com](http://www.tracxn.com) (Tracxn Technologies Pvt. Ltd.)

Tracxn calls these companies as Dead pooled who have no online active over a period of 3-6 months or has shut down. The database tracked 506 companies which were dead pooled

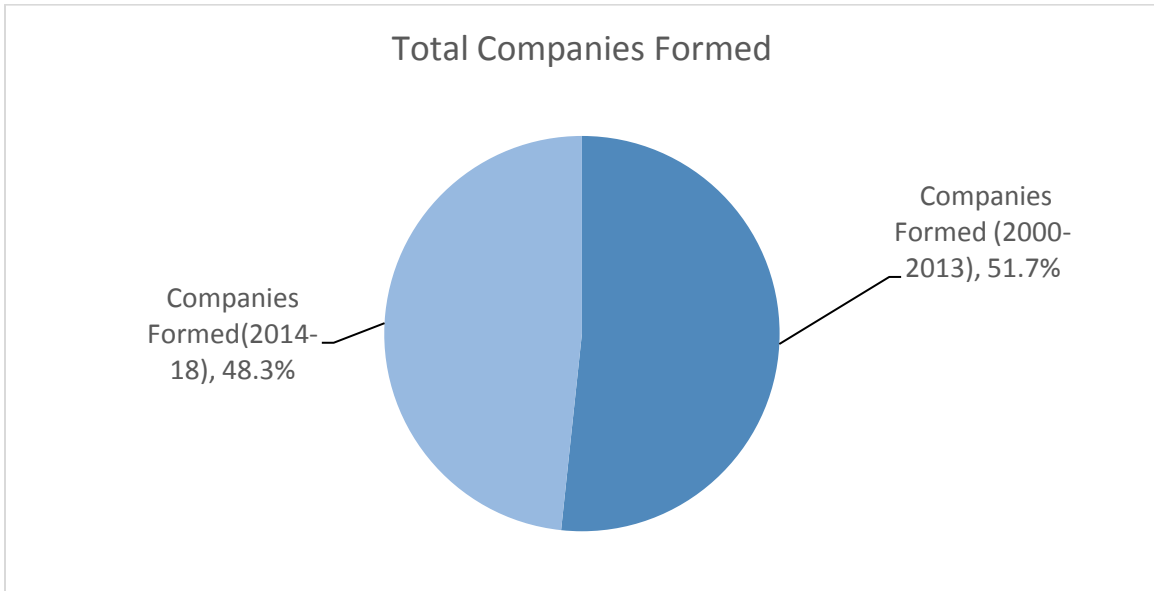


On analysis of all the companies presented, we found that fashion is the largest segment which had most failures. Fashion includes companies which are into fast fashion, mom & baby care and fashion discovery.

