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Impact Of SVB Crisis On The Indian Start-ups Ecosystem: A Comprehensive Analysis

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A Report By
SPJIMR's CENTRE FOR FINANCIAL INNOVATION



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Centre for Financial Innovation launches
SPJIMR FinNovate Accelerator for startups in Finance

In association with



Highlights of the Programme



Access to Business

FinNovate has partnerships with large banks, insurance companies & funds; looking for the right startups to partner for business.



Access to Funding

Startups selected under the Programme pre-cleared to pitch to Mumbai Angels. Further a Demo Day, with opportunity to pitch to a number of Angels, VCs, and strategic investors.



Mentoring

World-class mentorship panel of Industry CEOs, seasoned Founders, Investors and Subject Matter Experts.



Curriculum

Curriculum comprising of diverse modules aimed towards scaling up start-ups and deep insights on all aspects of business.



Networking

Unique opportunity to extensively network with other Founders, Investors, Mentors, Experts & potential customers.



Free

Programme is **cost free** and **equity free** to selected start-ups.

Partners

Corporate Partners



Ecosystem Partner



Outreach Partner



Mentors

Leadership Mentors



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Former CEO,
Aditya Birla Capital



Mrinal Singh
CEO & CIO,
InCred Asset Management



Neeraj Swaroop
Former CEO, Standard Chartered
(South Asia & ASEAN)



Rakesh Bhutoria
Former CEO, Srei
Infrastructure Finance



Samuel Joseph
DMD, IDBI Bank



Sanjay Mittal
Former MD, Citi Principal Ventures,
Citigroup



Smita Aggarwal
Global Investments Advisor,
Flourish Ventures

Entrepreneurship Mentors



Dinesh Tiwari
MD, Broad Peak
Capital Advisors



Gaurav Prakash
Chief Strategy Officer,
Zone Startups, India



Ish Anand
CEO & Country Manager,
Global Wealth Group



Jithin Sreedhar
GM, Payments Management,
MyGate



Madhukar Bhatia
Managing Partner,
Pentathlon Ventures



Santosh Kumar
Head of Innovation,
Citi India



Sumit Garg
Mentor & Judge,
Mass Challenge & Co-Founder,
Threatbar



Sumit Rungta
Co-Founder, Invoice Bazaar



Vikrant Potnis
Founder, FundEnable

Functional Mentors



Karan Ambwani
India Lead, dYdX Foundation



Litesh Majethia
Former Head,
Supply Chain Finance,
BoB Capital Markets



Ritu Sajani
Senior Legal Counsel,
Coinswitch



Sudha Jayashankar
Former ED, HR, MSCI Inc.



Vedanarayanan Vedantham
Marketing Leader, Microsoft



Shashank Jain
Former CFO, Shubham
Housing Development Finance



Sunil Kumar
Chief Compliance
Officer, Federal Bank



Vineet Barnwal
Corporate Trainer and Coach

Who can Apply?

Start-ups in the SEED to Series A stage;
with an MVP and some revenue / customer validation.

Join us and take your startup to
new heights of *growth and success*.

To Know More

To Apply

Apply now, before the deadline on **April 23, 2023**.
Limited Seats on the Programme. **Early applicants will be given preference; everything else being equal**. So it is strongly recommended you apply early to increase your chance of being selected. **Don't miss out on this opportunity. Apply today!**

To know more, visit : <https://www.spjmr.org/finnovate-accelerator/overview>

Impact of SVB Crisis on the Indian Start-up Ecosystem: A Comprehensive Analysis

With so many early- and mid-stage Start-ups, the SVB issue has created an unpleasant scenario in the global Start-up ecosystem. Given that India's economy is expanding and Start-ups are occupying a prominent position, the effects of the SVB failure on India's Start-up ecosystem cannot be disregarded. The Start-up ecosystem in India, the Venture Capital market, and various remedies to mitigate the negative consequences of the crisis are all examined in this report.



- 1** *Reduced Funding from International Investors*
- 2** *Increased Scrutiny of Start-ups' Financial Standing*
- 3** *Positive Spillover Impact of US Economy*
- 4** *New Opportunities for Financial Service Providers*
- 5** *Regulatory Oversight and Reporting*
- 6** *Shift in Investment Focus to Later-Stage Start-ups*

Background

SVB is a leading financial services provider to Venture Capital firms and fast-growing technology Start-ups in the US and around the world. The Bank, which was established in 1983, has been crucial to the development of the Start-up ecosystem, notably in the Silicon Valley area.

