

# Indus Valley Annual Report 2023

Sajith Pai | [sp@blume.vc](mailto:sp@blume.vc)  
Amal Vats | [amal@blume.vc](mailto:amal@blume.vc)



## Welcome to the *Indus Valley Annual Report 2023*

India's vibrant startup ecosystem, concentrated in the eastern suburbs of Bangalore, the satellite cities of Gurgaon and Noida in National Capital Region (NCR) surrounding Delhi, the districts of Lower Parel & the Andheri East – Powai belt in Mumbai, the Southern suburbs of Chennai, and in the various scattered pockets across many other cities such as Pune, Hyderabad, Chandigarh etc., has lacked a name.

At Blume, we like to use **Indus Valley** as a catch all moniker for the Indian startup ecosystem. It is a twist on the typical Silicon Wadi / Glen / Fen naming convention, as well as a reference to the Indus Valley Civilisation, one of the vibrant centres of the ancient world, and the ancestral civilisation of the Indian people.

Unlike Silicon Valley which has a geographical connotation, the term Indus Valley has no such overtone. It is instead a reference to the entire Indian startup ecosystem, spread throughout the nation. It is also an attitude, a mindset; of invention, and '*jugaad*' andchutzpah.

The **Indus Valley Annual Report** is an opportunity to celebrate the rise of Indus Valley, and its emergence as one of the centres of innovation and enterprise in the startup world. It gives us a chance to look back, and take stock of its rise and evolution, and also look ahead to what is coming. We welcome you to the second edition of the Indus Valley Annual Report! Our first edition, published in March 2022 can be accessed [here](#).

## How to read this report

This is not a data book. We didn't create it to serve as an exhaustive repository of data or reportage on India. Rather, it is more a narrative, and less a dataguide. Or even better, you should see it as a source of perspective on the Indian startup ecosystem. And as with all perspectives a lot depends on the vantage point of the observer. As the leading seed fund in India, we do think we have a unique perspective and insight into the Indian startup ecosystem, or Indus Valley, as we term it. And with *The Indus Valley Report*, we hope to get you, dear reader, to view the Indian economy through our lens. Do tell us how you see it. Compliments, criticism, feedback all welcome at [sp@blume.vc](mailto:sp@blume.vc) / [amal@blume.vc](mailto:amal@blume.vc)

# Section I: Interpreting India



# Interpreting India



Data

Patterns

Narratives



# India in one tweet

Blockchain, formalisation and caste



Kashif Raza  
@simplykashif

For the first time in 🇮🇳 65000 caste certificates have been issued on @OxPolygon network by the Maharashtra government.

A big thank you to @MartisNeil founder @LegitDocIndia for convincing and executing the project.

Thank you to our Young dynamic IAS officer @ShubhamGupta\_11



8:39 PM · Mar 28, 2022

Polygon is one of big success stories in the crypto / web3 spaces out of India; a layer2 or sidechain to Ethereum helping transactions become faster and cheaper.

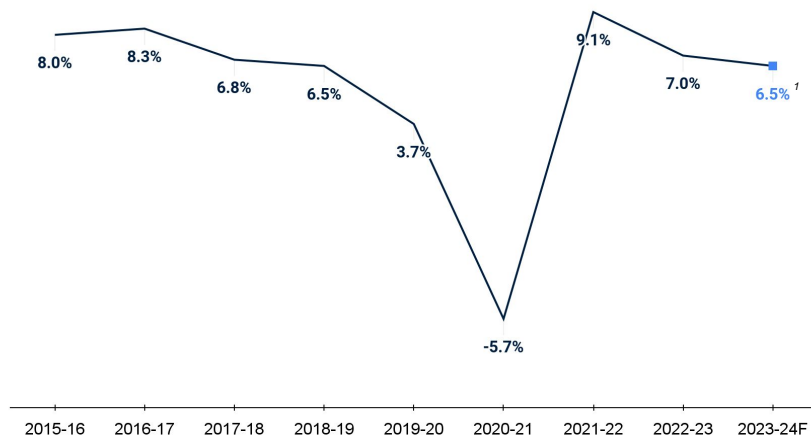
Here the Polygon blockchain is being used to record and authenticate caste certificates. Such certificates are used by historically disadvantaged communities to avail government services and benefit from affirmative action.

The new collides with the ancient. The latest in tech is used for the oldest known social stratification system.

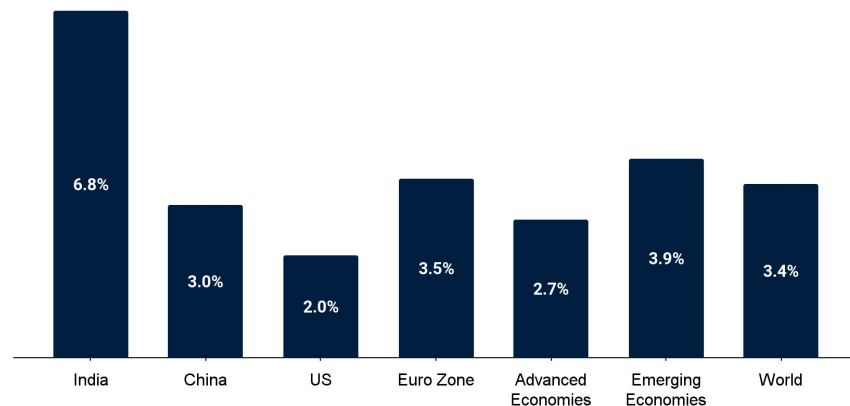
# India is the fastest growing major world economy today

India's GDP is \$3.5 Trillion for FY22-23 (\$3.47 Trillion per IMF for CY22)

India's Historical GDP Growth Rates



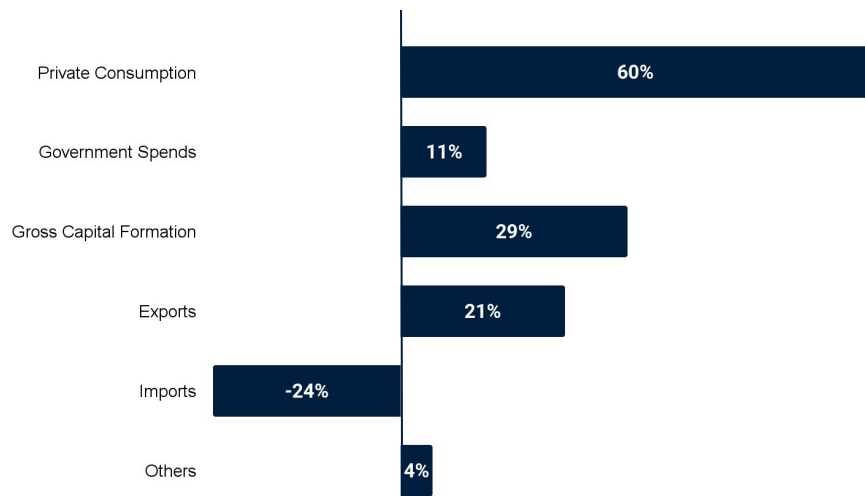
2022 CY Growth Rates



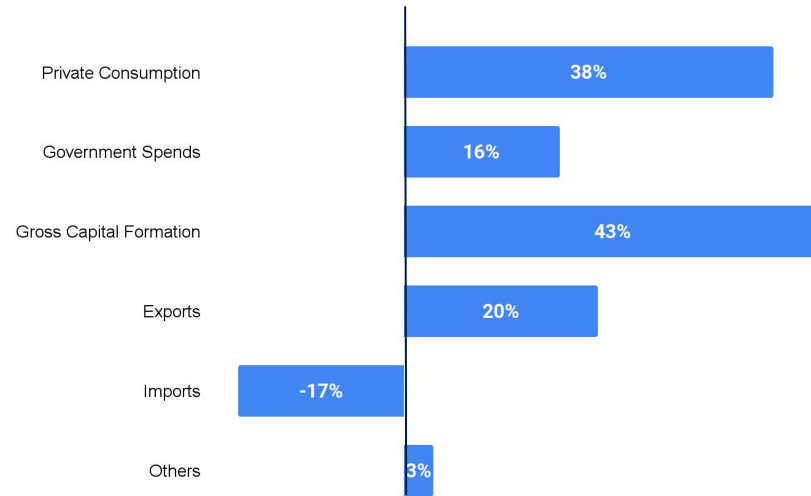
# Understanding India's Production Function

India significantly under-invests in Gross Fixed Capital Formation; the consumer engine drives the GDP disproportionately

Deconstructing India's GDP



Deconstructing China's GDP



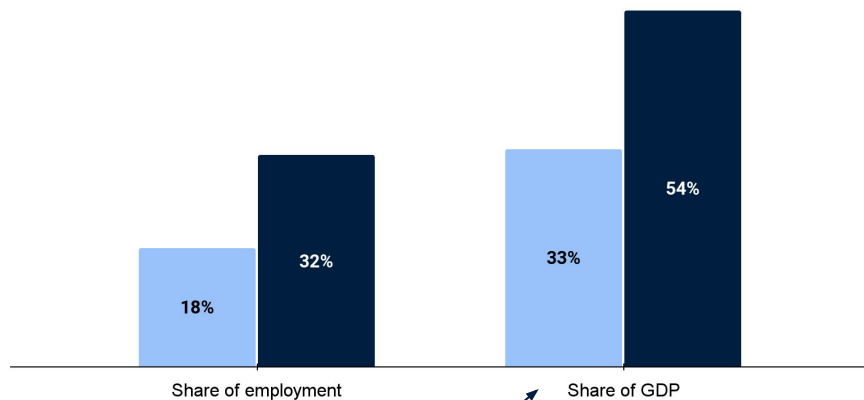
Sectors	Total GDP	Industry	Services	Debt / GDP
India	\$3.5Tn	28%	53%	1.7x
China	\$18.3Tn	40%	52%	2.9x

# Services sector is supersized; contributes to >50% of our GDP

India has always punched above its economic class when it comes to representation in services

## Services Sector Share in Employment and GDP

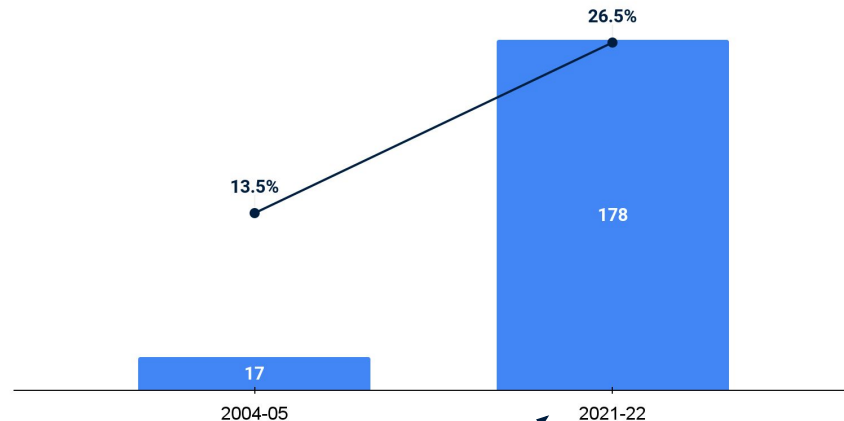
■ 1950-51 ■ 2021-22



Service sector has always been well or over-represented in India (for our GDP).

## Share of Software Exports in Overall Exports

■ Software Exports (\$Bn) ● Software Exports as % of Overall Exports



The crown jewel of our service sector is the IT-BPM sector about 80% of which is exports. It directly employs about 4.5-5Mn, and indirectly supports 12Mn, totally to about 30% of all white collar jobs.

# Some macro indicators

An interesting feature of India is the high disguised unemployment rate / forced entrepreneurship (see last row)



**\$2,450 per capita income**  
(CY22; China = \$12,970)



**~1.4 billion population**  
(overtaking China this year; median age of  
28 vs China's 38)



**6.8% headline inflation rate**  
(Apr - Dec '22)  
vs World 8.8% (IMF)



**\$900Bn Retail Sector**  
(45% of Pvt Consumption)



**(Domestic) Credit is 55%  
of GDP** (World Average is 148%)



**Equity market cap is \$3.5Tn  
in 2022** (Presently 5th highest)



**12m retail outlets**  
(vs US 1Mn)



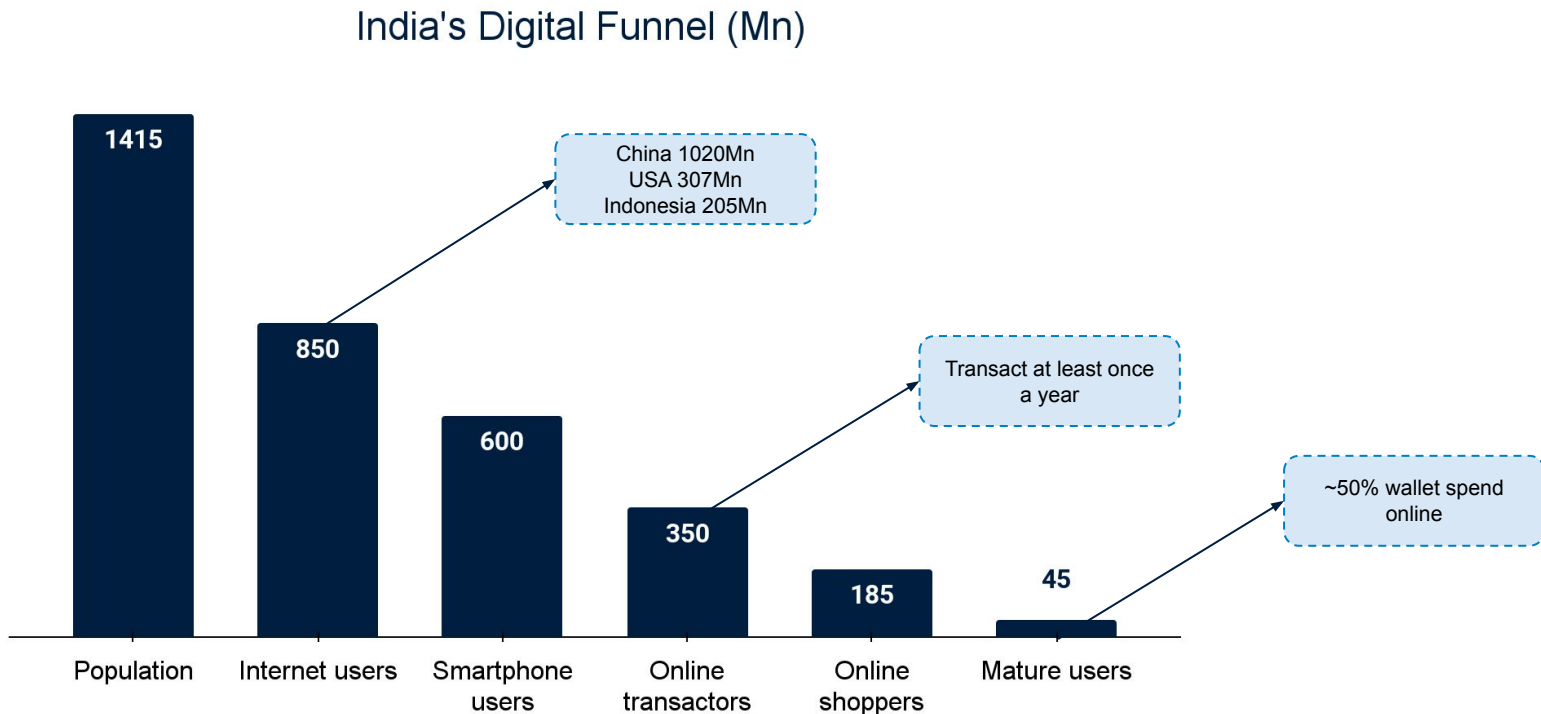
**65Mn MSMEs of whom 70%  
are sole proprietors**  
(vs China 140m MSMEs)



**Formal, organized workforce  
at ~10% of total workforce**  
(51m of total organised workforce of 535m)

# From the many, a few: a small set of mature users drive most online spends

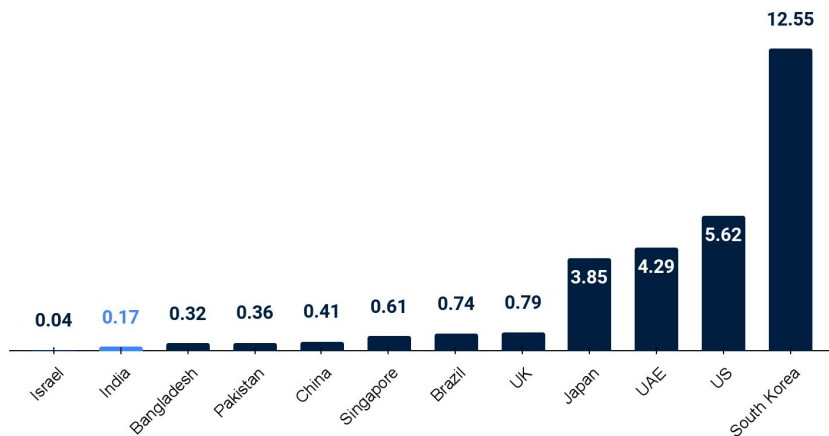
How the Indian digital domino stacks up



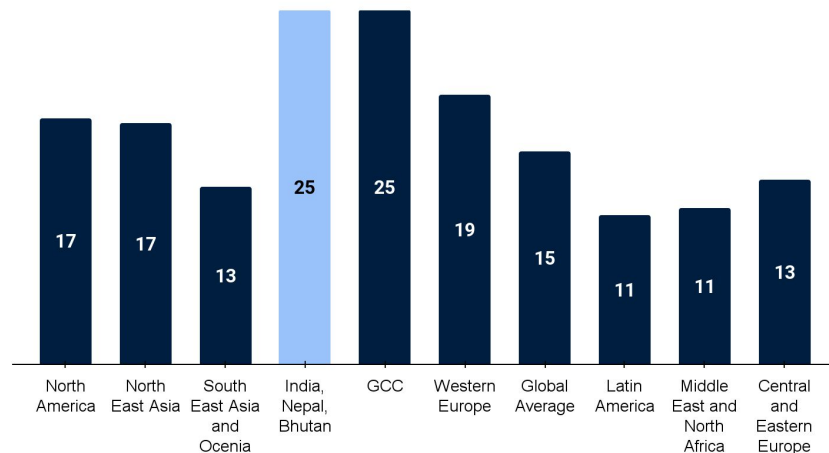
# Underpinning the high Indian user base is ultra cheap bandwidth