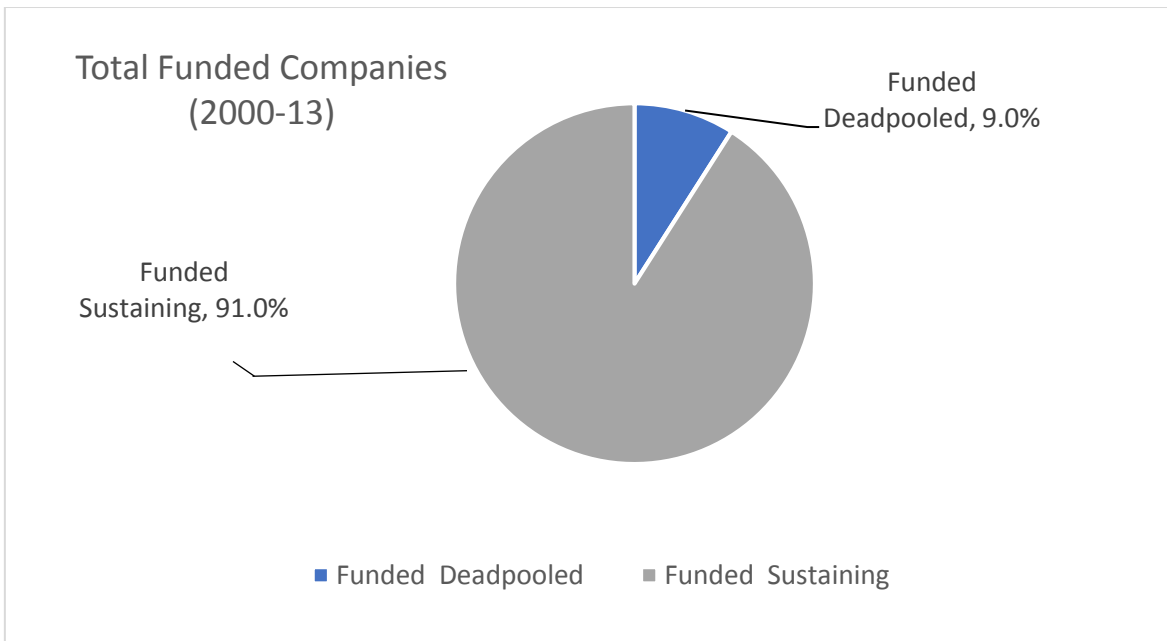


*Figure 1 : Sector-wise Closed (deadpooled) companies*

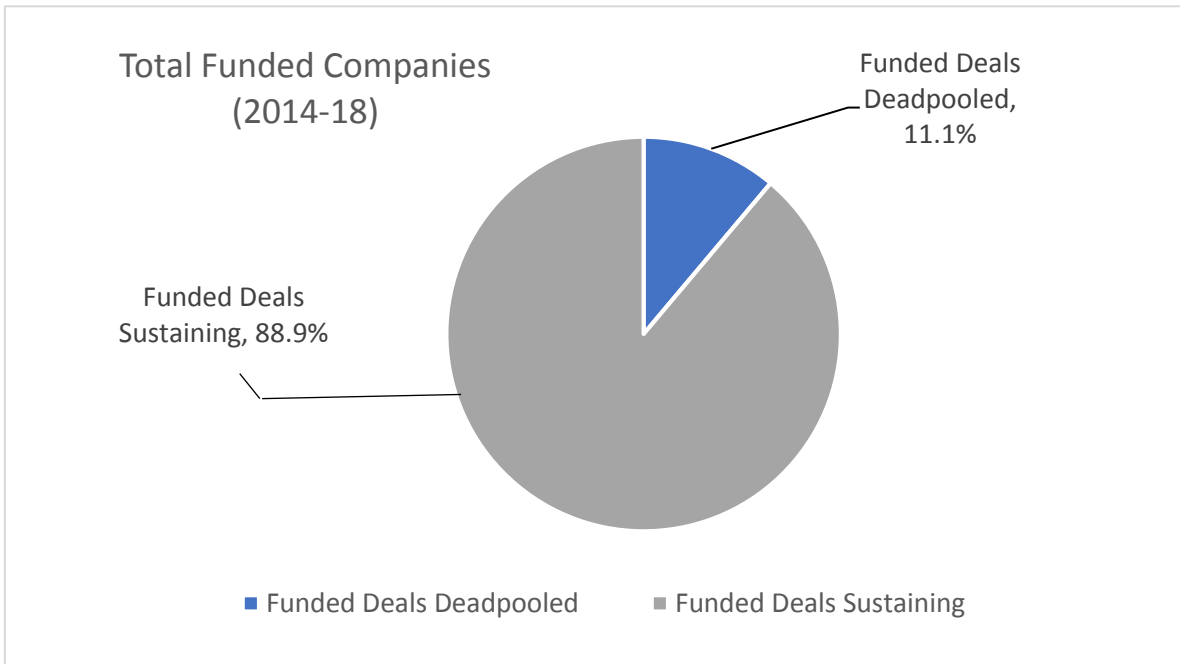
On further analysis, 48% of the companies had a vintage of less than 4 years.