As per SVB Capital website, SVB has relationships with more than 50% of all Venture backed companies in the US, and with funds and corporations across the globe. Some of the VC funds as per its website include 83North, Accel, Bessemer Venture Partners, Greylock Partners, Kleiner Perkins, Sequoia among many others¹. As per the latest 10-Q filed, SVB Capital manages over \$9.5Bn of funds on behalf of third party limited partner investors and, on a more limited basis, SVB Financial Group. Its family of funds is comprised of pooled investment vehicles such as direct venture funds that invest in companies and funds of funds that invest in other venture capital funds, as well as debt funds that provide lending and other financing solutions².

The SVB crisis resulted from a combination of factors and can be termed as a function of economic downturn, inflation, and bank's overall risk management strategies. As part of its Q1 2023 strategic actions update shared on March 8, the bank liquidated practically all of its Available-for-Sale securities portfolio worth \$21Bn, reporting a loss of \$1.8Bn which led to panic in the public markets³.

1. <https://www.svb.com/svb-capital>

2. https://s201.q4cdn.com/589201576/files/doc_financials/2022/q4/f36fc4d7-9459-41d7-9e3d-2c468971b386.pdf

3. https://s201.q4cdn.com/589201576/files/doc_downloads/2023/03/Q1-2023-Mid-Quarter-Update-vFINAL3-030823.pdf

Indian Start-up Ecosystem: Pre-Crisis Overview

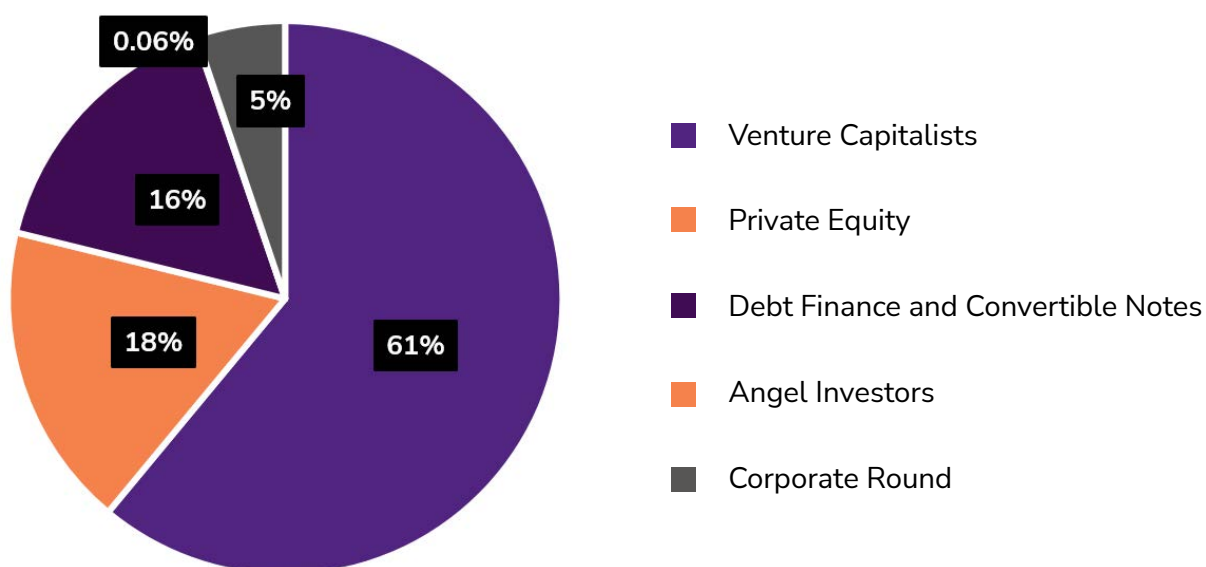
India is one of the vibrant and fastest-growing Start-up ecosystems in the world. There are several reasons that contributed to the quick expansion of the Indian Start-up ecosystem such as supportive government policies and initiatives, highly successful Start-ups inspiring a young population to aspire for entrepreneurship, growing middle class with disposal income and high rates of smartphone and digital use.

Over the last few years, Indian Start-ups have attracted significant investments from various domestic and international institutional investors, including Venture Capital firms, Private Equity firms, Angel investors, and Family Offices. According to data compiled by Fintrackr, 1,327 Start-ups raised \$25.2Bn across 1,556 deals. This includes \$21Bn by 330 growth stage Start-ups and \$4.2Bn by 1012 early stage Start-ups. In the past five years, the Indian Start-up ecosystem has raked in around \$100Bn in venture capital funding⁴.