India has one of the lowest data prices in the world, and also the highest mobile data traffic

Mobile Data Pricing per GB (\$)

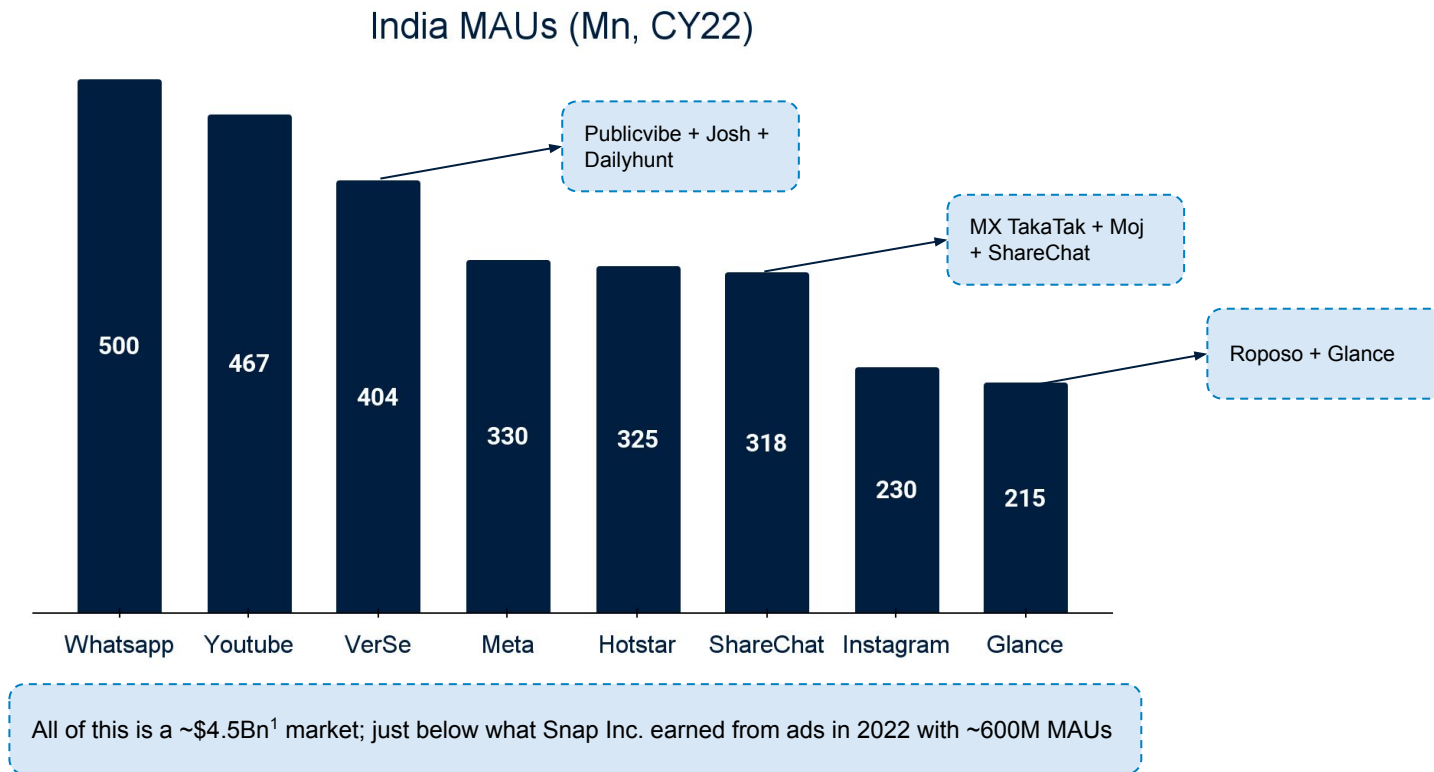


Mobile Data Traffic per Smartphone (GB / month)



# Leading to high audience bases for free to use consumer apps

But all of that leads to a tiny ad market



1) Digital adspend of \$7b less \$1b for Merchant Media (Amazon, Flipkart etc) and \$1.5b (estimated) for Google search engine; Source: CLSA, Apptopia, Bernstein, Axios;

# It is not just ads; It is also acads, cards and cars

A smaller than expected market is a common pattern across the Indian consumer market



37Mn unique mutual fund investors



35-40Mn unique credit card holders



13% of India's K12 students pay >₹1K/  
month in fees



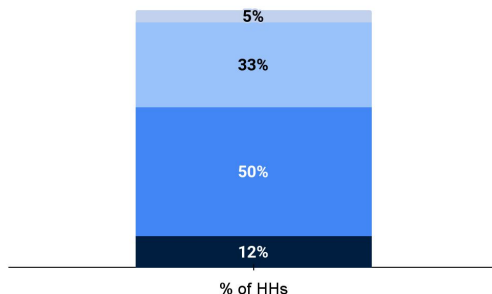
Just 7.5% of Indian households have cars

# Behind all this, is an undersized consuming class

A tale of three estimates; well, no one can seem to agree exactly, but the broad breakdown holds in all surveys

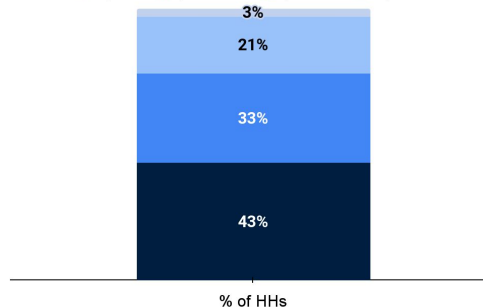
ICE360 - Indian Households (HHs)  
Income Classification

■ >\$38K ■ \$6-38K ■ \$1.6-6K ■ <\$1.6K



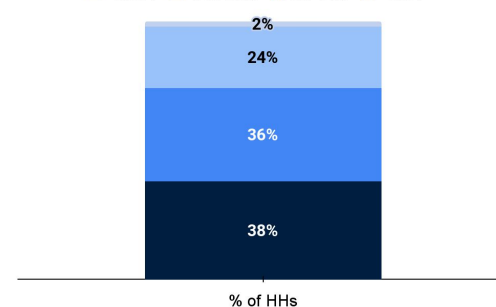
WEF (2019) - Indian HHs Income  
Classification

■ >\$40K ■ \$8.5-40K ■ \$4-8.5K ■ <\$4K



Morgan Stanley - Indian HHs Income  
Classification

■ >\$35K ■ \$10-35K ■ \$5-10K ■ <\$5K

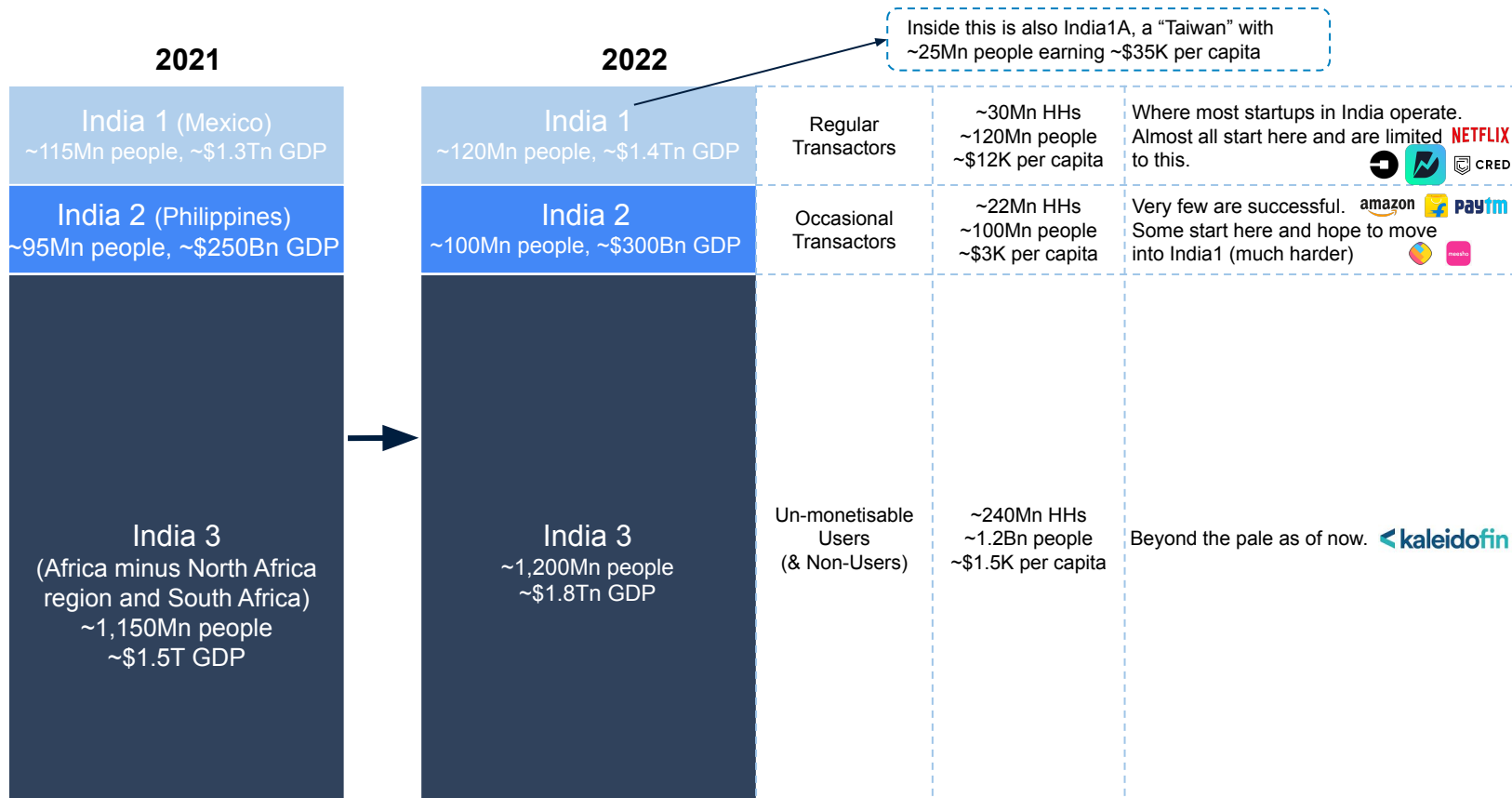


# The Avocado and the Banana



# Blume's Consumer Stack for Indus Valley Players

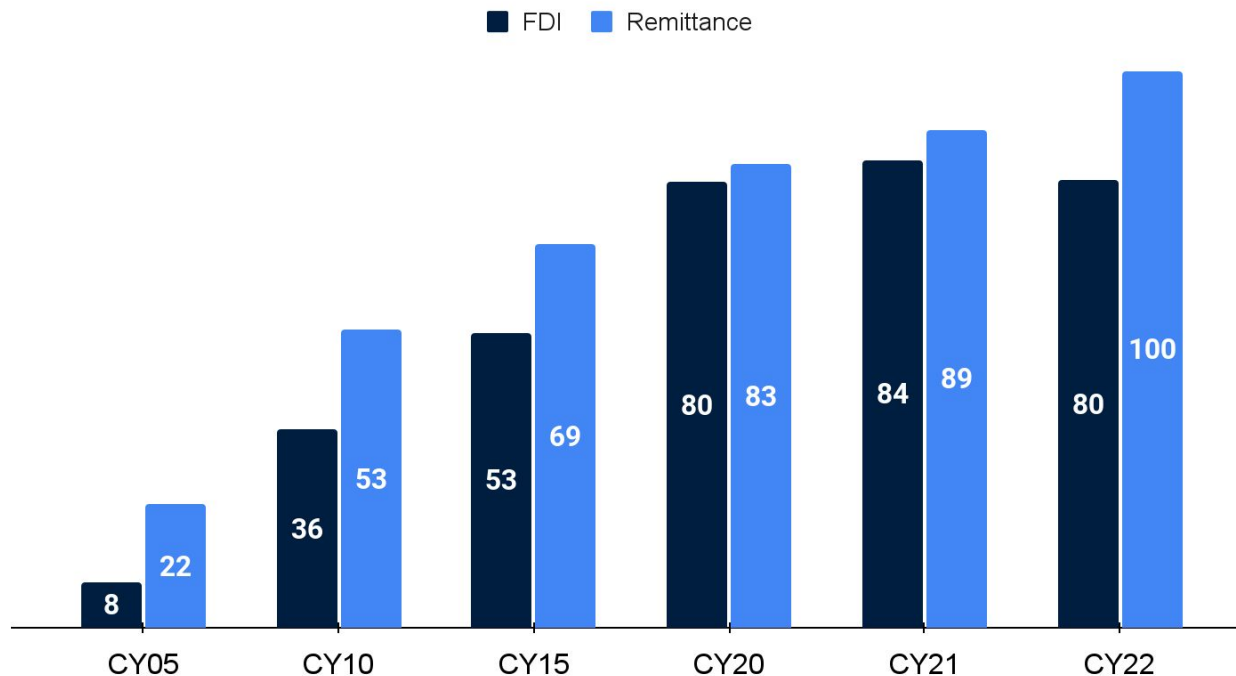
A tale of three, or four Indias; India1 is where most of the monetisable users for Indian startups are



# Outside of India 1,2,3 is the richest of them all: the Indian diaspora

The Indian diaspora is ~18Mn large, and transferred ~\$100Bn (CY22) into India; well over the FDI received

## FDIs vs Remittance (\$Bn)



**Interpreting India**



**Data**

**Patterns**

**Narratives**

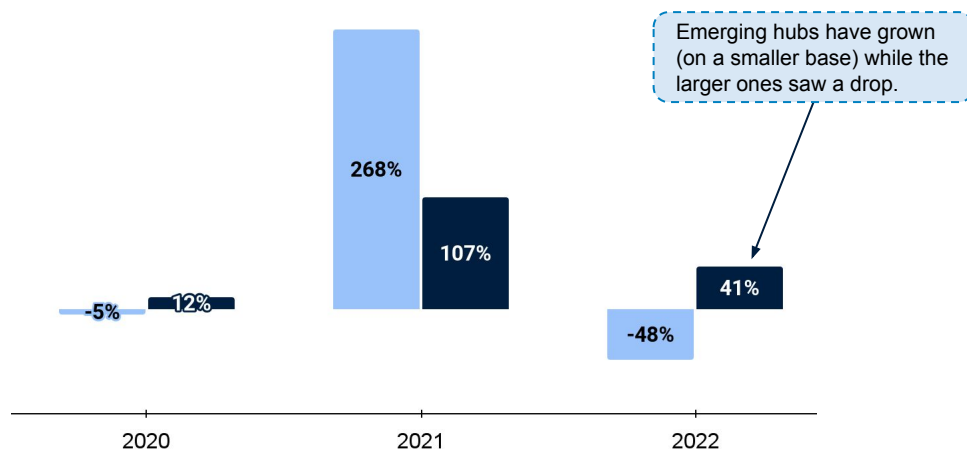


# Tiny but growing offshoots of startup activity in small town India...

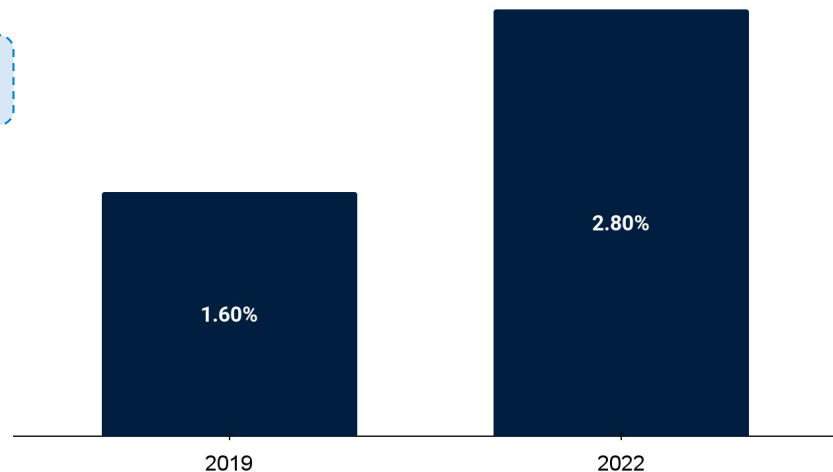
The investment numbers are still small, but the trend is positive

## YoY Change in Startup Funding Amount

■ Bengaluru, NCR, and Mumbai ■ Emerging Hubs

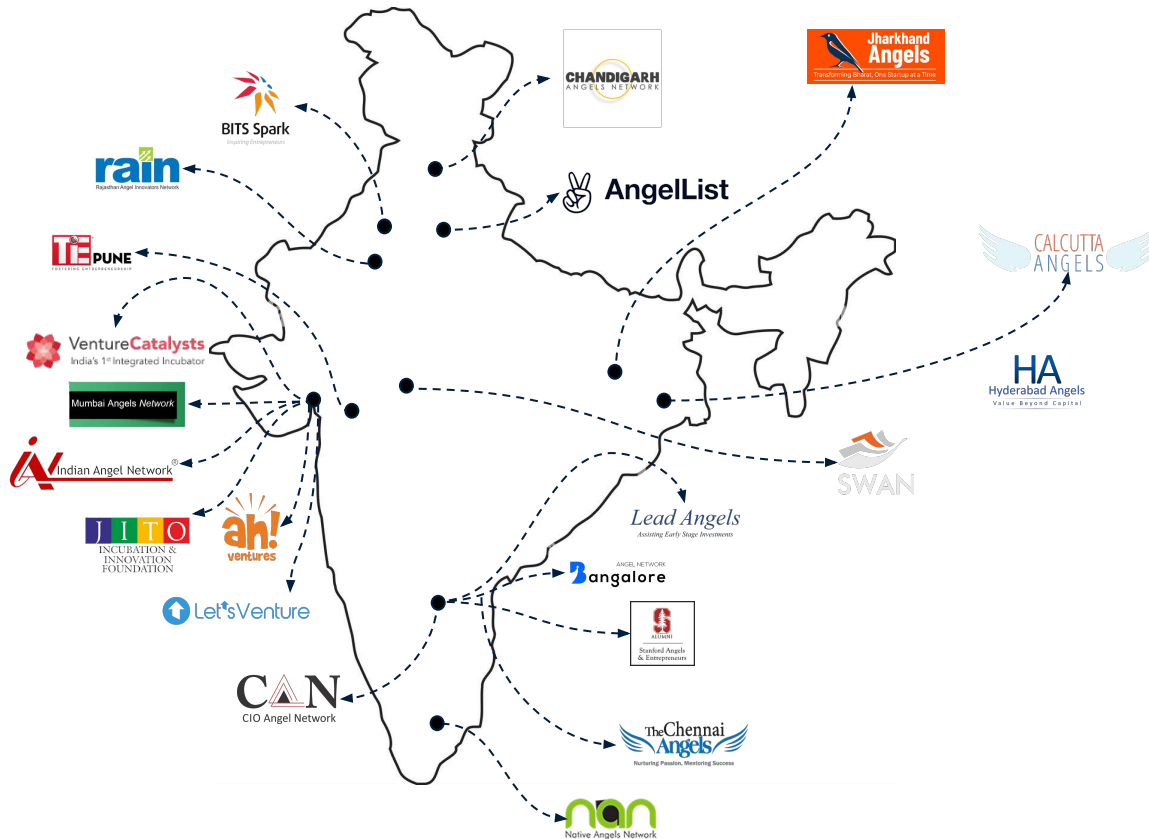


## Share of Deals in Non-Metro Based Startups



# ...Which is supported by a swarm of emerging regional angel networks

Run by local businessmen, they provide the initial fillip to young founders who would otherwise struggle for funding



Venture capital is the new real estate investing

## Small town investors have a new asset class

Early backers of fintech startup BharatPe have made a killing on Venture Catalysts's incubator platform



etpanache@timesgroup.com

Amurag Maloo, a businessman from a small town called Seoni, near Nagpur, is booming with excitement. The 44-year-old has invested in fintech startup BharatPe that has given 80 times return on investment, exists to over two dozen angel investors in less than three years.