**Figure 2 :** Companies founded and Closed from 2014 to 2018.



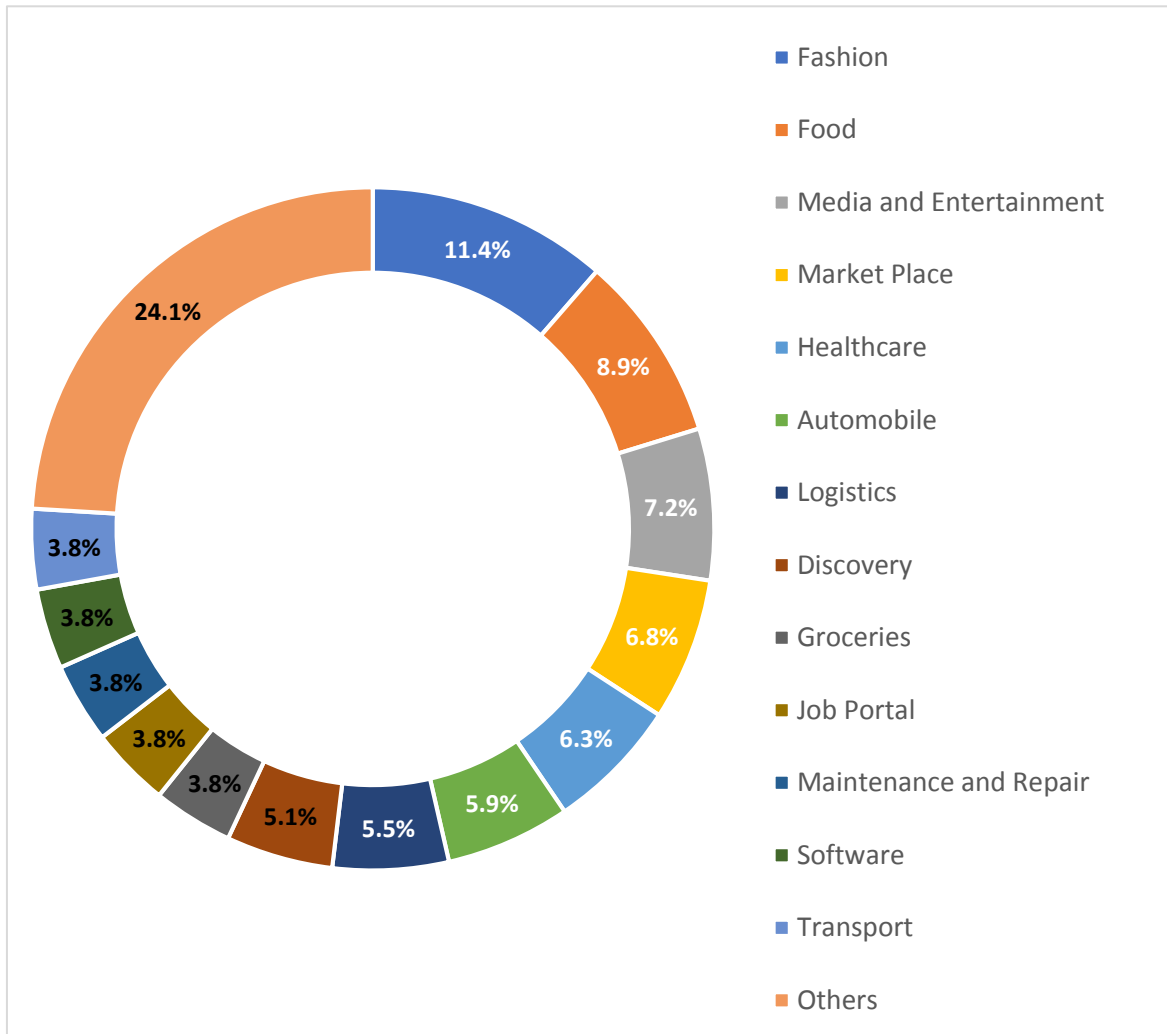
**Figure 3:** Funded Closed and Sustaining deals from 2000-13