However FY22, witnessed drop in Indian VC funding to \$25.7Bn (0.7x of 2021 funding)⁵ possibly due to the market pullback by VC funds that were picky about their investments. Nonetheless FY22 investments were still 50% higher than investments in Start-ups in 2019. And in terms of contribution for FY22, 79% came from institutional investors such as Venture Capitalists and Private Equity with each accounting for 61% and 18%, respectively.

Investor Participation in Indian Start-up Funding 2022 (by value)

Source: Authors' Observations



4. <https://entrackr-bucket.s3.ap-south-1.amazonaws.com/wp-content/uploads/2023/01/06161349/Annual-report-2022.pdf>

5. https://www.bain.com/globalassets/noindex/2023/bain_digest_india_venture_capital_report_2023.pdf

Impact of SVB Crisis on the Indian Start-ups ecosystem

As per our research, the SVB crisis can potentially have both negative and positive spillover impact on Indian Start-ups as outlined below:

4.1. Reduced funding from international investors

Due to increased caution and risk aversion among many international investors as a direct result of the SVB crisis, investments in Indian Start-ups could possibly decline. Similarly, LPs will be more circumspect in their VC fund investments. The performance of VC funds will now be scrutinized more closely by LPs, who will also look to diversify their investments to avoid concentration risks.

With the possible decline in investments as a result of the SVB crisis, Start-ups can become vulnerable to funding crunch which can result in scale-down of operations or shut down. This risk is higher for late-stage Start-ups. International investors are important for late-stage Start-ups, the unicorns & decacorns who need large capital for growth. So slow down in international investors can adversely affect the scaling up plan of late-stage Start-ups.

4.2. Increased scrutiny of Start-ups' financial standing and its effect on innovation

While investors have been careful with their investments in the past, the current crisis may result in investors giving more consideration to the financial stability and risk profile of Start-ups and give more weightage to their revenue, profitability, and cash flows. Investors who have invested in Start-ups with better revenue, product market fit, and operating efficiencies with a great founding team, right at the outset have been more successful in the long term.

4.3. Potential positive spillover impact of US economy

Despite the negative impacts, there are potential positive spillover effects from risk of slowdown in the US economy driven by high inflation, and the US investors eventually forced to seek out higher growth regions such as India. Indian Start-ups especially the late-stage Start-ups just need to navigate the brief period of volatility and slowdown in International capital. A slowdown in US economy is expected to be positive in the medium to long term with higher influx of capital into the Indian venture market.

4.4. Positive impact on new opportunities for Financial Service Providers

SVB Financial Group through Silicon Valley Bank, SVB Capital, SVB Private and SVB Securities is one of the largest service providers for the technology and Life Sciences/Healthcare companies⁶.

6. <https://ir.svb.com/home/default.aspx>

SVB's Start-up banking practice, Early-Stage Practice and Sponsor Finance services have been truly innovative⁷. These practices have contributed significantly to the growth of the Bank, which had earned trust and credibility from the market. The collapse of SVB is an opportunity for other banks and non-bank service providers. There are many financial service companies in India who offer the same services as SVB, albeit on a smaller scale, and the collapse presents a chance for new businesses to offer new products and services. For instance, some of the active private sector banks in the Start-up space such as HDFC Bank, ICICI Bank, IDFC Bank, and Kotak Mahindra Bank, through their branches in Gujarat International Finance Tec-City ("GIFT City"), can use this opportunity to replace SVB as a safer home for the foreign currency Start-up capital that has been raised.

4.5. Regulatory oversight and reporting

The SVB problem is expected to lead to further regulatory control and scrutiny of financial institutions, making sure that other banks and financial services providers are properly managing and disclosing their risks. This will lead to better control and more robust financing infrastructure in the long run. However, in the near term this would also throw up more opportunities for RegTech Start-ups.

