'Proficorn' is the buzz word as investors up the ante in India's startup world

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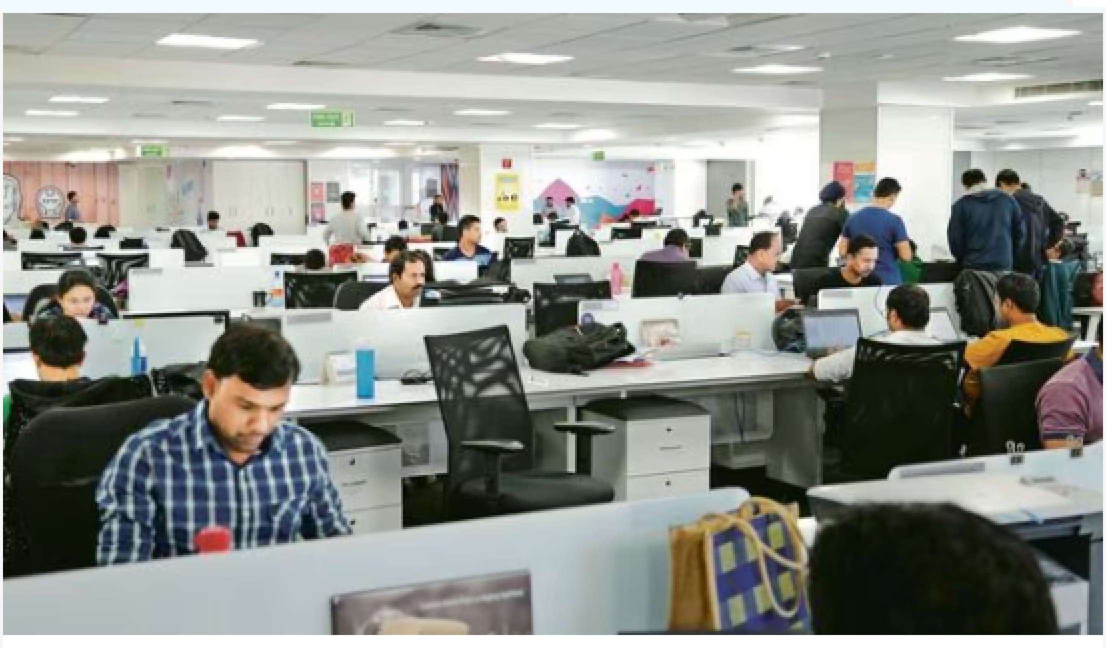

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There was a unicorn born every week back in 2021 and the Indian start-up ecosystem was thriving over a funding spree. Fast forward 2023, the scenario has changed drastically. The ecosystem is currently fragile with rampant layoffs as VCs tighten their purse strings in the backdrop of a funding winter. Startup founders have been under tremendous pressure from investors to chart out a path to profitability with no options left.

'Moving in the right direction'

India, touted to be the third largest startup ecosystem in the world behind the US and China, struggles on the profitability front. According to a Tracxn report, only 17 unicorns in India are profitable out of 80 whose data is publicly available. However, India has more than 100 unicorns.

"If you look at the profitability curve of any company, it's a J-shaped curve. That's generally the nature of any tech business and a tech company being unprofitable is not wrong because for months or years initially it is going to be inherently unprofitable till it crosses the hump," Gupshup's founder and CEO Beerud Sheth said.

Gupshup is a profitable SaaS firm with more than ₹1,000 crore in revenue in the fiscal year ending March 31, 2022.

"Amazon was unprofitable for more than a decade before it crossed over to profitability and what gives me optimism about the Indian tech ecosystem is that many companies are moving in the right direction and are closer to profitability," he added.

Valuations: Bubbling then, tumbling now

While there were 43 unicorns minted in 2021, it was just 22 last year. There hasn't been a single unicorn this year yet. What's more worrying is that the valuations too have been tumbling. The valuations of the Indian startup heavyweights have been written down lately. Ed-tech startup **Byju's was revalued to $8.4 billion in March this year from $22 billion last year.** Online food delivery platform **Swiggy's valuation has been slashed to $5.5 billion from $8.2 billion.**

There's a fall in valuations not just because of poor business performance but also because of the cost of money — interest rates. From 2008 to 2021, interest rates were really low and companies could borrow money, invest in projects and drive revenue growth. The scenario has substantially changed now where the Fed interest rates have gone up from close to zero to 5%.

"When interest rates are high, money is expensive to borrow which means the growth slows down. The benchmark comparison is very high so the net present value or discounted cash flow becomes much lower. Suddenly all the multiples, whether it is revenue multiples or earnings multiples have reduced and there's a valuation compressing world wide. Companies that are unprofitable will be hit more while the ones profitable or on the path to profitability will be valued better," Gupshup's Beerud Sheth said.

Proficorns over unicorns

VC giant Sequoia Capital's portfolio unicorns are now heavily focusing on profitability, pausing or even cancelling new initiatives that typically have a long and uncertain gestation period for return on investment in the face of a worsening funding winter, brokerage firm JM Financial said in a note.

The going gets even tough for D2C with VC interest flowing towards the SaaS business. The SaaS industry currently has about 20 active unicorns, the largest number among all sectors, **according to a PwC India report**, followed by fintech, which currently has about 16 active unicorns.

"While the overall domestic consumption indicators in India remain robust, emerging D2C players should be prepared for fierce competition from well-established brands backed by significant financial resources. It is crucial for new entrants to understand the capital-intensive nature of building D2C brands, as well as the extended timeline required to achieve profitability while sustaining strong growth," Sri Peddu, General Partner, Powerhouse Ventures said.

He also added that not all technology-focused venture capital firms readily invest in D2C brands, and the availability of capital sources may be comparatively limited.

Rajan Kohli, CEO, CitiusTech, another profitable Indian unicorn, while talking about the profitability standpoint, had said, "success doesn't look the same for everyone but a focus on building strong fundamentals, a differentiated value proposition, client centricity, operating in the market segments, a profitability mindset and efficient cost management, and scaling strategically are all connected in making a company profitable."

Clearly, the stakes are high on both ends. The metrics have changed and it isn't just about being part of the coveted unicorn club anymore but being truly profitable — a 'proficorn' as we call it.