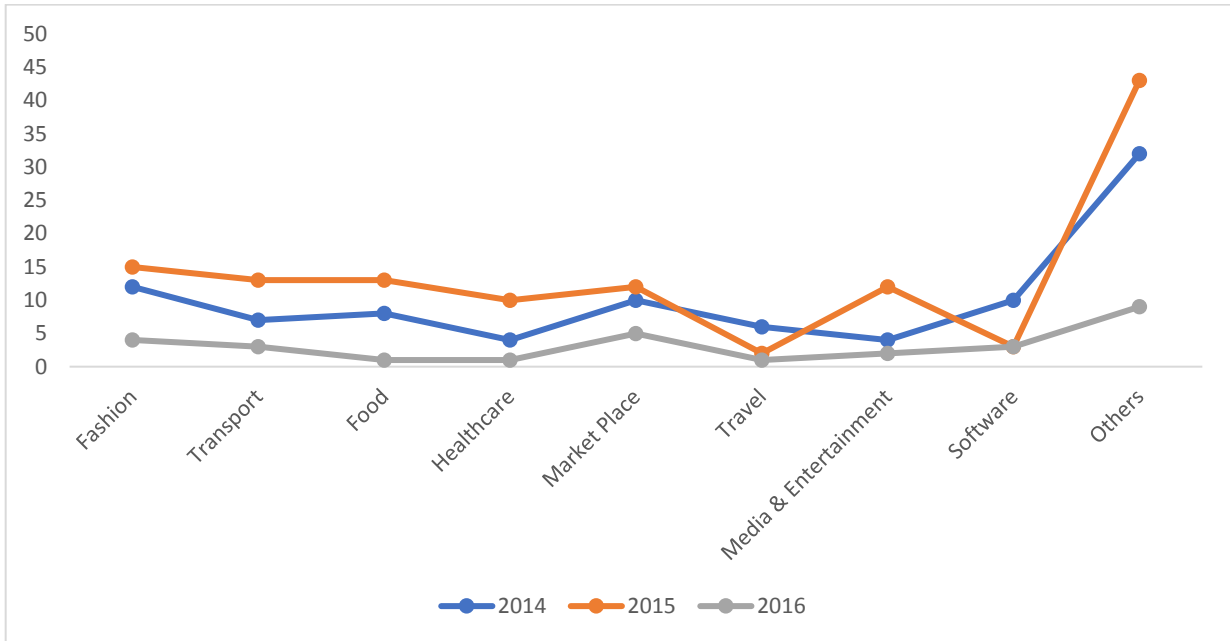
*Figure 4: Funded Closed and Sustaining deals from 2014-18*

There were total of 5,183 companies formed within the span of 2000-2018 (as on 12<sup>th</sup> July,2018) of which 2,307 were formed between 2014-2018 of which only 1110 are funded and sustaining. The failure rate of funded startups has gone up by 2% over the span of 2014-18, from 9% in 2000-13.

The below chart shows a sectoral analysis of the 240 companies having a vintage of less than 4 years. Again, Fashion leads the data followed by food and media.