4.6. There could be shift in investment focus to later-stage Start-ups

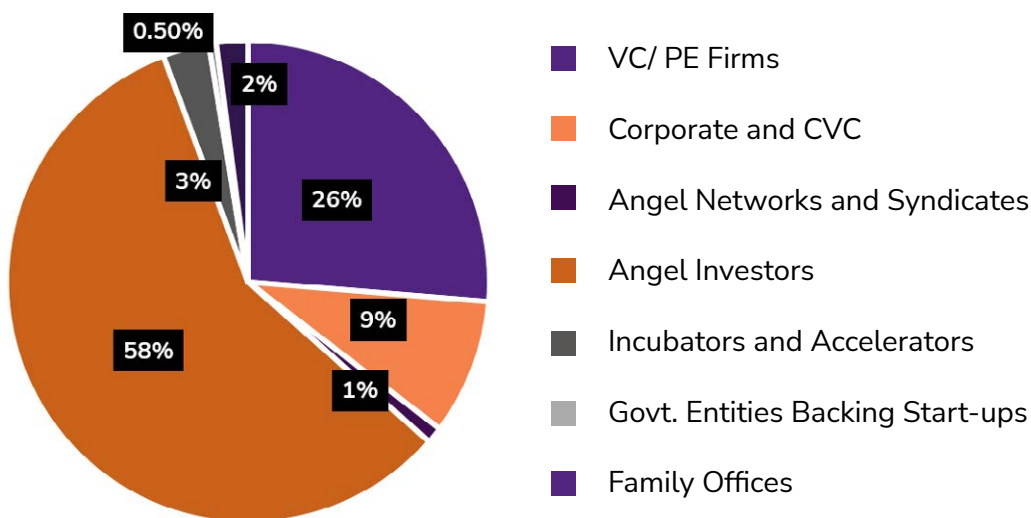
Investors may wish to change their focus from early-stage to later-stage Start-ups with tested business models and stronger revenue generating skills as they become more risk-averse. This may eventually result in lower percentage of early-stage investments in the Indian Start-up ecosystem.

One can also argue that reduction in international funding and shift of investment focus to later-stage Start-ups can put to risk the rate of innovation in India. However, we do not foresee this risk at

India's Start-up Investor Landscape 2022 (by volume)

Source: Inc42

Note: Based on 9500+ investors who have backed Indian start-ups since 2014



7. <https://ir.svb.com/financials/quarterly-results/default.aspx>

this stage. There are officially 82,000 Start-ups and counting, along with multitude of investors, Incubators, Accelerators & Government supported programs. So, we believe that Indian Start-up ecosystem has attained critical mass to sustain global shocks.

From a funding perspective, India has a vibrant ecosystem of Government supported players & Angel investors; who have hitherto been largely unaffected by SVB crisis. So, innovation at founding stage is unlikely to be significantly affected.

The community of angel investors is expanding, and they are giving Founders the funding they need to develop their concepts into viable enterprises. Start-ups will also need to think more seriously about growing their customer base and concentrating more on revenue.

Strategies for Indian Start-ups

In response to the potentially changing investment landscape, Indian Start-ups can adopt various strategies to navigate the challenges posed by the SVB crisis.

5.1. Focus on profitability and sustainable growth

Start-ups will need to prioritize revenue, streamline operations, and make wise financial decisions while focusing even more on profitability and sustainable growth. They should set realistic growth targets, avoiding the unsustainable growth strategies that may lead to short-term gains but long-term losses. Start-up founders need to focus on businesses that are cash flow positive based on initial investments for them to be self-sustaining in such hours of crisis. Lastly, they must consider hedging their bets by diversifying their revenue streams with developing additional products or services, and should also consider securing funds from multiple sources such as Angel Investors, Venture Capitalists, or Crowdfunding Platforms to minimize the risk of relying on a single source and increase chances of long-term sustainability.

5.2. Improve operational efficiency

Improving operational efficiency results in enhanced financial stability and attractiveness to investors. Start-ups will need to pay special attention to reduce their overheads and optimize their marketing and supply chains strategy. This could involve identifying the most cost-effective suppliers, improving inventory management, and using technology to streamline the supply chain. They should also focus on creating marketing plan to effectively reach and engage with the target audience by using social media, search engine optimization, and other digital marketing tactics.

5.3. Diversify funding sources

Indian Start-ups must look for alternate sources of finance and growth, such as forming alliances with other businesses, signing contracts with clients, accessing Venture Debt and participating in government-sponsored programmes. Start-ups can assure their ongoing development and success in the face of shifting investment environments by diversifying their funding sources with particular focus on revenues and business partnerships.

Further, late-stage Start-ups should actively market themselves internationally and seek more investment from investors looking for opportunities in emerging markets such as India, which could provide a much-needed influx of capital to the Indian venture market. In spite of global slowdown, India is a bright spot globally and many international Investors, sovereign wealth funds & family offices are looking to invest in India.

5.4. Transparent governance and risk management

Start-ups will need to be more transparent to demonstrate their overall strength as an operational firm in order to assuage investor fears and improve their reputation. This can involve implementing risk management techniques, enhancing internal controls, and timely financial reporting to authorities and stakeholders.