Maloo, a member of India's leading incubator Venture Catalysts (VCats), had also invested in startups such as Beardo, Coutlook and Pynd. He is among the several businessmen from India's small towns, who have made a killing with BharatPe's recently concluded funding round, which fetched the company a valuation of over \$900 million.

have a great team, are second-time founders, have skin in the game and have great execution power. Investors need to be doubly sure that their money is in capable hands," said Anuj Golecha, co-founder of VCats, who also invested in BharatPe.

Founded in 2018, BharatPe provides new-age fintech solutions such as QR based payments to smaller merchants. The company's success story also speaks volumes about VCats's ability to spot potential unicorns early on and bet on them. VCats was one of the first to back BharatPe in 2018.

Talking about the association with Venture Catalysts, Ashneer Grover, founder of BharatPe, said "Venture Catalysts came in as

# Shark Tank India has given visibility to small town founders

It has also mainstreamed entrepreneurship and the startup journey, creating conversation topics in Tier 2 households.

<https://www.livemint.com> › companies › start-ups › sha...

## Sharks offer small-town dreamers a shot at glory - Mint

10-Dec-2021 — MUMBAI : Judges, or so-called 'Sharks', who are part of the Indian version of the global **Shark Tank** show, have already funded close to 100 ...

Darbhangha to Pune—Shark Tank India is moving beyond metro cities. New start-up hubs are coming up.

TINA DAS 11 January, 2023 11:18 am IST



Shark Tank India judges Namita Thapar and Vineeta Singh met the owners of Jhaji pickles in Darbhanga, Bihar, to invest in their start-up | Jhajistore, Instagram



# Indian startup founders too are celebrating life outside the metros

Encouraging a return to the roots movement, and promoting entrepreneurship in rural India



## VISION FROM THE VILLAGE

Why Sridhar Vembu moved to a hamlet 650 km from Chennai, and the lessons his shift holds for an economy that wants to be self-reliant, for corporations headquartered in big cities, and a country with a high density of urban and migrant workers coming to grips with a pandemic

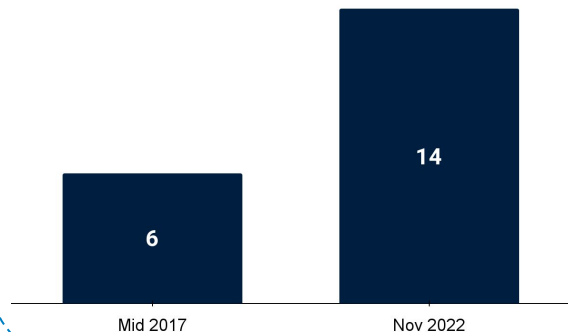
By NAANGIKA TRIPATHI

FORBES INDIA • JUNE 08, 2020

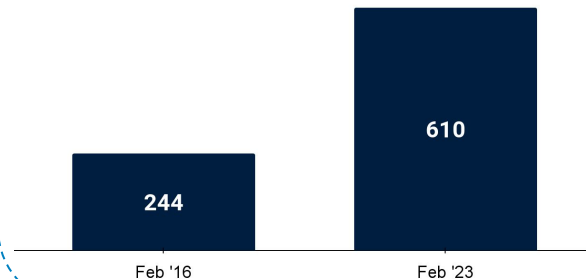
# Formalisation via the lens of taxes

The base of direct and indirect tax payers has been growing; GST has been a huge hit in expanding tax payer base

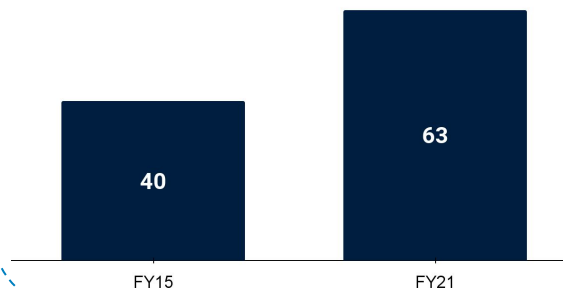
GST (Indirect tax) Base (Mn)



PAN Cards Allotted (Direct Tax) (Mn)



Income Tax Filers (Mn)



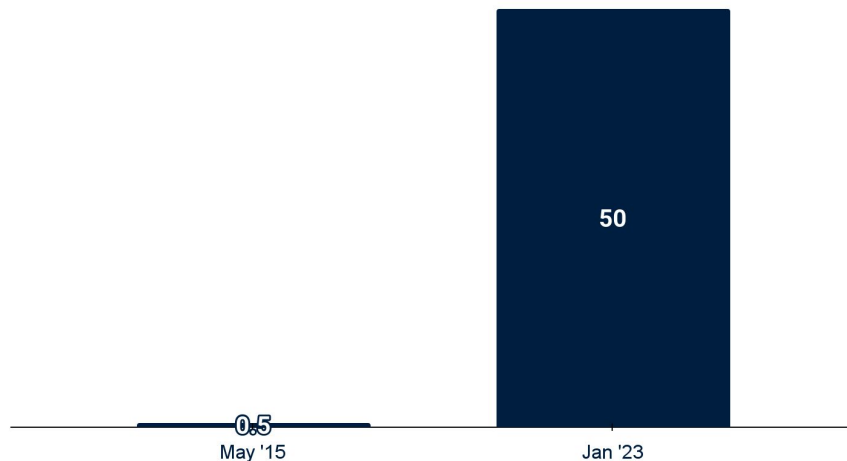
The #active companies registered in India as of October '22 was 1.5Mn (1.2Mn as of July '17) - The additional ~12.5Mn are smaller businesses.

Incremental companies added since '17 account for ~20% of the GST collections, and pay ₹1.13Lacs (\$1.4K; FY22) about a fourth of what the existing 6m accounts pay.

# Formalisation via the lens of social security

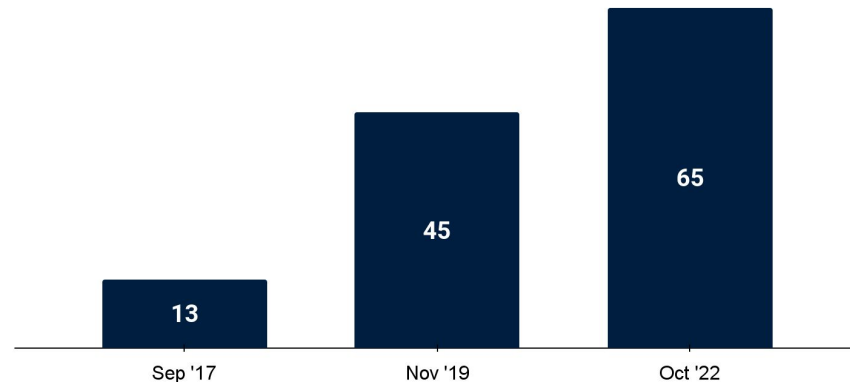
Attractive social security benefits are attracting the informal sector to sign up for these services and be mapped

Atal Pension Yojana Scheme Beneficiaries (Mn)



Atal Pension Yojana is a government-backed pension scheme targeted for people from the unorganised sector and informal workers. The scheme is designed to aid people from the unorganised sector to avail a pension amount of Rs 5000/- per month after the age of retirement i.e. 60 years.

EPFO Enrollments (Mn)

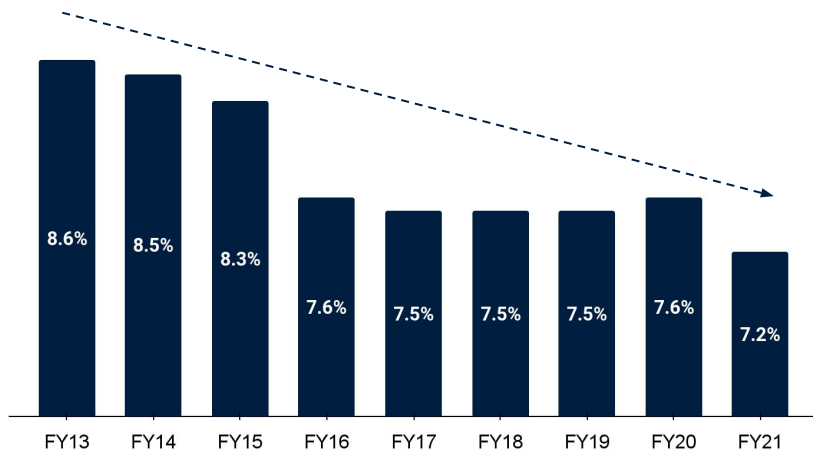


Broadly, the EPFO data covers the low paid workers in medium and large establishments of the formal sector. The net addition in EPFO subscriptions is an indicator of the extent of formalisation of the job market, and the coverage of social security benefits to the organized/ semi-organized sector workforce.

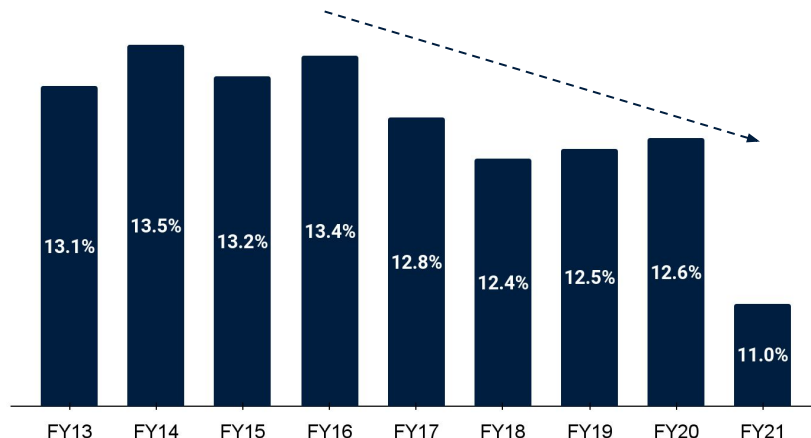
# Formalisation is also visible in the decline of the household mfg sector

The unorganised sector share is trickling down gradually

Household / Informal Sector Salaries as % of GDP



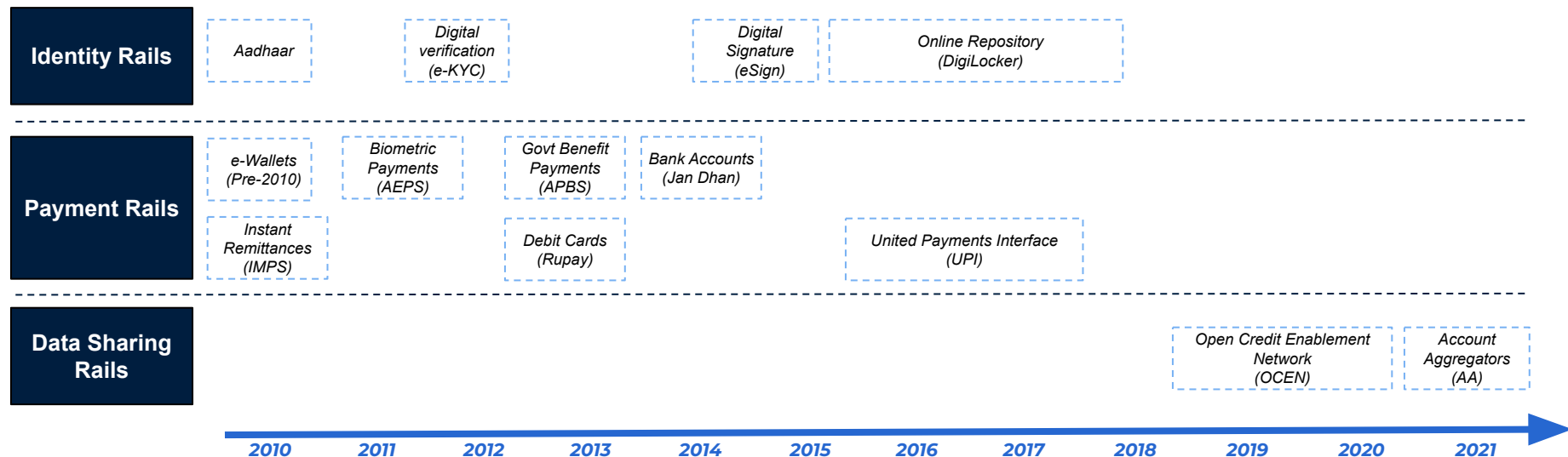
Share of Unorganised Sector within Manufacturing



# Behind this rising formalisation, are many interlinked factors

Societal change, rising technologisation, government mandates, and importantly an evolved public digital infra layer all help

India has evolved an advanced, well-meshed, interoperable public digital infrastructure

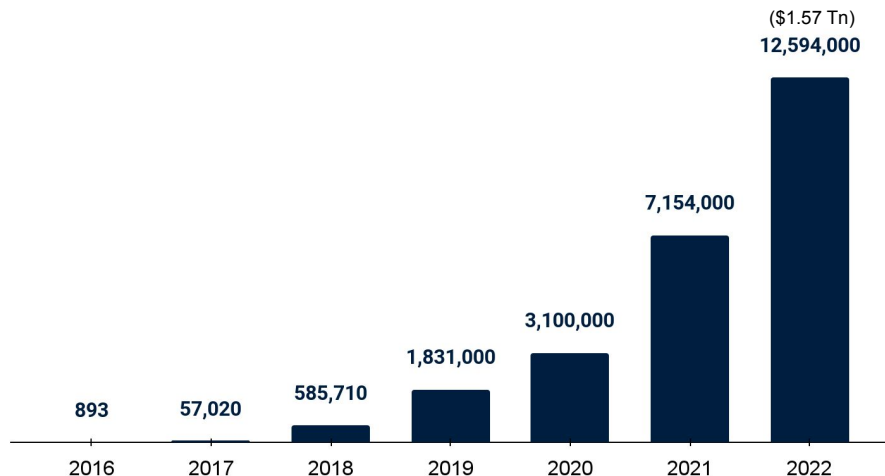


**Platforms v Protocols:** While Chinese internet evolved into centralised platforms now controlled by government, India chose to develop interoperable protocols like UPI on which private players competed.

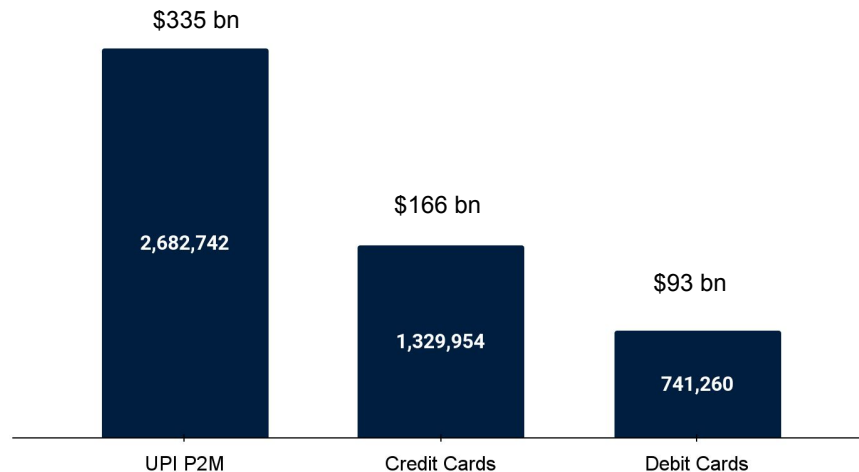
# UPI's frictionless payment mode is driving digital payment growth

UPI merchant payments have grown so much that it is now greater than credit card and debit card payments combined!

Growth of UPI Payments (₹Cr)



UPI P2M > Credit Card + Debit Card (₹Cr, CY22)



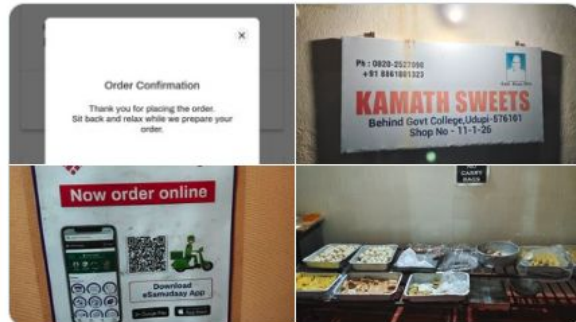
# ONDC advent is notable too; experiments underway in Southern Karnataka

ONDC bringing on aboard suppliers, retailers previously shut off from digital selling



**Sagar**  
@sssaaagar

My first ONDC experience at Local Commerce in Udupi, Did you know eSamudaay is World's first Local Commerce initiative.



8:07 PM · Aug 25, 2022



**Aashish Chandorkar** @c.aashish · Aug 25, 2022

Replying to @sssaaagar

How's the experience? And the process?

1 5 Tip



**Sagar** @sssaaagar · Aug 25, 2022

Replying to @c.aashish

eSamudaay app stores listed in them, select and add to cart the items, pay (UPI integration) and select the delivery method (Delivery or pick up). Can see in the pic, the vendor is small home-based sweets and snacks supplier, there are many vendors like him from Udupi Manipal

1 11 Tip



**Aashish Chandorkar** @c.aashish · Aug 25, 2022

Replying to @sssaaagar

And delivery would be their own right?