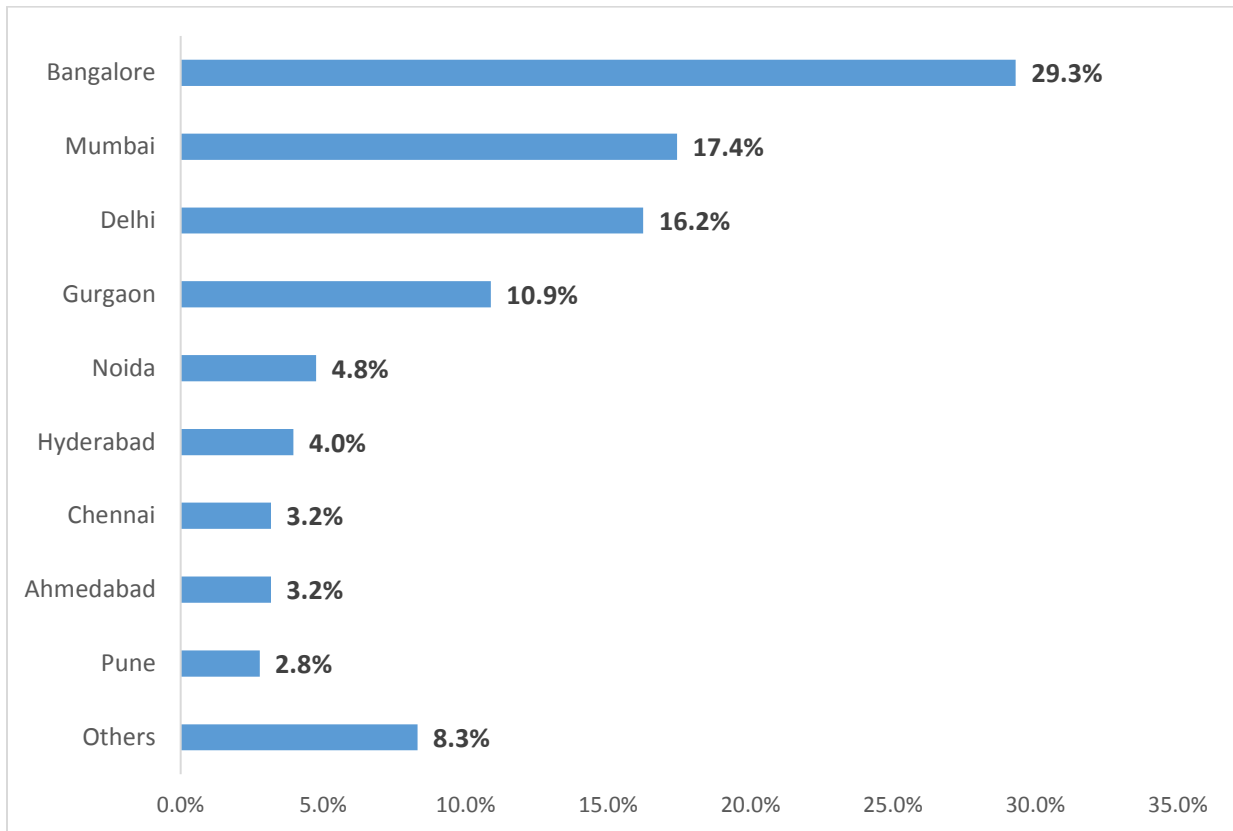


*Figure 5 : Sectors that were formed and Closed within the time frame*



*Figure 6: Major Sectors Founded and Closed*

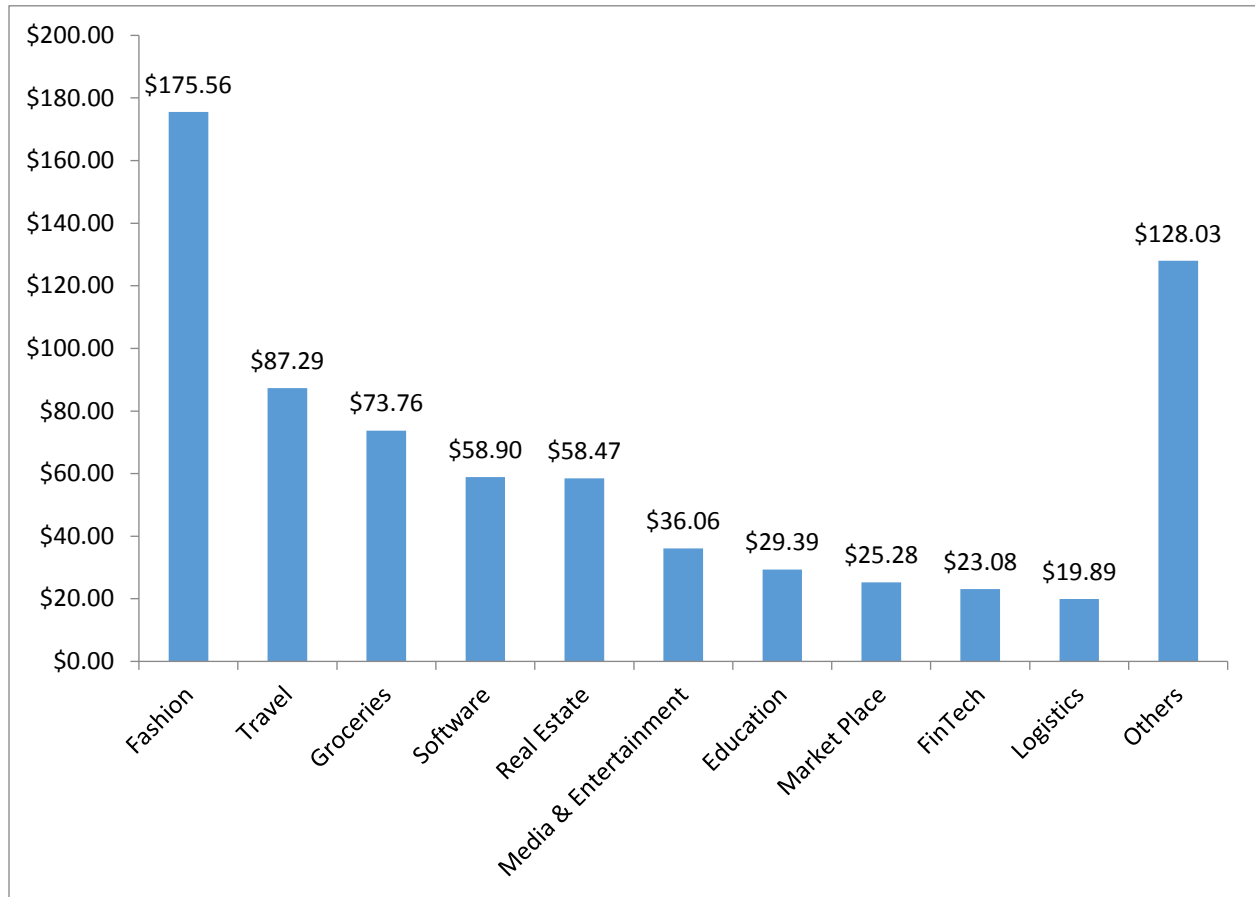
In each individual year, yet once again fashion dominated the market. The most fluctuating sector is the Media and Entertainment.