5.5. Government and Institutional support

Indian government should respond more aggressively to the SVB crisis to ensure there is no materially adverse impact on Indian Start-ups. Government should enhance the budget allocation to Start-up ecosystem & Start-up Seed Funds. The last 5 to 7 years has shown the tremendous benefits to Start-up ecosystem from various visionary initiatives of the Government such as The Atal Innovation Mission, Start-up India, and the National Start-up Awards. These initiatives have played an instrumental role in growth of Start-up ecosystem in India. A vibrant Start-up culture has multiplier effect on employment, economy and is a viable answer to India's population being a demographic dividend or time bomb?

Now is the time for Government to double up on investment to protect this segment. In the budget, the government should create incremental discretionary allocation to invest in incubators and to make further capital available for investment in early-stage Start-ups.

Incubators & Accelerators play an equally important role to growth of Start-up ecosystem. Incubators are often the cradle of innovation in India and first home for some of the most successful Start-ups. Incubators & Accelerators are force multipliers which catapult Start-ups to the next level.

Hence at SPJIMR, we have started the SPJIMR Finnovate Accelerator (<https://www.spjimr.org/finnovate-accelerator/overview>), for Start-ups in Finance. This Accelerator programme is cost free & equity free to Start-ups and provides Start-ups with access to exceptionally unique resources, such as access to business, funding, mentorship, networking, and a Start-up curriculum. With these resources, a Start-up can overcome the challenges they face, such as developing a viable business model, acquiring customers and raising capital.

Conclusion

In conclusion, the SVB issue may have a significant impact on Indian start-ups, investors, and the venture capital industry as a whole. Start-ups will be able to overcome many obstacles by focusing on profitability, operational efficiency, finding alternative sources of finance, and enhancing governance standards.

About the Authors



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Mansi Gupta is a Research Associate at CFI. She began her career by working in the area of financial consultancy. Her research interests revolve around financial markets, green finance and investments, sustainable and responsible business with the focus on emerging markets.



Sumit Garg

Sumit Garg, is a Mentor at SPJIMR's FinNovate Accelerator programme. Sumit is a seasoned international expert, co-founder, and mentor, and has a successful career in the technology sector. He has extensively contributed to the expansion of early-stage and growth-stage technology companies in the past which subsequently led to the acquisition by large corporates. Currently residing in India, Sumit also had professional stints in Europe and South Africa.

About Centre for Financial Innovation

S. P. Jain Institute of Management and Research (SPJIMR), is a leading postgraduate management institute, recognized by Financial Times Global Rankings as one of India's top two business schools, by Business Today as one of the country's top five business schools, and by the Positive Impact Rating, a Swiss Association, as one of the top five business schools worldwide in terms of social impact.

SPJIMR's Centre for Financial Innovation (CFI) is a Centre of Practice with focus on Innovations in the field of Finance. CFI intends to create a financial innovation ecosystem through practitioner-oriented research, education, and a start-up accelerator for the financial sector. Our objective is to create an ecosystem which promotes innovation, collaboration and thought leadership in Finance. And we are able to do this through the various initiatives undertaken by CFI such as **SPJIMR FinNovate Accelerator, Beyond the Bottomline, Benchmark and Certification Programs.**

SPJIMR Finnovate Accelerator is a best in class Accelerator Programme which focuses on identifying and grooming Start-ups in Finance and provide these Start-ups with access to business, funding, mentorship, Start-up curriculum and networking. All of these are on an equity free basis. **Beyond the Bottomline** is a practitioner research platform that gives its users access to the latest developments in the field of FinTech and Financial Innovation. The platform provides high quality articles, research reports, webinars, and interviews of subject matter experts etc. **Benchmark** is a practitioner research conclave where researchers around the world get to work on some of the real world problem statements in finance and financial innovation. And finally CFI is all set to launch one of the best **Certification Courses** aimed to give a comprehensive coverage of Fintech by focusing on Fintech, Blockchain, AI/ ML and Data Science.

Across all these initiatives i.e. our Accelerator, Beyond the Bottomline, Benchmark and the Certification Course, we are creating a 360-degree Financial Innovation ecosystem that would offer tremendous value to every individual or corporate associated with CFI. All you need to do is enroll yourself to any of these initiatives or sign up to receive information about the initiatives on our website; <https://www.spjimr.org/faculty-research/research/centre-of-practice/centre-for-financial-innovation-cfi/>



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