1 3 Tip



**Sagar** @sssaaagar · Aug 25, 2022

Replying to @c.aashish

I did chose pick up option, delivery again is choice of vendor, he can take the responsibility or call for the community personnel to get it done. There are drivers of the eSamudaay as well.

7 Tip

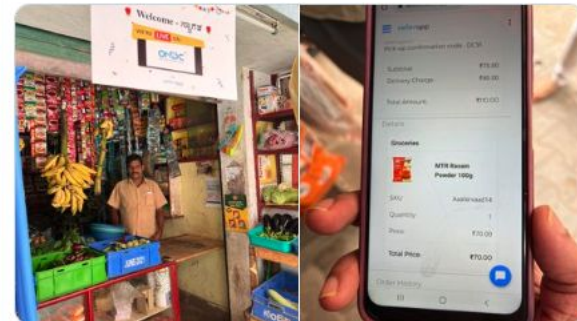


**Mugdha Variyar** @Mugdha\_Variyar

ONDC opens to the public in Bengaluru (in 16 pin codes today).

This shop owner in Domlur fulfilled an INR 70 order (INR 40 delivery fee) received through Paytm, with logistics partner Loadshare.

This is the first time the Ashirvad Home Needs store has gone online.

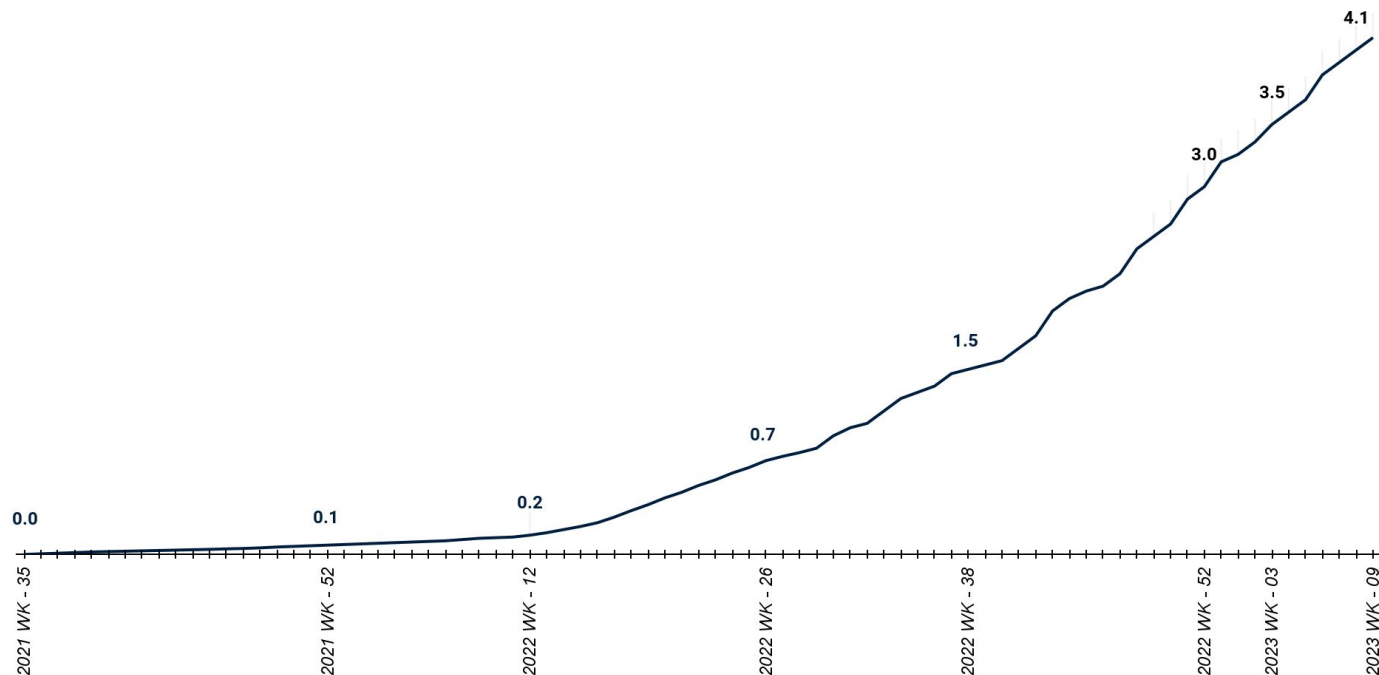


11:28 AM · Sep 30, 2022

# Accounts Aggregated under AA Framework hit 4Mn

Flow-based lending will formalise the move away from informal credit or no credit, for MSMEs / small entrepreneurs

Cumulative Accounts Linked (Mn)



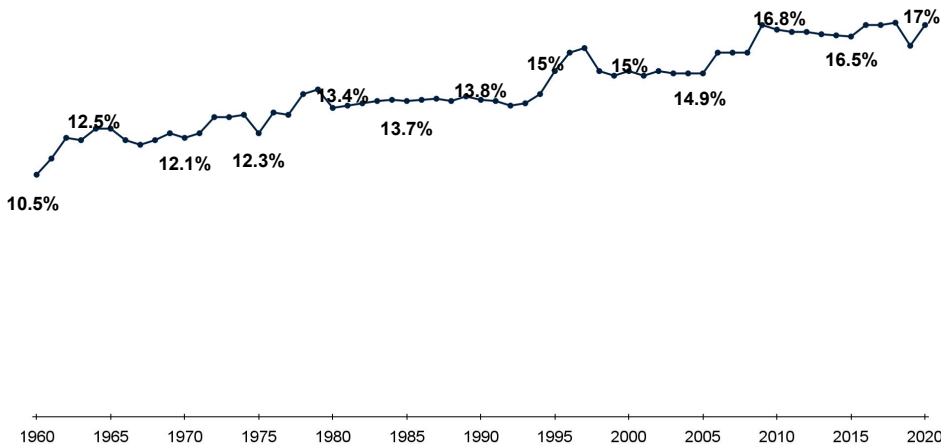
# India is fast-emerging as a 'stealth' manufacturing power

Manufacturing's share of GDP has risen from 10% in 1960 to ~17% in 2021; it is well below China's 27% though



India's manufacturing output is the sixth largest globally

Indian Manufacturing as % of GDP



# Four broad tailwinds are driving India's manufacturing growth

Friendshoring, Government incentives like PLI, India's low labour costs and the capex cycle are the spur

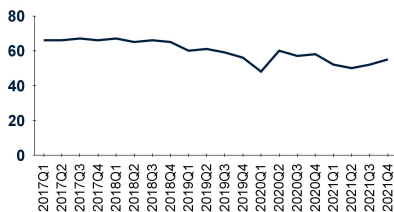
1



## Friendshoring

**A** US-China diversification index<sup>1</sup> dropped from 66 ('18) to 55 ('21), indicating a shift to other LCCs<sup>2</sup>.

US China Diversification Index



**B** FY22 saw ~50% jump in exports from India to US (India also maintained a positive trade balance) - Friendshoring was a major driver.

India Exports to US (2018-2022) (in \$Bn)

2018-19	2019-20	2020-21	2021-22
52.4	53.1	51.6	76.1

2



## Government Incentives

**A** Govt is spurring manufacturing growth via the PLI or production-linked incentive policy.

**B** Originally introduced by the IT ministry, incentives of 4-6% of production costs were given. Basis positive results, the policy has now spread to 14 sectors with an investment outlay of ~\$25Bn in the next 5 years

**C** The policy aims to create national manufacturing champions, 60 lakh jobs, and production worth ~\$375Bn over the next 5 years

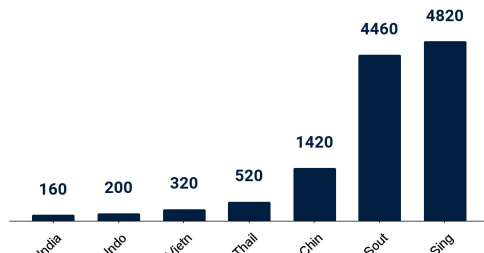
**D** PLI focused sectors: Electronic/ tech products, drug intermediaries, large scale electronics manufacturing, medical devices, pharmaceuticals, telecom, food products, white Goods, solar PV modules, automobiles and auto components, ACC batteries, textile products, specialty steel, and drones and drone components

3



## India's Low Labour Costs

**A** Manufacturing Wages (\$/month)



4



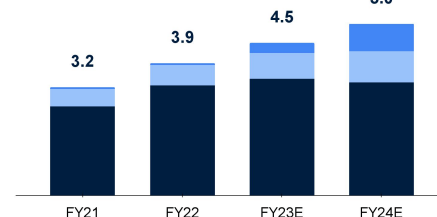
## Imminent Capex Recovery Cycle

**A** A long tepid capital investment cycle since the GFC since 09, extremely high utilisation in several core sectors (cement, power, metals etc), rising bond issuances all pointing to capex cycle turning.

**B** Total listed private sector capex from FY22 to FY24 is expected to be ~₹10 Tn, which is the highest in any 3-year stretch in history.

Private Sector Capex Breakdown (₹ Tn)

■ PLI CAPEX ■ Unlisted Private CAPEX ■ Listed Private CAPEX



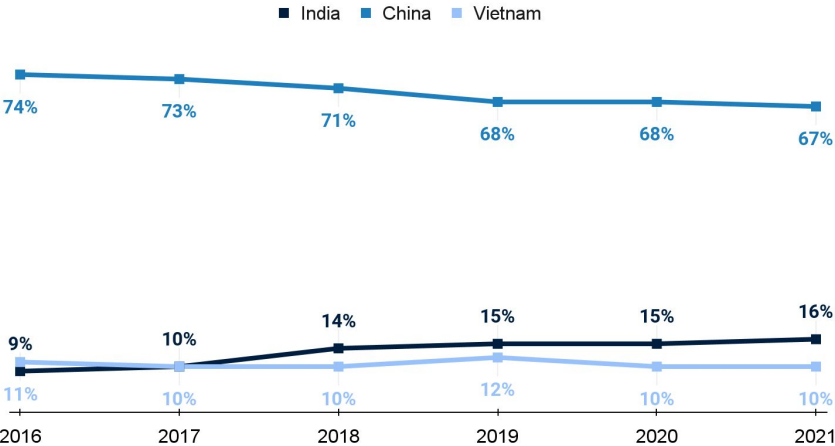
# Leading to rising production localisation across different sectors

Different industries see different drivers - external-led (smartphones) vs internal-led (defence)

India made 3.1% of the world's iPhones last year, and the proportion is forecast to increase to 6% to 7% this year. China accounts for almost all of the rest.

Government-led self-reliance drive is reducing dependence of defence imports spurring local production

Global Handset Production Share by Country

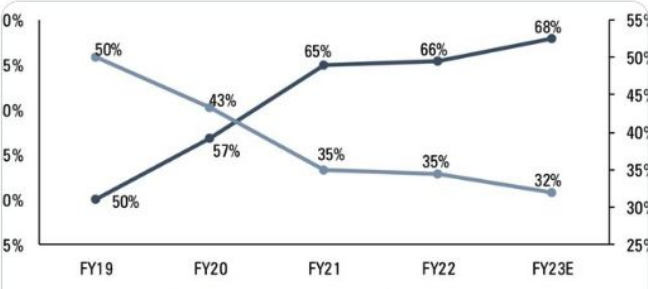


Jagadeesh Chowdary  
@Jagadeesh0203

Indian defence sector is going through a major transformational phase as the government looks committed to reduce imports and increasing domestic procurement.

Imports declined to 32% of total procurement.

Important sector to watch in Budget.



# Interpreting India

Data

Patterns

Narratives

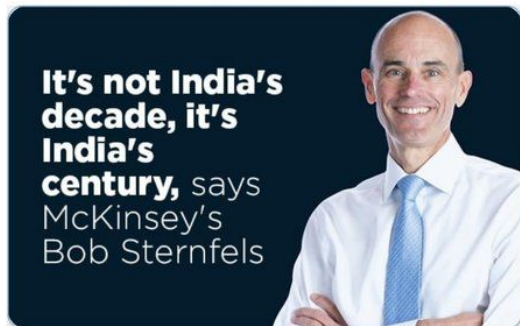


# It is India's moment, or decade, or even the century!

A robust narrative takes shape around India's emergence

It's not India's decade, it's India's century, says McKinsey's Bob Sternfels

THE ECONOMIC TIMES SEPTEMBER 2ND, 2022



India will be the world's future talent factory as it will have 20% of the globe's working population by 2047, said Bob Sternfels, CEO, McKinsey & Co. He added that it will not only be India's decade, but India's century, with all key elements in place - a large working population, multinational companies reimagining global supply chains, and a country leapfrogging at digital scale-to achieve something special not just for the Indian economy, but potentially for the world.

Morgan Stanley

INVESTOR RELATIONS

Our Insights

What We Do

About Us



India is on track to become the world's third largest economy by 2027, surpassing Japan and Germany, and have the third largest stock market by 2030, thanks to global trends and key investments the country has made in technology and energy.



# We have been here before!

So what is different this time?



August, 1992



December, 2003



October, 2010

# A powerful trifecta of forces are aligning

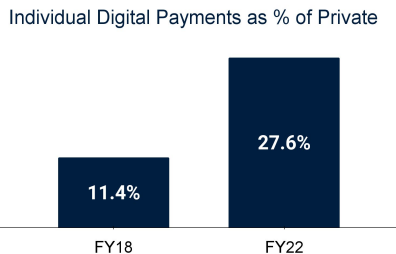
Improving infra, formalisation and a muscular manufacturing-infrastructure policy make India better-poised this time around

1

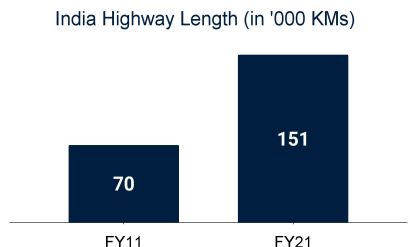
## Friction Reduction

Improved public physical infra and an advanced public digital infra are reducing transaction friction in the economy

- A** Tech: India Stack's interoperable identity, data and payment layers are reducing business transaction friction



- B** Infra / NIP<sup>1</sup>: Investment of ~\$1.4Tn for infra development



2

## Seeing Like A State

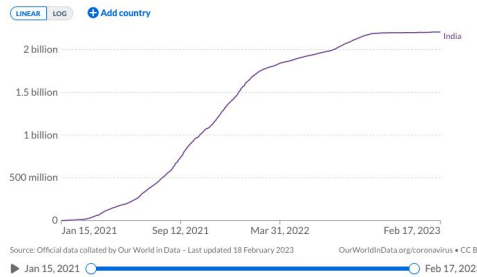
A slew of policies + initiatives - Direct Benefit Transfers (built on public digital infra), GST, etc. all helping formalise the economy

- A** Taxes: GST has brought in more smaller businesses into the mainstream economy. This has helped MSMEs expand their markets, lower logistical overheads, get higher input tax credit, etc. Indirect tax base overall has grown from 6Mn payers in 2017, to 14Mn in 2023.

- B** Digital Welfare: ₹6.3 Tn (\$84B) transferred<sup>2</sup> in FY22 - this is 2.7% of India's GDP. This is also equivalent to ~5.3% of total income of India<sup>3</sup> (roughly half of India's GDP). During COVID, transfers covered 85% of rural households and 69% of urban households. COVID also saw the govt vaccinating over 90% of eligible population.

Total COVID-19 vaccine doses administered

All doses, including boosters, are counted individually.



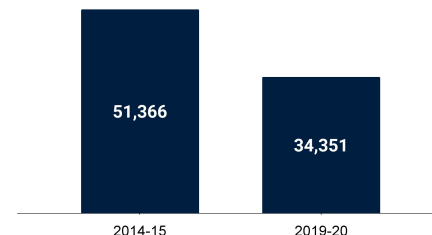
3

## Interventionist Agenda and Policies

An ambitious top-down industrial incentive policy (PLI or production-linked incentive) dovetailed with a renewed focus on India's industrial policy is laying the base for growth of the economy.

- A** PLI: Incentives of ~\$25Bn to be provided across 14 sectors
- B** UDAY: Ujwal DISCOM Assurance Yojana has helped state power DISCOMs by providing them facilities for financial and operational turnarounds.

Aggregate Net Losses for State-Owned DISCOMs (₹Cr)



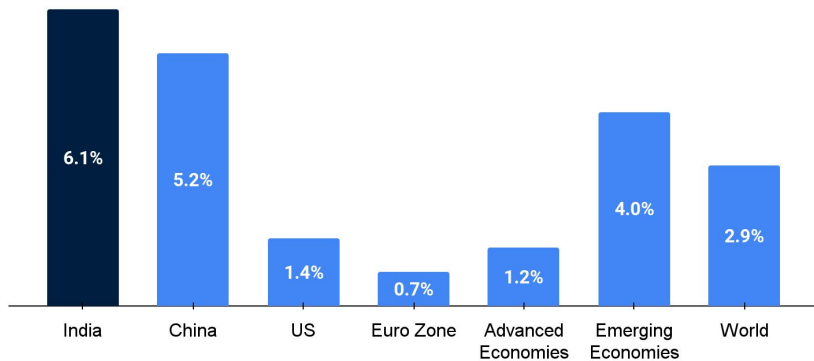
- C** New Industrial Policy: New policy proposed for the first time after 1991, which aims to boost access to finance for rapid industrial growth. Ideas include a new tech fund, integration of MSMEs with global supply chains, development of mega industrial clusters, etc.