*Figure7: Closed Business city wise*

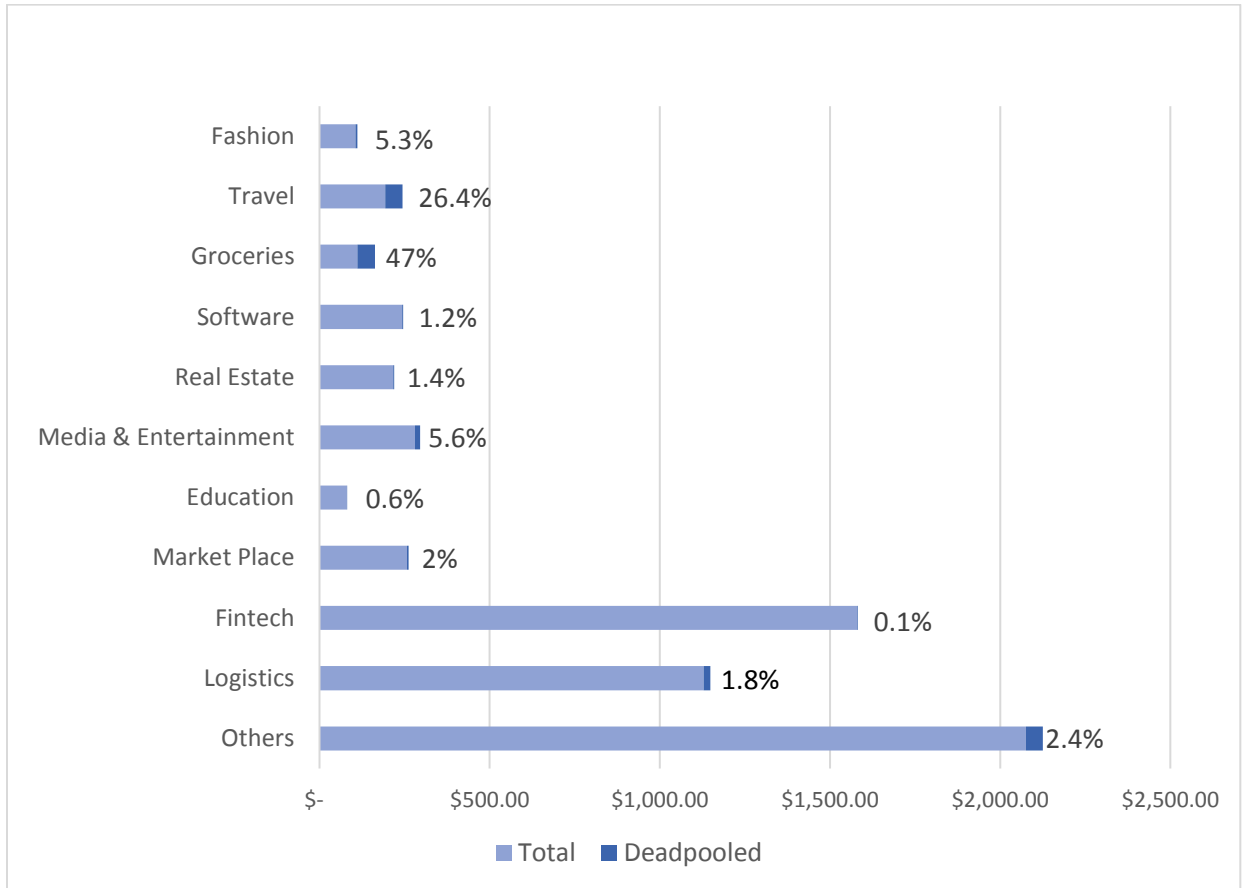
Bangalore has the greatest number of startups with 29.3% companies closed their business. Mumbai is next with 17.4% companies in the basket and Delhi is close to the heels where 16.2% of them were closed and so on.