<sup>1</sup> National Infrastructure Policy; <sup>2</sup> Transferred across 310 schemes; cash (262 cash schemes covering 57% of total transfers, 48 in kind schemes); Source: TICAL, India Briefing, NPCI, Our World In Data;

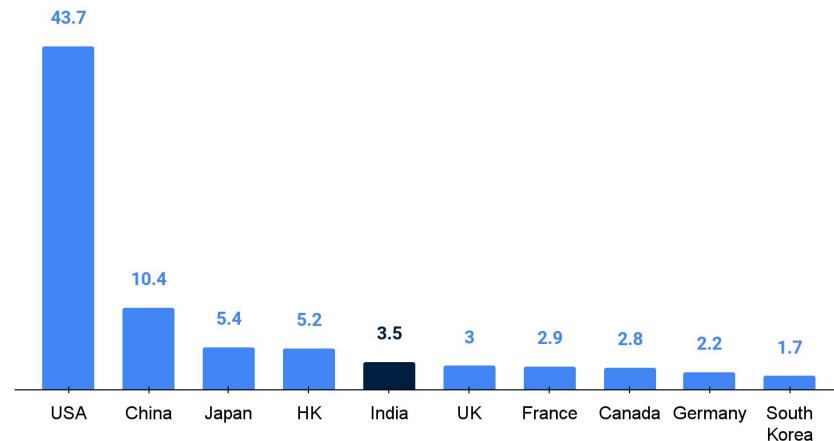
# Leading to India becoming the fastest-growing major economy

India is the fifth largest economy by GDP size; it also is the fifth largest economy by market capitalization

GDP growth rates CY23 (Estimated)



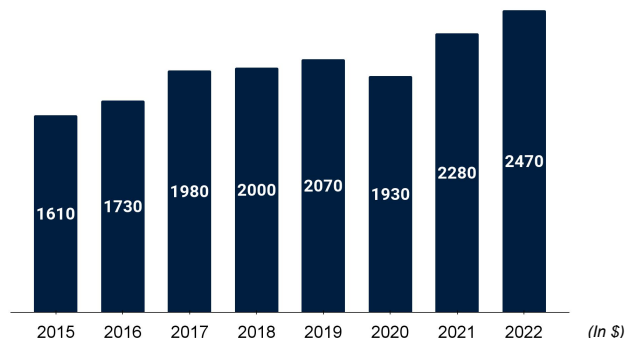
Countries Ranked by Market Capitalisation (\$Tn)



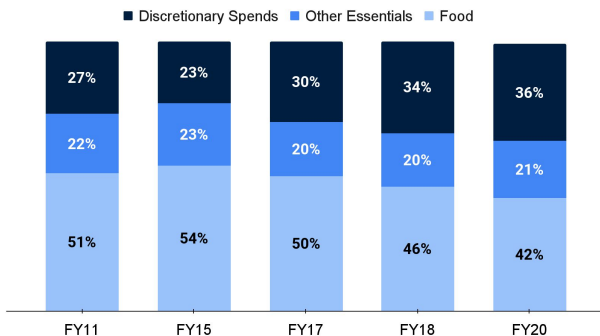
# On the back of a growing consumer engine...

A steady but sure rise in incomes is spurring a steady rise in discretionary spending

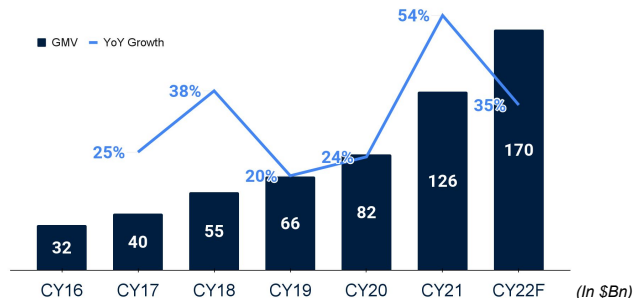
~25% rise in per capita income over past two and 50% over last seven years



As incomes rise, the share of discretionary spends has been rising



Reflecting in rising consumption numbers (this is consumer internet GMV)



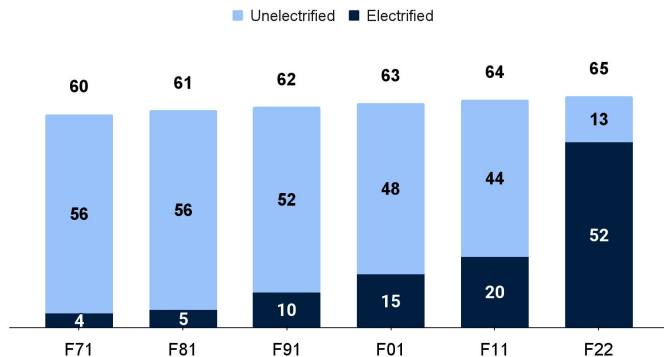
Nifty India consumption index has risen seven-fold since '06



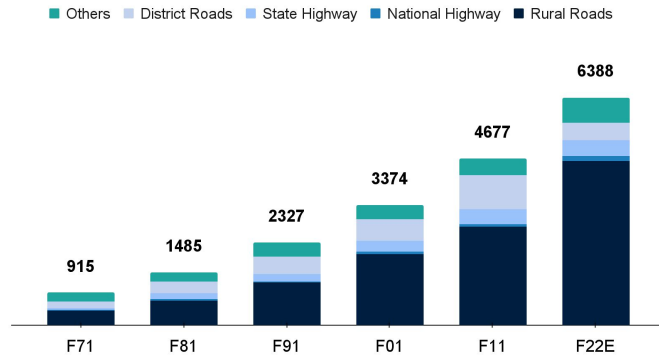
# ...with immense enhancements in infrastructure...

India has been adding serious infra muscle in the past decade

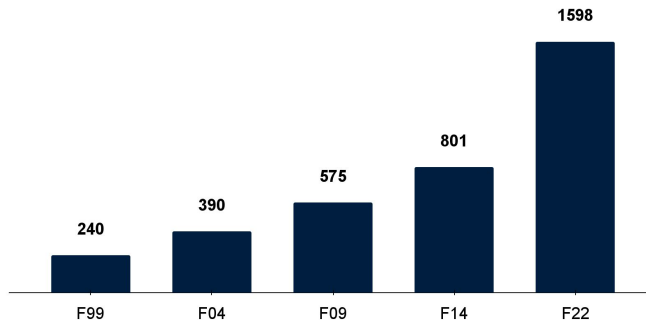
Electrified and Unelectrified Railways in India (in '000 KM)



Road Infrastructure (in '000 KM)



Major Ports Capacity (MMT)



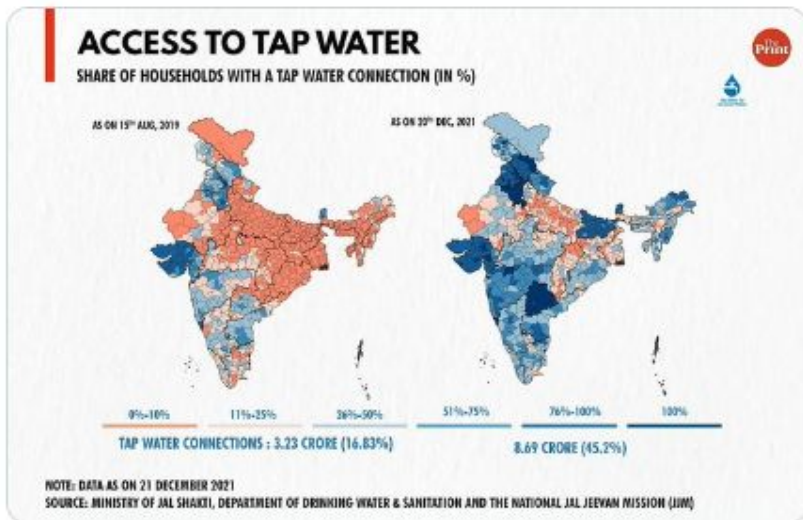
# ...and enhanced provision and access to basic services

India still has >40% of its population living on under \$3.65 a day; for them these are lifechanging benefits



Jason Crawford  
@jasoncrawford

Amazing progress on tap water hookups in rural India:



10:46 PM · Jan 3, 2023 · 973.4K Views



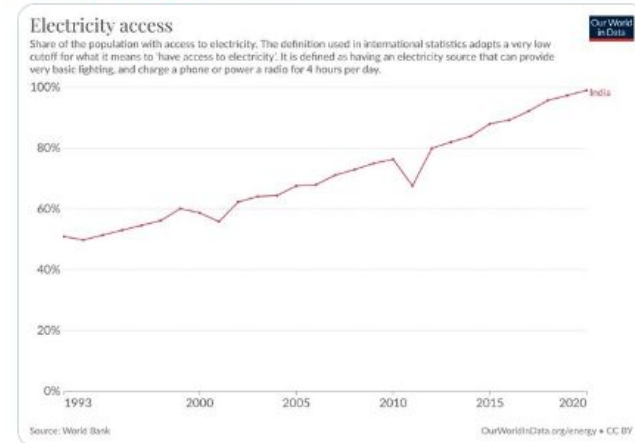
Hannah Ritchie  
@\_HannahRitchie

99% of the Indian population has access to electricity.

In 2000, this was just 59%. Even in 2010, just 76%.

A massive achievement over the last few decades.

[ourworldindata.org/grapher/share-...](https://ourworldindata.org/grapher/share-...)

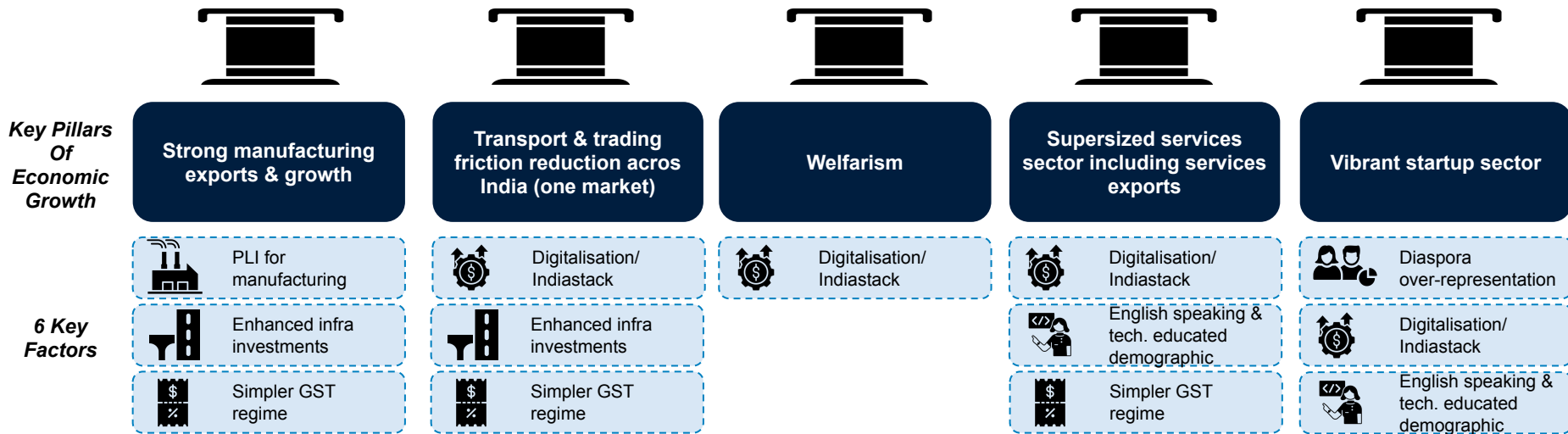


6:18 PM · Feb 3, 2023 · 1.4M Views

# Leading to a distinct Indian growth model emerging

We can see it as a 'Weak' East Asian Growth or WEAGan model with some resemblance to export-led growth, but not fully

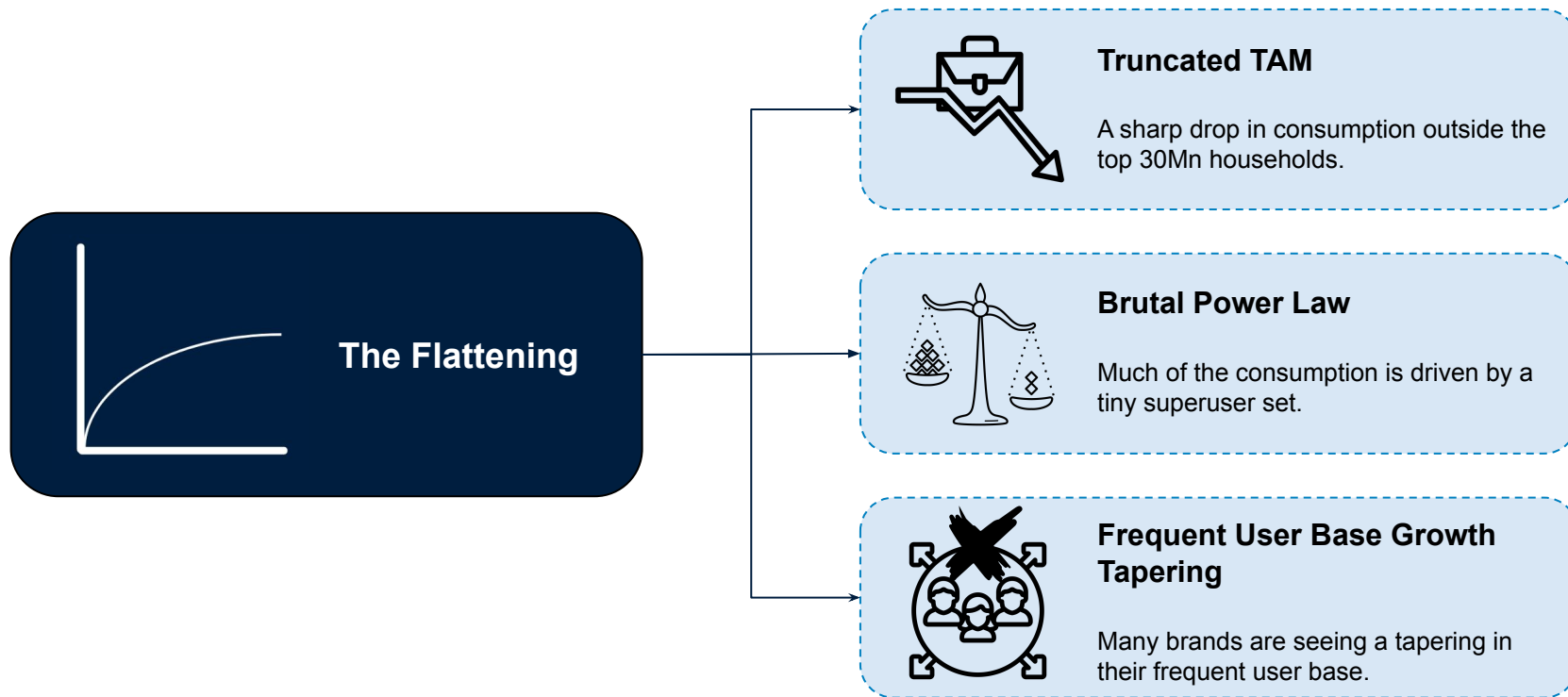
## 'Weak' East Asian Growth model or WEAGan model



The WEAGan model is as much a result of market-constraints than choice. The East Asian economies could grow exports far easily in a world where the tailwinds of globalisation were strong. The countries were tiny. China wasn't a force then. India is much larger, and globalisation is a weaker force today. India also has to contend with electoral cycles, and so on. Hence the WEAGan model.

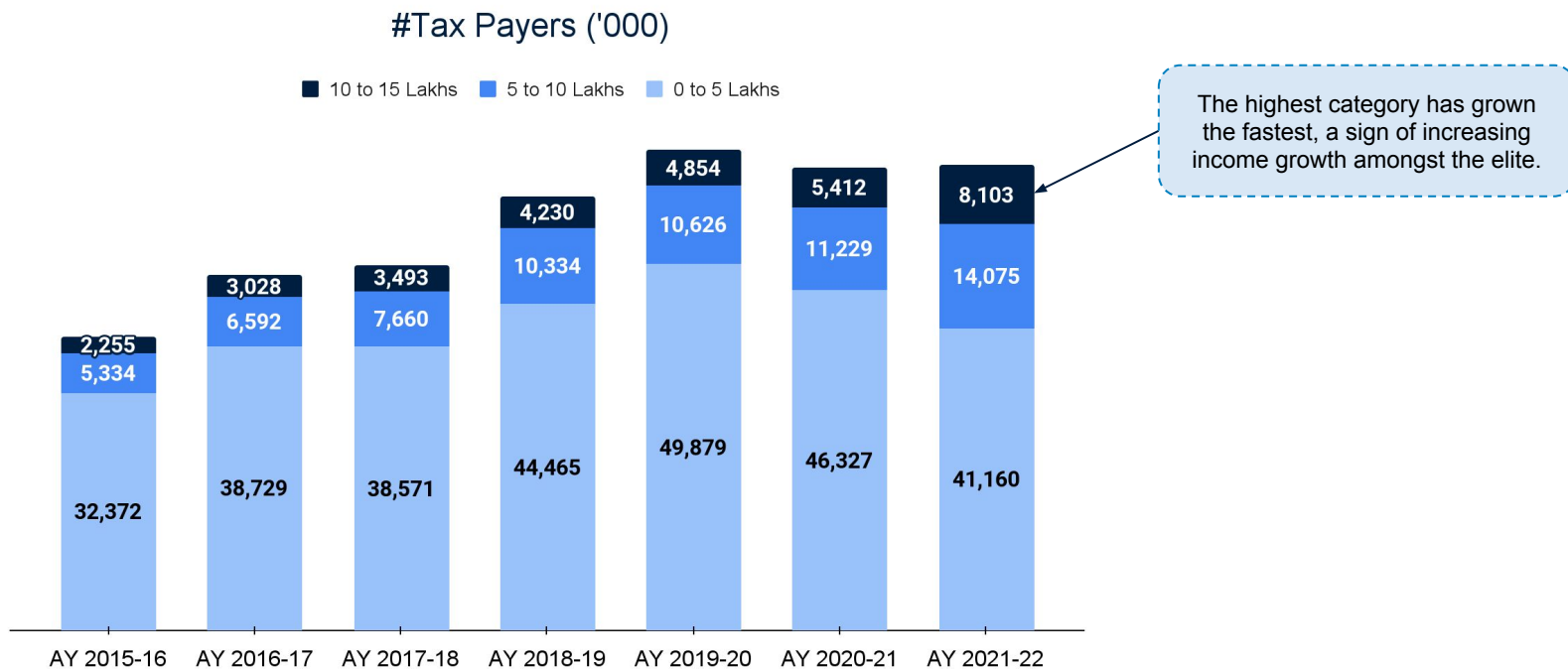
# Narrative violation!

An alternative narrative recognises the challenges of accelerating growth in India



# 1%, that is just 15Mn or so Indians, pay any tax at all

High exemption limits (Only those earning > 2.5x per capita income need to pay tax) is the primary reason for low base



# One estimate of potential paying users for tech products is 150Mn

Nithin Kamath, cofounder Zerodha, set out recently to estimate potential paying users for B2C products



**Nithin Kamath** ✓  
@Nithin0dha

How large is the Indian market for B2C tech businesses in terms of users who can generate revenue?

Maybe 15 crores max!

150Mn

Here's why, with Fintech as a reference, since some data is available. I guess it is important to know this, so we can all be rationally optimistic.  
1/11

2:33 PM · May 19, 2022



**Nithin Kamath** ✓ @Nithin0dha · May 19, 2022

Replying to @Nithin0dha

I get puzzled whenever someone says India has 140cr people & only 9cr demat accounts (6% of the population), & this can grow to 40 crores (25% as in developed nations) over the next few years.

Almost everyone building an investing app seems to be sold or selling this idea 2/11



**Nithin Kamath** ✓ @Nithin0dha · May 19, 2022

Firstly, India has 9 crore demats, but they aren't unique. The unique count is ~6 crore. But active demats with holdings above Rs 10k is less than 3 crore. This is in line with the ~3.4 crore unique MF investors—despite the MF Sahi hai and other campaigns. 3/11

Nithin Kamath's co, Zerodha, India's largest online broker is bootstrapped and profitable (FY22 \$636Mn rev and \$268Mn profits)

Nithin clarifies: 90Mn demat<sup>1</sup> users but only 60Mn are unique. Of those, active demats with holdings above ₹10k is less than 30Mn. This is in line with the 34Mn (now 37Mn) unique Mutual Fund investors India has. Hence, ~2.5% of India (1.4Bn population) invests actively.

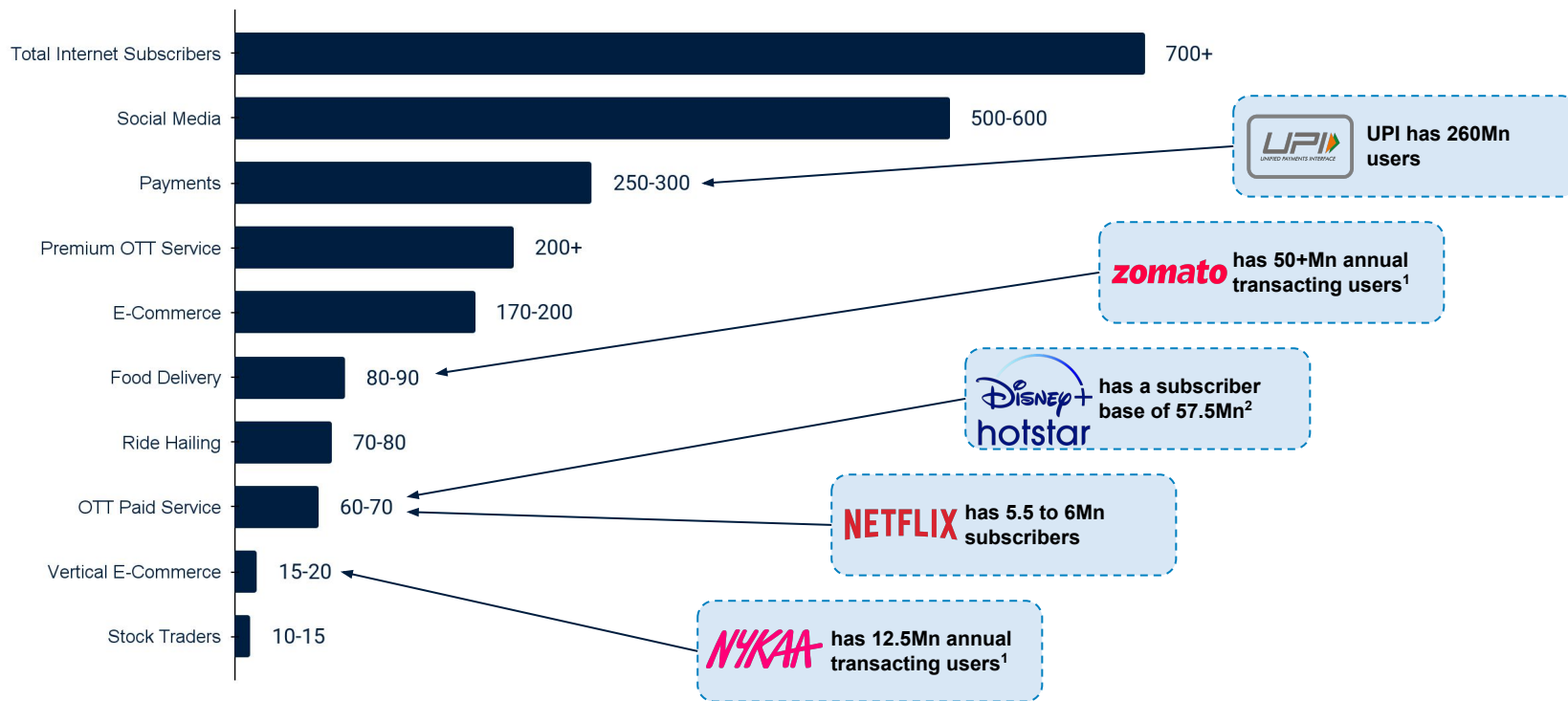
Nithin builds on the above, in his twitter thread, to detail out why he thinks the maximum set of monetisable users in India is 150Mn.

<sup>1</sup> Demat or dematerialised accounts for shares; a necessary step for trading and holding shares; Source: Twitter;

# Broad user base narrows sharply when it comes to paying users

Netflix has the lowest prices across all its geographies in India (<\$2/month), yet has just 6Mn subscribers

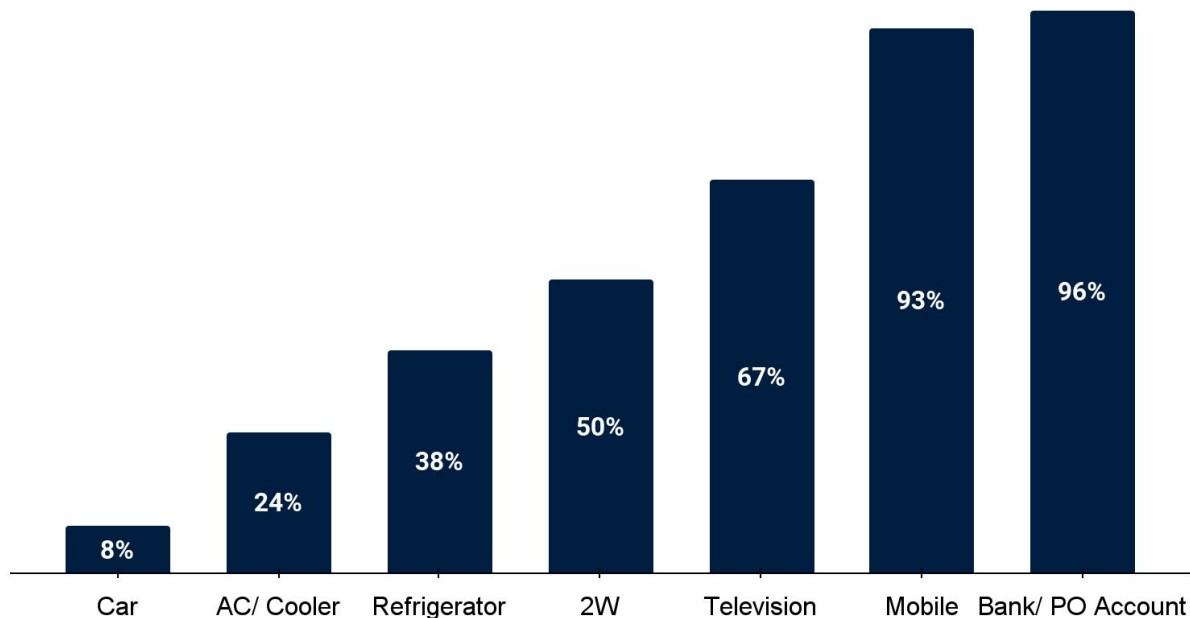
Active/ Transacting Users (Mn)



# Household goods ownership stats mirror online paying user stats

Only 16% HHs in India own all three of TV, AC, Washing Machine, reflecting the low income levels

Percentage of Households by Ownership / Access



# There is a brutal power law in most Indian consumer transactions

A frequent few account for most of the transactions or share of spends

**zomato**

**5%**

of users responsible for  
~33% of orders placed



**6.5%**



of users responsible for  
~44% of transactions



**1%**

Indians account for 45% of all  
flights



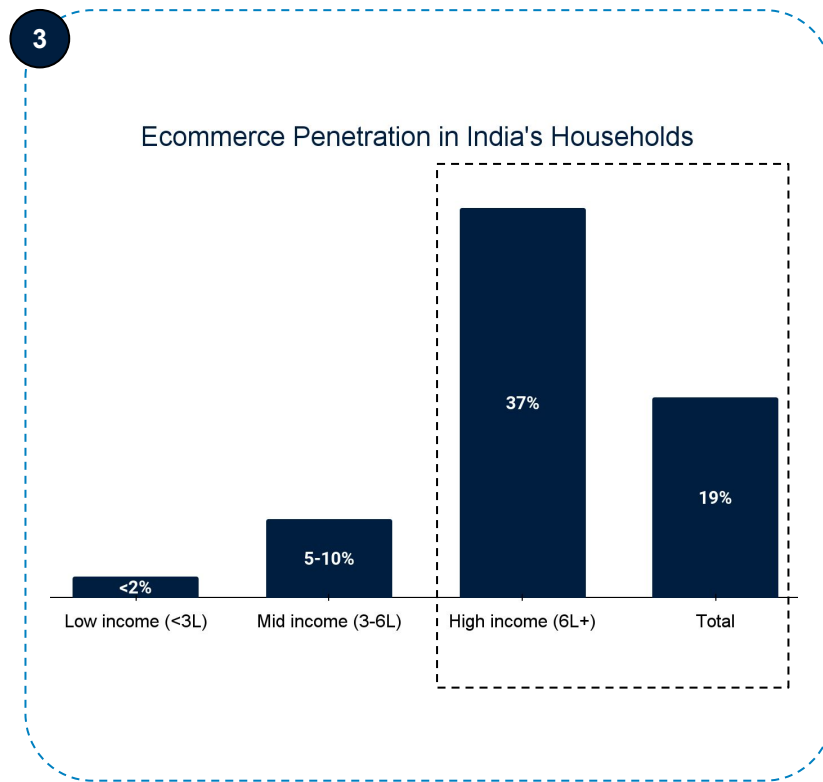
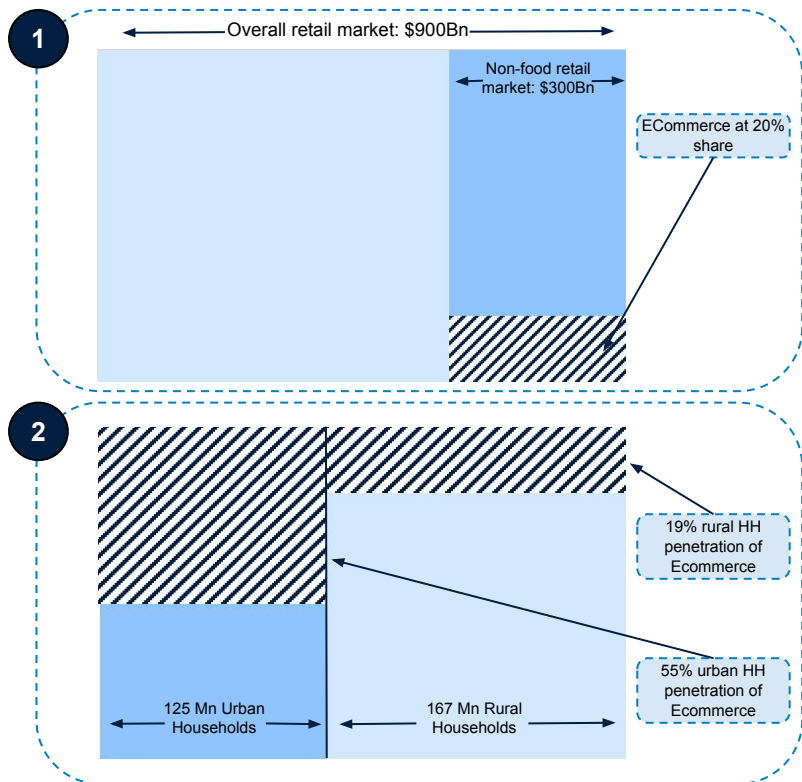
**1%**

of Indians take home 22% of  
India's income

# We are nearing the limits of low hanging fruit in ecommerce

Ecommerce's share of non-food retail as well as urban households is already high and won't grow as much as before

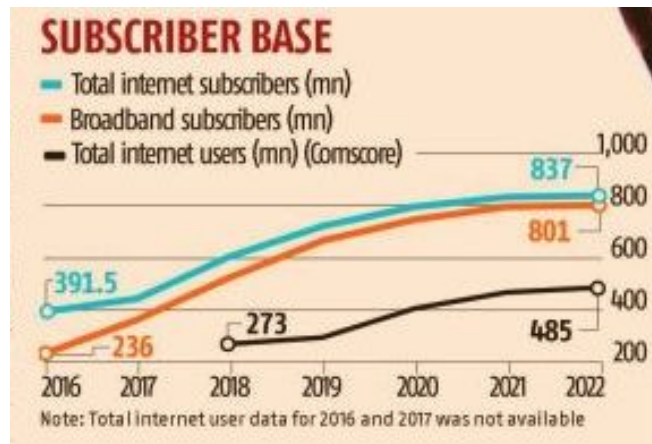
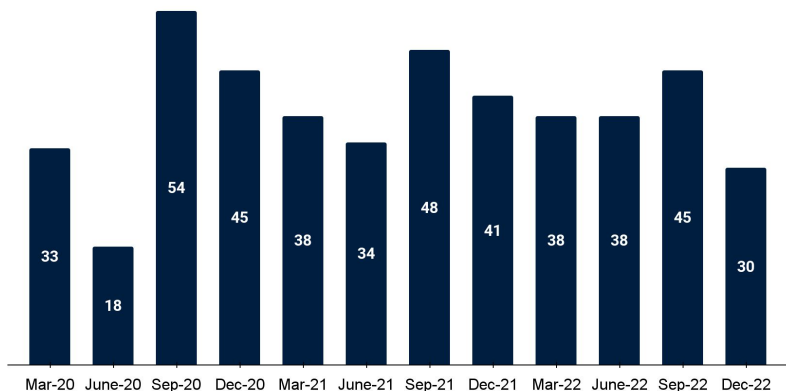
Much of the new growth in ecommerce will now have to come from rural households where ARPUs are lower.



# Smartphone shipments decline, slowing internet adoption in turn

High prices and sufficient penetration seems to be slowing down smartphone sales, slowing Internet India's top of funnel

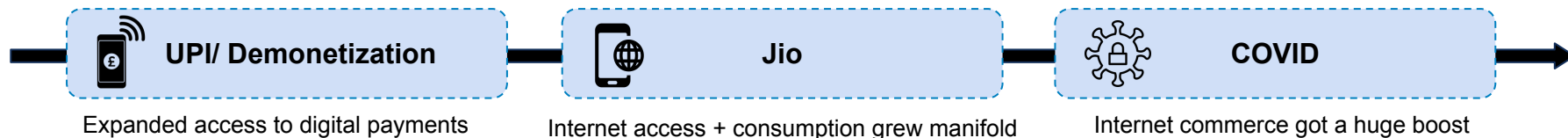
India Smartphone Shipments (Mn)



High prices and sufficient penetration seems to be slowing down sales

# The impact of the three steroid shots is waning

From 2016 to 2020 we saw three one-time events that spurred access and usage of millions of new digital citizens

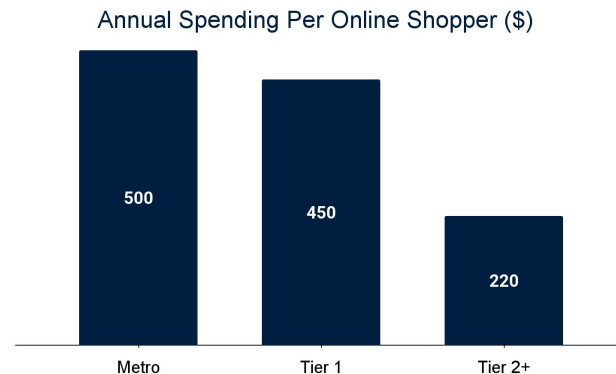


**The impact of these steroid shots is steadily waning. These are also impossible to replicate. Here onwards, the internet user base has to be grown organically. This will be slow and expensive.**

Credit Suisse estimates the cost of acquiring and retaining a new online shopping household anywhere from ₹5K (\$60) to ₹12K (\$150).

For acquiring 30Mn new households, that will be anywhere from \$1.8Bn at the lower end to \$4.5Bn at the upper end. For acquiring 60Mn new households, that will range from \$3.6Bn to \$9Bn.

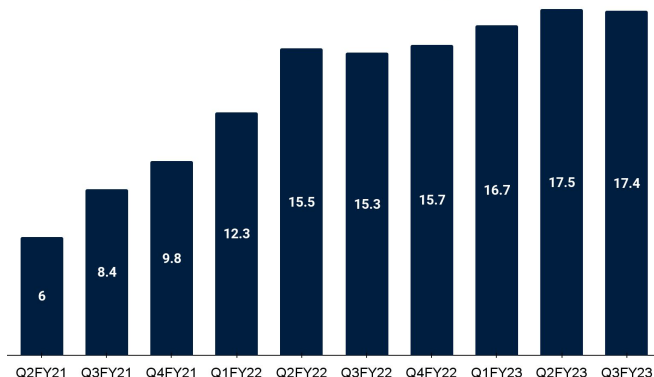
Typically the bulk of these new users will be from Tier 2+ towns and from rural India. As we can see from the chart on the right, they spend less and the return on investment on acquiring them will be low.