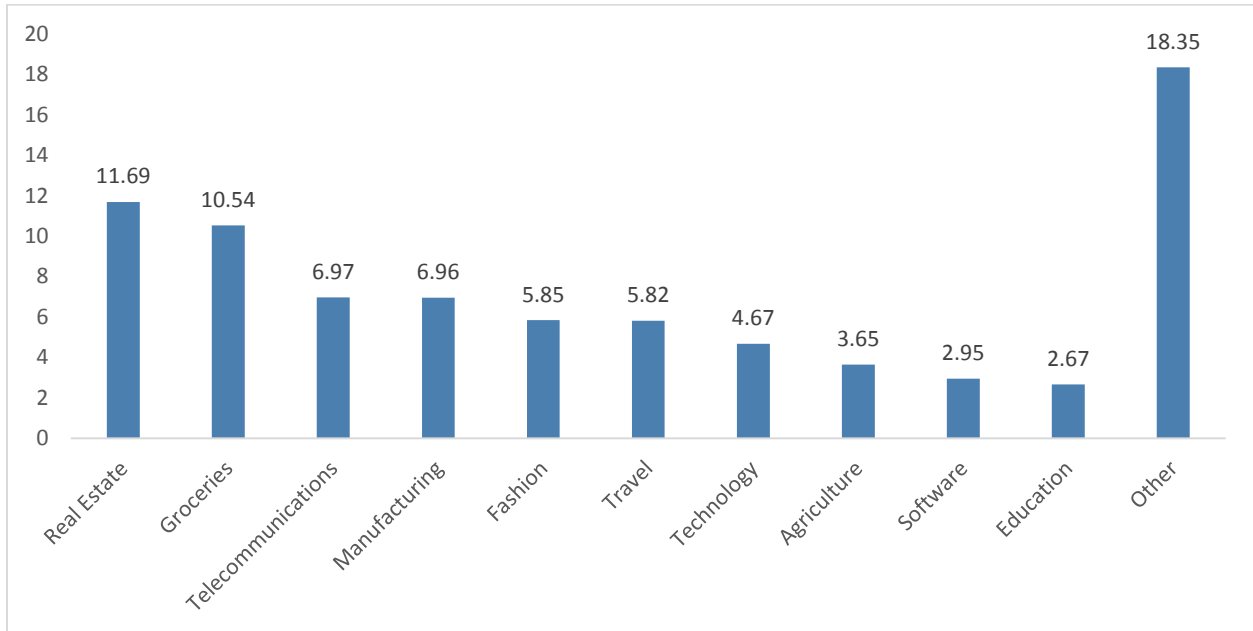
*Figure 8: Total Funding in sectors of the companies (in million)*

The total funding amount for all the sectors is \$715.69 Million. As can be seen from chart above, Fashion Sector was mostly preferred when it came to funding as it is able to get the maximum share of the total funding followed by Travel and Groceries and so on.



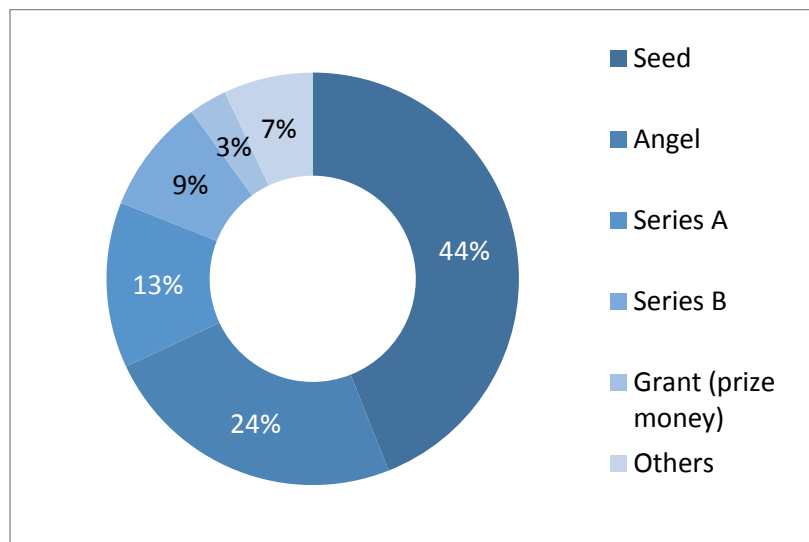
*Figure 9: Total Funded Amount in comparison to closed for 2014-18*

Of the total 1354 companies that were formed from 2014-2018 and funded. 246 companies were closed of which only 138 companies had disclosed the amount of funding. Total funding was highest in the Fintech sector followed by logistics. Total funding in the Fintech sector is \$1579.76 of which 0.1% failed to sustain amounting to \$1.85. The highest backlash is being faced by the Grocery sector where even though they received \$110.96 funding, 47% of that has got wasted. This is followed by Travel industries were funding of \$50.84 couldn't survive.