# Structural & cyclical signals emerge; investor perceptions shift

From slow growth in new user additions for foodtech, to weak hiring trends, we are seeing reduced tailwinds

Zomato - Average Monthly Transacting Users (Mn)



Over the last two weeks, we met 65+ investors during our Hong Kong & Singapore marketing. Overall, we found investor sentiment turning more cautious on India TMT names with focus being more on bottom-up analysis versus top-down sector-specific themes. Feedback:

- Most investors were surprised with consumer companies' commentary on **consumption slowdown** as around Nov-22 a majority of these companies were optimistic on growth. Many investors think the pent-up demand has largely waned, leading to a change in commentary. Many investors also think B2C companies may struggle in the near-term to balance growth with profitability. As a result, interest in B2C names like Zomato, Nykaa, PVR and Delhivery (a derivative name in e-commerce) has waned. Investors' view on Makemytrip (MMYT) was divided with

## Jefferies

India | Consumer

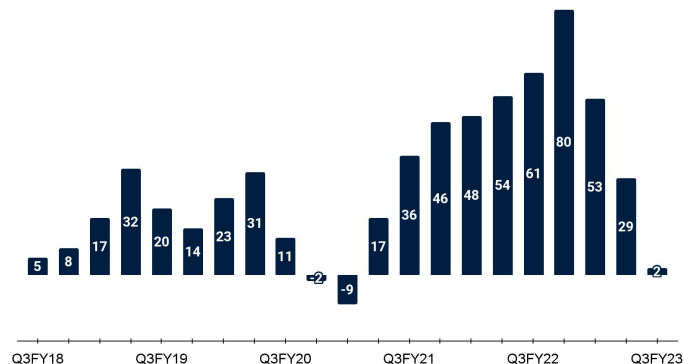
[Read full report](#)

Equity Research  
February 22, 2023

### Indian Consumer Sector: Key mgmt. comments across 40 companies in 3QFY23

Our reading of mgmt. commentary of 40 consumer companies indicates weak demand trends across most categories due to tough macro, high inflation, early festive, late wedding season, delayed winter, etc. Commentary is mixed on Jan/Feb with better trends in premium fashion, jewellery, & paints. Staple industry believes rural has bottomed out, but there's no conclusive evidence of pickup as yet. We prefer staples over discretionary with a 12M view.

Top 4 IT Firms: Net Employee Hires ('000)



## **Section II: Indus Valley - India's Soft Power**



# India in 1 tweet

UPI, payments and the adoption of tech in small town India



In a small town like Muzaffarnagar, people pay ₹7 for a glass of milk via UPI; why are you going on and on about Bangalore?

In Gujarat, we pay ₹2 via UPI for a matchbox

## **Indus Valley - India's Soft Power**



**Money Muscle**

**Impact**

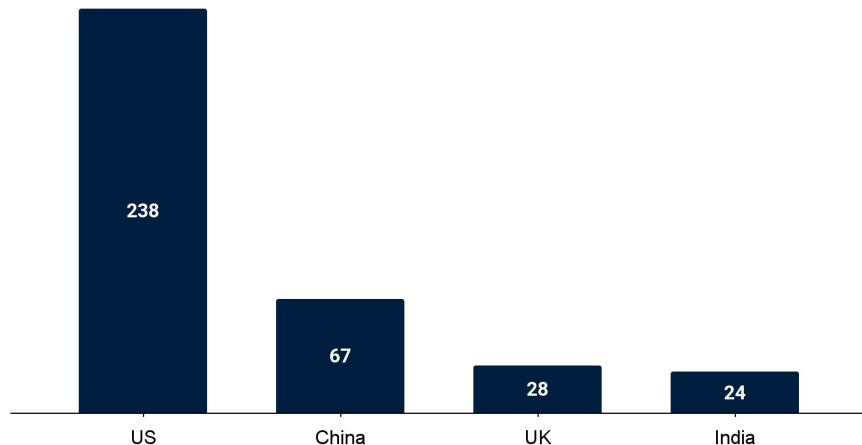
**Influence**



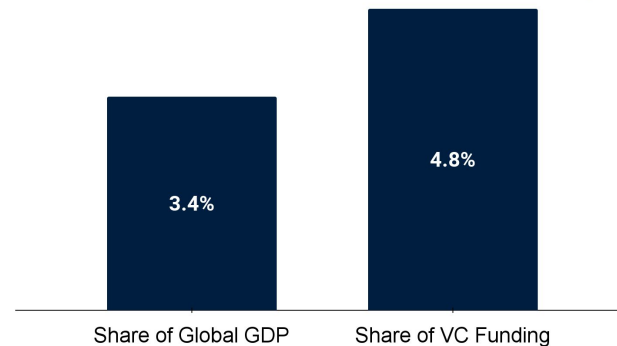
# India punches above its economic class on VC funding

India is the fourth largest on venture capital investments after US, China, UK

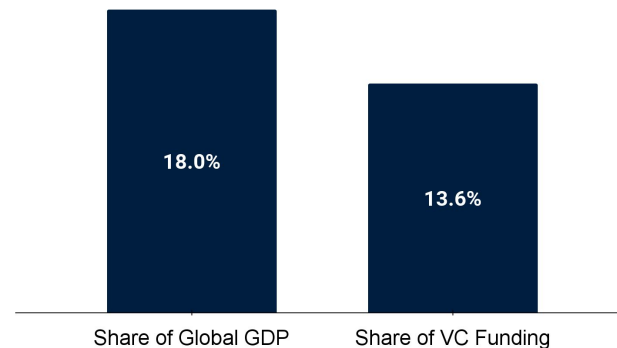
Global Venture Funding in 2022: \$494Bn



India: Share of Global GDP and Venture Funding



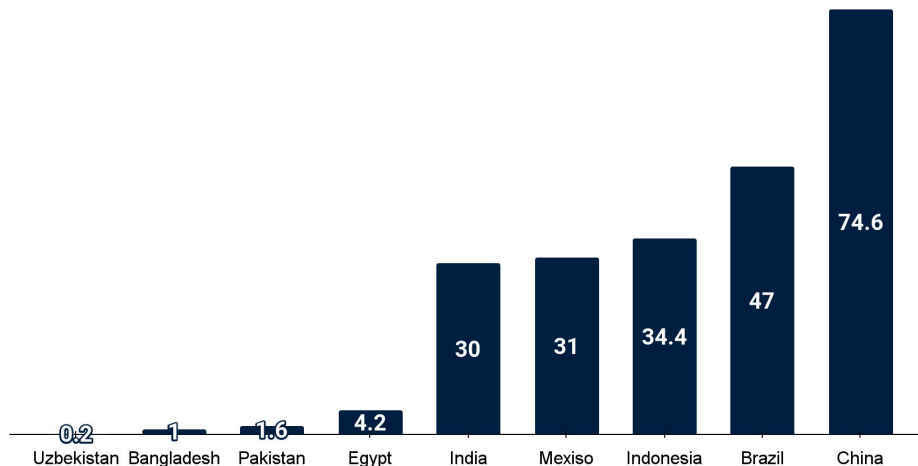
China: Share of Global GDP and Venture Funding



# India sucks the venture oxygen from its neighbours

Our South Asian neighbours, and MENA have struggled to attract venture capital for their markets

VC Funding Per Head (\$)



## Bangladesh v India

of a market becomes apparent. Bangladesh is a good example. It is the eighth most populous country in the world, with highly favorable demographics. The median age is 28, and 62% of the population is under 35. There is a clear digital opportunity given that 115 million are mobile internet users, making it the ninth largest mobile market by population. And yet, over the past five years, just \$401 million has been invested in the venture ecosystem. Neighboring India received [\\$38.5 billion](#) in 2021 alone.

# From copycats to pioneers and innovators

India's distinctive startup playbook is often mimicked by founders from the Global South.



**Ankur Nagpal** ✓  
@ankurnagpal

It's been cool to see the Indian startup ecosystem become the trendsetter for other emerging markets

Starting to see lots of pitches for:

- Khatabook for X
- Meesho for Y
- Apna for Z
- etc.

Makes a ton of sense, lots of these markets have more in common with India than the US!

9:52 PM · Mar 7, 2022

...



**Aman Nasir**  
@AmanNasirX

...

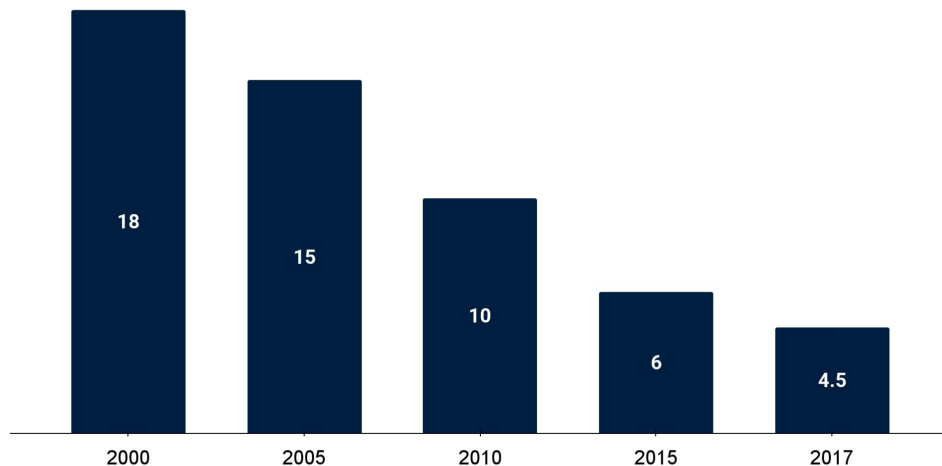
Every Pakistani start up founder should travel to India / speak to counterparts there once a year to learn from their experience / knowledge. Pakistan's future lies in regional integration and trade with the worlds fastest growing economy - let's bury the hatchet and look ahead.

8:34 PM · Jan 27, 2023 · **587.9K** Views

# Indus Valley is a learning engine improving with every generation

Learning driven through communities, sites, talks, posts

Average #Years Taken to Reach \$100Mn Revenue



**Avlesh Singh** @avlesh · Nov 24, 2020

The Indian SaaS ecosystem wouldn't have come this far without an active group of founders sharing knowledge, insights and data openly with a **pay-it-forward** mindset to help build the **community**.

Congratulations @saasboomi team on your 2nd. Wish you many many more to come.



**SaaSBOOMI** @saasboomi · Nov 24, 2020

When a group of founders came together to openly share their ideas & learn from each other, everything changed! 🙌

Here's to #2YearsOfSaaSBOOMI! 🎉



**Arindam Paul**  
@arindam\_\_paul

New Pinned Tweet:

Over the last 8 years, we have built and scaled a brand from 0 to almost 100 million \$ ARR in a fairly capital efficient manner

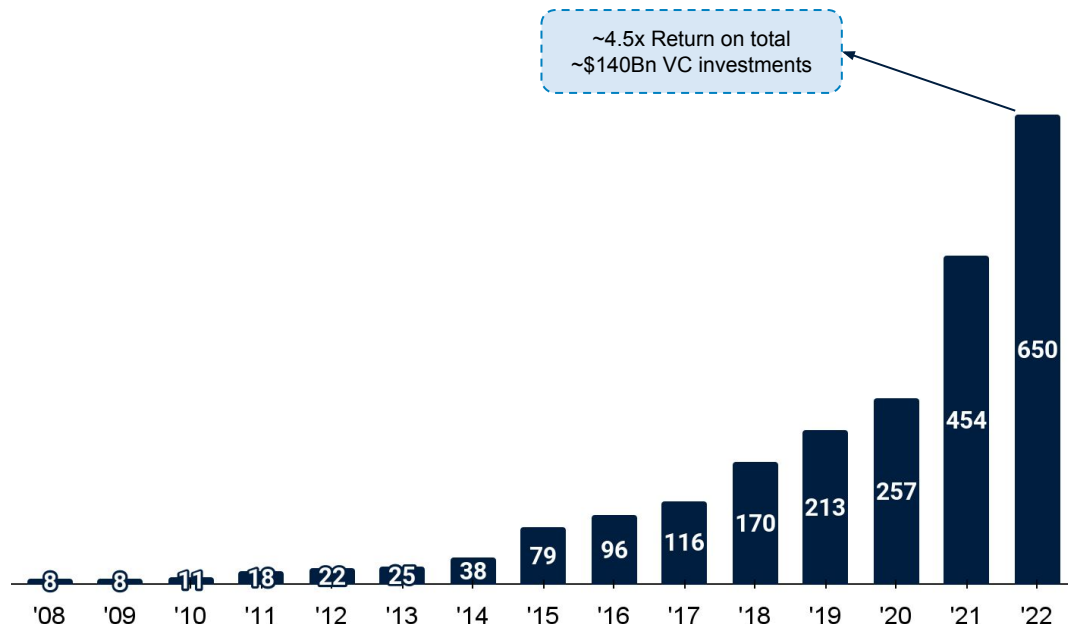
A collection of few of my threads deep diving into different aspects of building and scaling digital first consumer brands in India

1:56 PM · Feb 5, 2023 · 24.1K Views

# Venture capital has been a key wealth driver in past few years

2022 saw liquid wealth of \$2-2.5Bn in the hands of employees as a result of ESOPs and stock lock-ins released

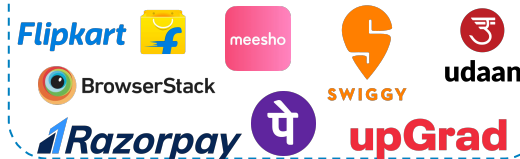
Approximate Value of all VC Investments (\$Bn)



~4.5x Return on total  
~\$140Bn VC investments

2022 saw ~\$2-2.5Bn value transfer ('22 ESOPs + 50% of '21 IPO ESOP value)

ESOP Buyback in 2021: ~450Mn



ESOP Pools in 2021 IPOs: ~4Bn+



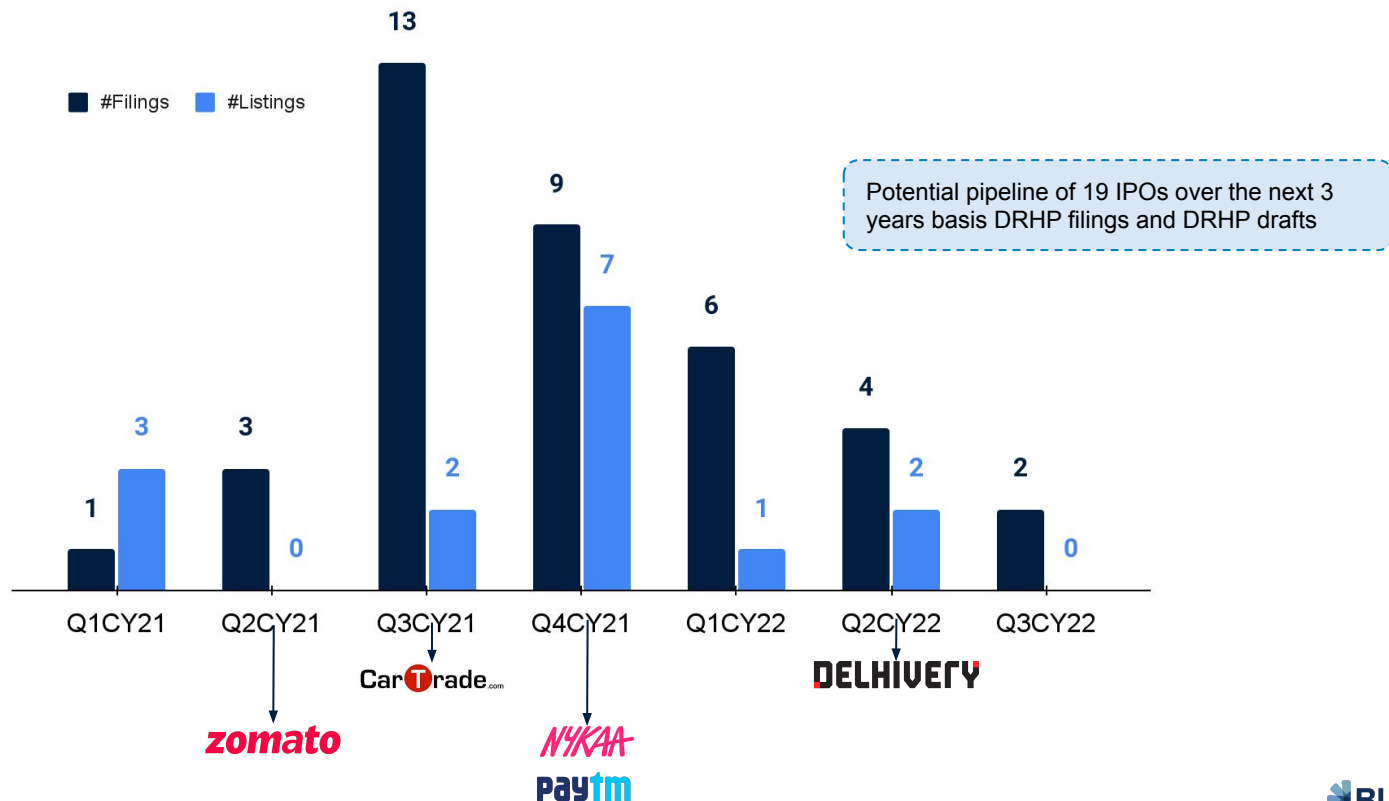
ESOP Buyback in 2022: ~200Mn



# With a clear pathway to listing, and exits

Pace has slowed down since 2021 due to market downturn, and likely to persist for a while

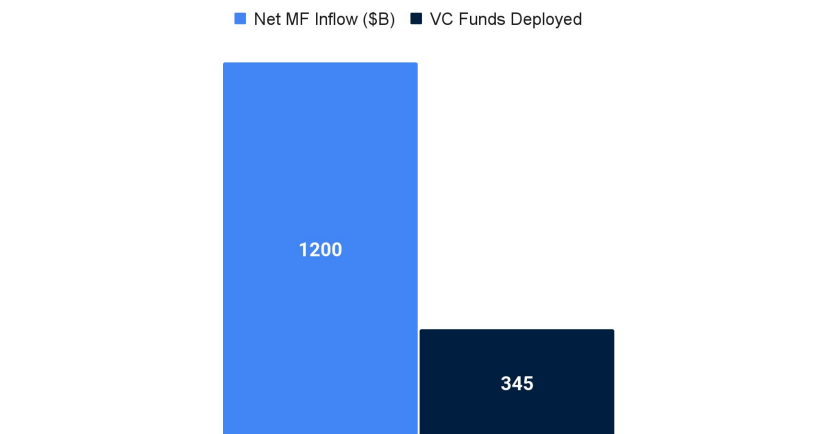
## #Tech DRHP Filings and #Listings



# Venture Capital is a disproportionate size of India's capital market

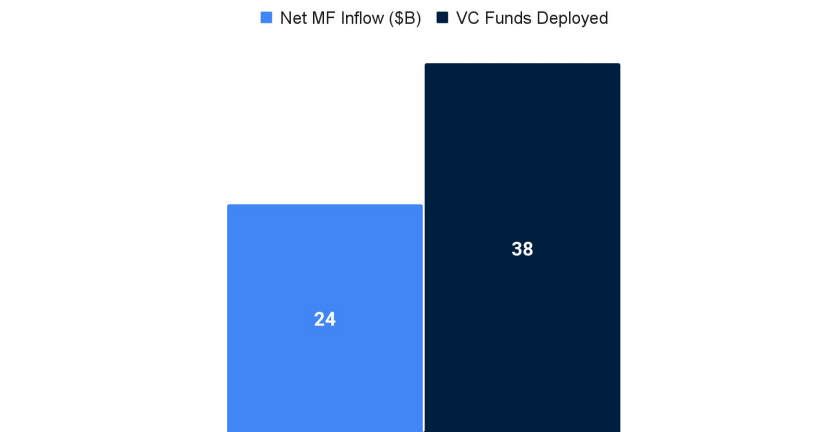
It exceeds MF inflows significantly unlike, say the U.S.