*Figure 10: Average Funding of each sectors of the companies (in million)*

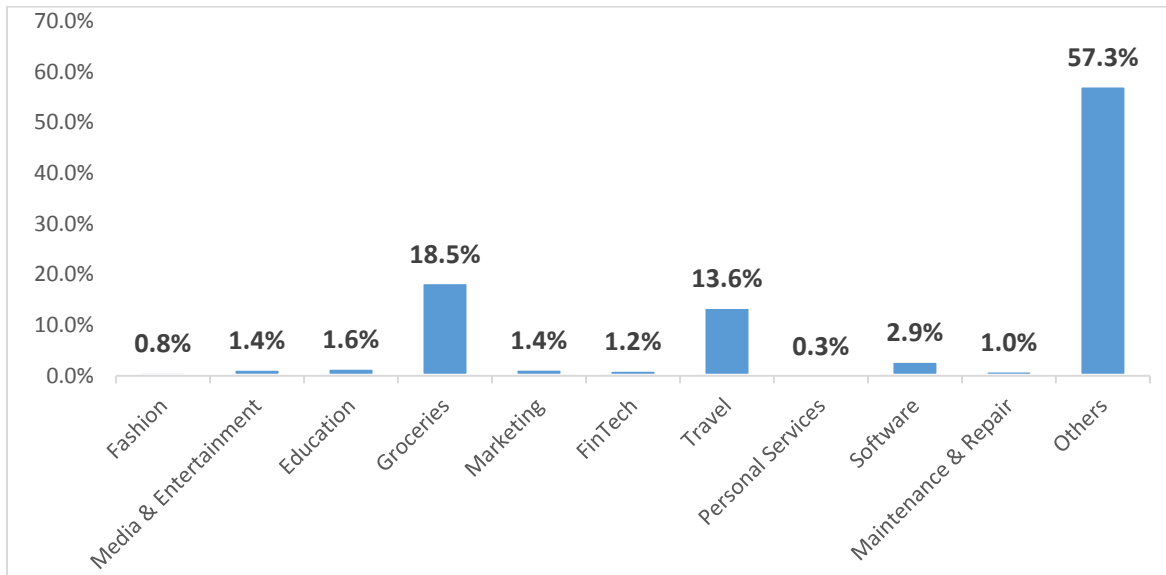
Out of 506 companies, only 258 had disclosed the total amount of funding that they have received. Even though funding amount has been more for Fashion industry followed by Travel and Groceries, average funding has been more for Real estate, Groceries.



*Figure 11: Most preferred Funded stage of the company that were closed*



It is clearly seen that companies who were mostly funded were being able to raise funds in the Early Stage of Investments. 416 companies had provided the data regarding stage of funding of which most of them were able to raise at the Seed Stage and the percentage keep falling drastically ahead. This shows that very few companies could get funding ahead of Seed Stage.



*Figure 12: Total Popularity of each sector of Closed companies through mobile downloads*

This reflects that groceries were mostly popular when it came to app download at 18.5% followed by Travel at 13.6%. The other side of the story is that one is not being able to avail the service provided by these sectors without downloading the app.

### **Why the Companies failed?**

The analysis pointed to a number reasons as to why the companies failed. But we observed that there were a few common reasons which stood out. Some of common reasons for which entrepreneurs experienced business failures were:

1. Deep discounts and competition from horizontal brands
2. Lack of proper knowledge regarding management of Cash leading to severe cash crunch.
3. Not being able to raise the required money (subsequent rounds).
4. Bad customer experience.
5. Weak technology.
6. Falling in the face of controversies or frauds



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**Conclusion:**

As can be seen, the top three reasons for failure is related to Cash & profits. As the saying goes “**Cash is King**”, however most startups are not focusing on financial management thus leading to an early death despite some of them having experienced co-founders & sustainable business models. As long as startups can focus on turning profitable in foreseeable future & practice smart financial management amongst other things, they stand a really good chance to tide the early growth pangs and grow into profitable large scale entities.

END OF REPORT

*To get more insights into this report, feel free to reach out to [info@attentiocs.com](mailto:info@attentiocs.com)*



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