US: VC Funds Deployed vs Net MF Inflows (\$Bn, CY21)



In US, Net Mutual Fund Inflows in CY21 was ~3.5x of the overall venture funding deployed

India: VC Funds Deployed vs Net MF Inflows (\$Bn, CY21)

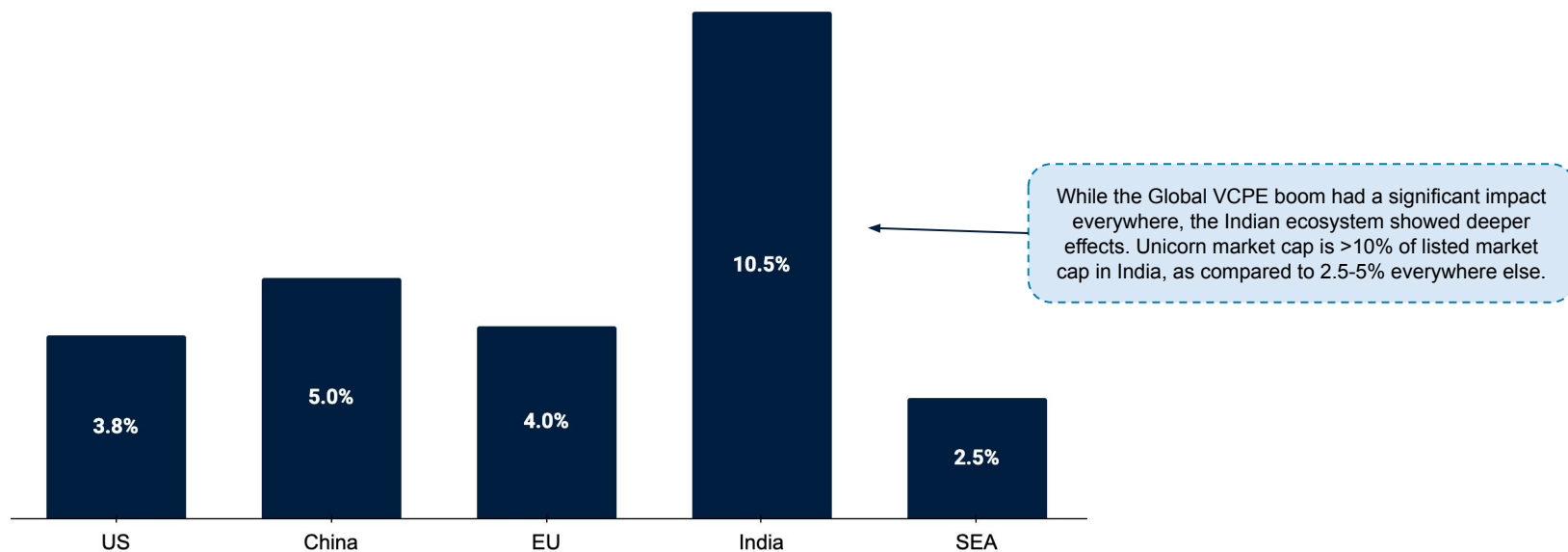


Whereas, in India, Net Mutual Fund Inflows in CY21 was smaller than the overall venture funding deployed (inflows was ~65% of venture capital)!

# Private investments matter much more in India

India has always been short of domestic late-stage risk capital

India Unicorn Valuations as % of Listed Market Cap



## **Indus Valley - India's Soft Power**



**Money Muscle**

**Impact**

**Influence**

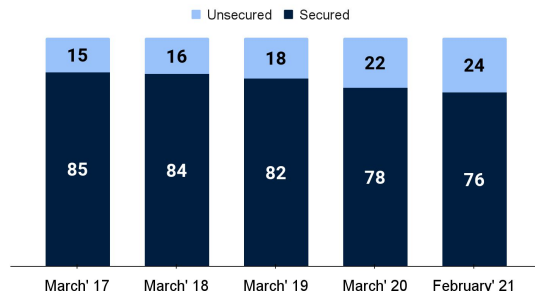


# Indian Fintechs are democratising access to credit

Much of the growth in lending is led by unsecured (personal) loans, and much of this is to new to credit consumers, by fintech

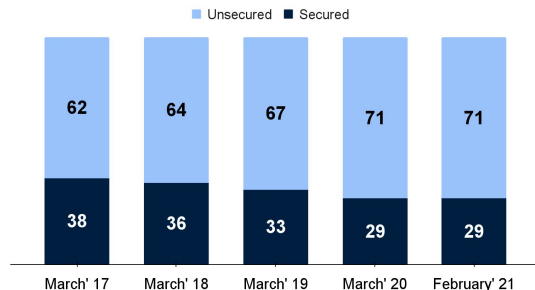
1 Over the past years, the share of unsecured loans in the loan book has been rising.

Share of Unsecured Loans (% of Loan Book)



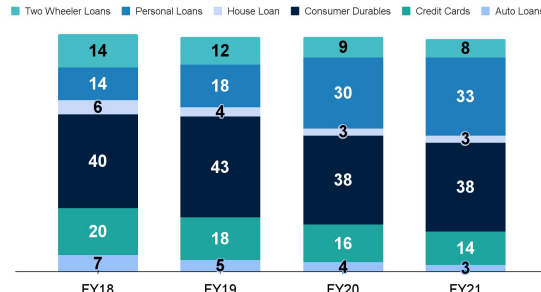
2 Much of this is small ticket loans

Share of Unsecured Loans by Count (%)



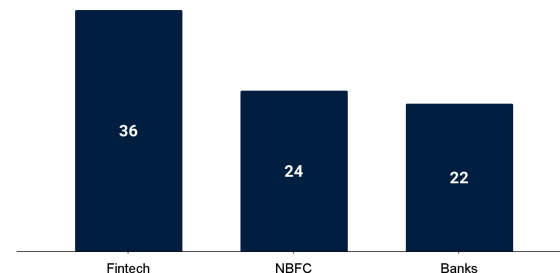
3 Personal Loans has the highest share of such loans

Productwise Share of Unsecured Loans(%)



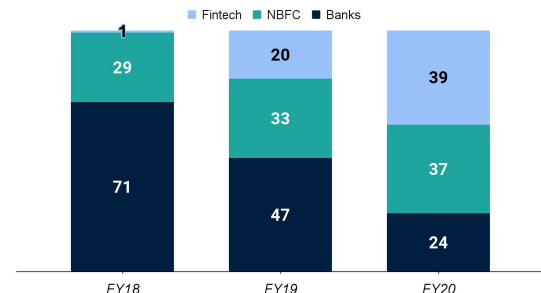
5 Much of these customers are 'New to Credit' (NTC) consumers; Fintech has the highest share of NTC category.

New to Credit Customer Share (%)



4 Fintech's share of these is growing as they are driven largely through digital channels

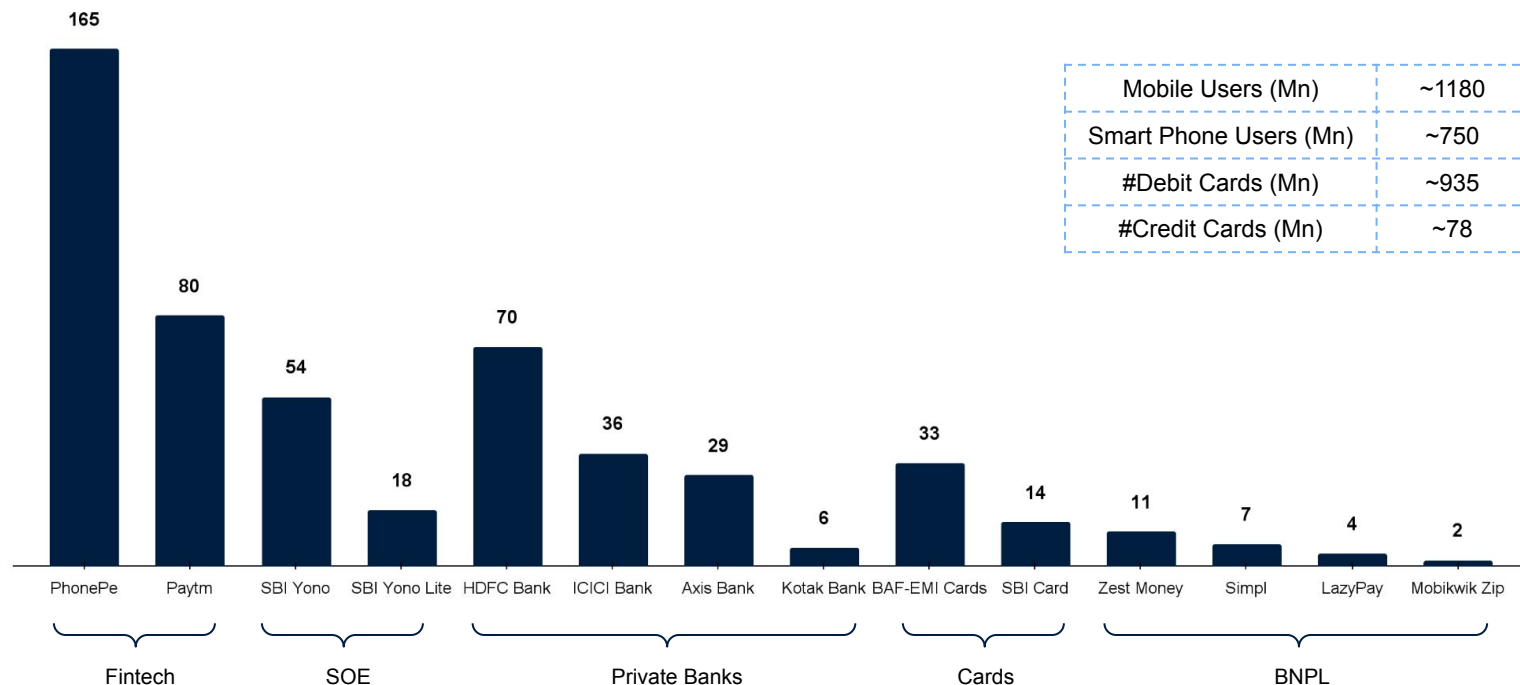
Share of FinTech in Personal Loans (Source Count%)



# Fintechs have built strong customer franchises in quick time!

Fintechs dont have the depth of a banking relationship, but daily, frequent use gives them opportunities to cross-sell

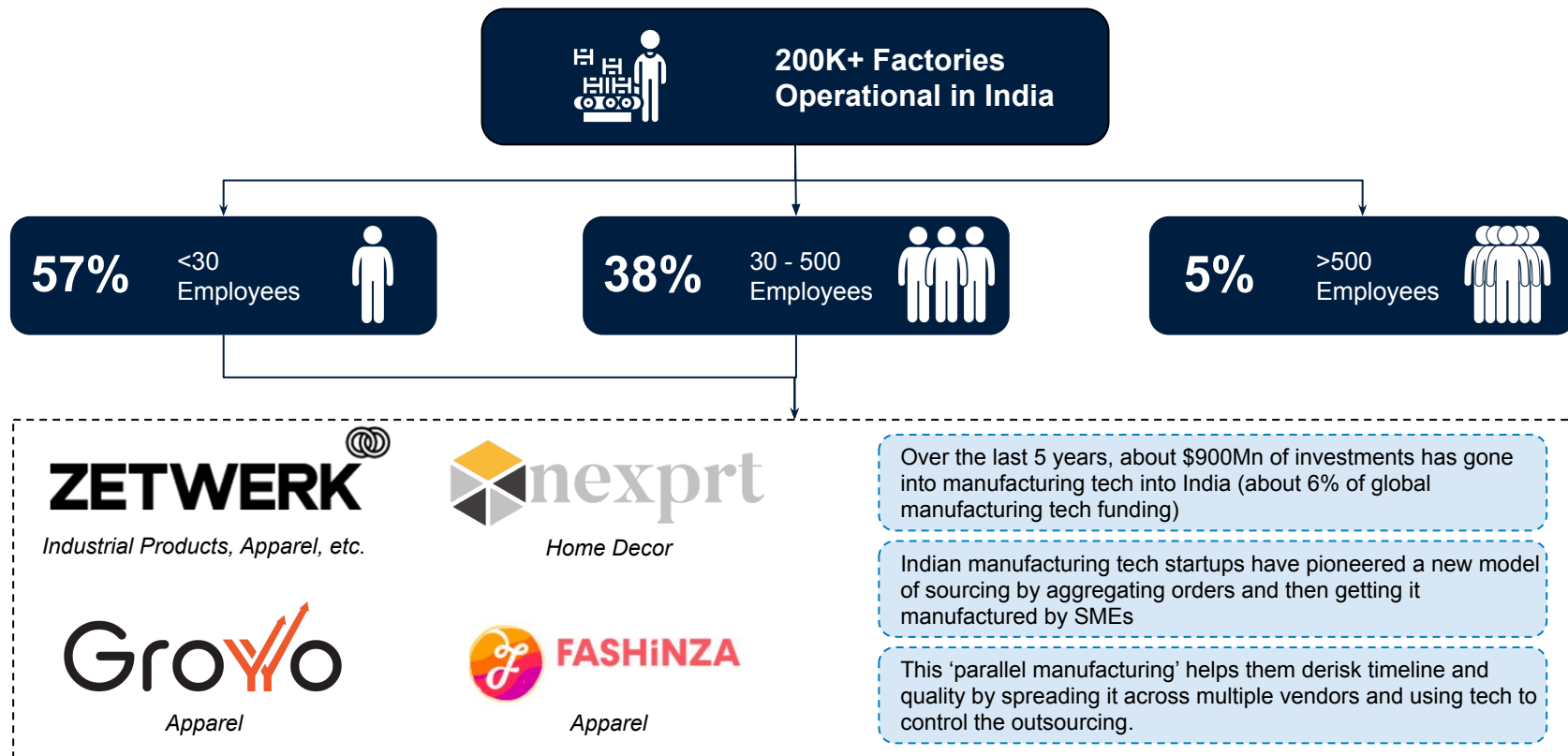
Customer Base Comparison with Banks and FinTech Peers (Mn)



Mobile Users (Mn)	~1180
Smart Phone Users (Mn)	~750
#Debit Cards (Mn)	~935
#Credit Cards (Mn)	~78

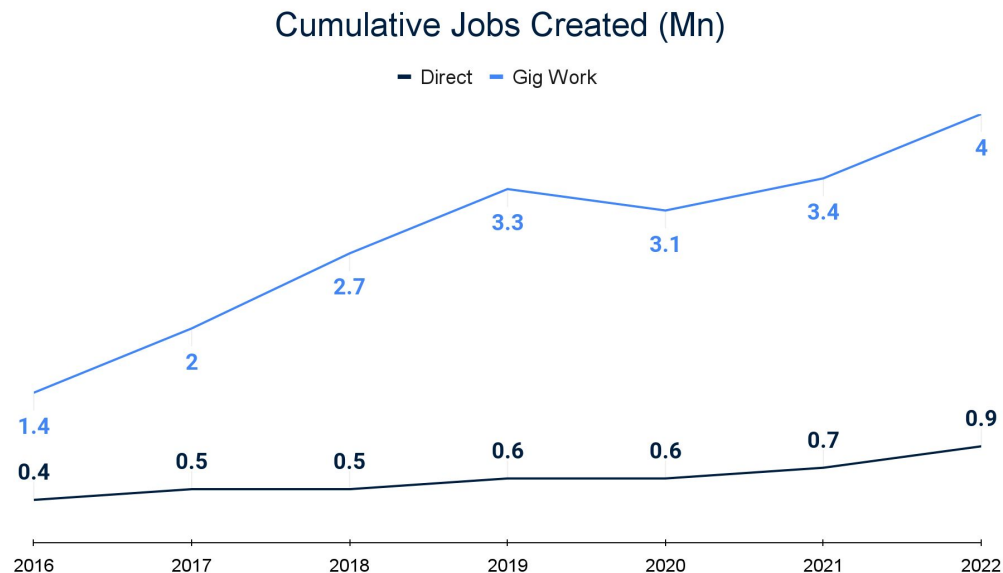
# Indian startups have pioneered 'parallel' / aggregated manufacturing

Leveraging the large unorganised base of MSME manufacturers through tech to create 'cloud factories'



# Startups have expanded the organised labour pool

About 10%<sup>1</sup> of India's white collar jobs have been created by startups



Presuming that every startup job indirectly supports the creation of three jobs in industries supporting them - financial services, creative services etc. Assumption of 1:3 basis this Nasscom report which is if anything more generous. So the total number of white collar jobs startups have created are 900K direct + 2.7Mn indirect = 3.6Mn; the number of total white collar jobs are presumed at two-thirds of 52Mn organised formal jobs (out of a total of 550Mn labour pool, both projected basis the Economic Survey FY21)

# Indus Valley is pioneering a new labour class

Gigworker growth is expanding the country's lower and even middle class

Indian startups have created ~4Mn gig economy jobs (by end'22) via the platform model



	2011-12	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	...	2029-30E
Gigworker Numbers (Mn)	2.5	5.3	5.4	6.8	7.7	8.7	9.9	...	23.5
Share of total workers	0.5%	1.2%	1.2%	1.3%	1.5%	1.7%	1.9%	...	4.1%
Share of organised sector	26%	31%	36%	38%	40%	42%	43%	...	50%
Platform workers (startup-led) (Mn)	0.6	2.2	2.9	3.2	3.2	3.6	4.3	...	11.5

## **Indus Valley - India's Soft Power**



# Growing power of startups is apparent in IPL sponsorships<sup>1</sup>

Startup marketing spend now competes on a level playing field with traditional brick and mortar brands



<sup>1</sup>) Only official/ principal sponsorships are shown; Source: KPMG Venture Pulse;

# Startups have become more visible in popular culture too

The themes and lingo of startups, and startup culture has started to get more mainstream



THE ECONOMIC TIMES | Industry  
English Edition • | Today's Paper

Prime Markets News **Industry** Rise Politics Wealth Mutual Funds Tech Jobs Opinion NRI Panache ET NOW

ance • Cons. Products • Energy • Renewables • Ind'l Goods/Svs • Healthcare/Biotech • Services • Media/Entertain

ry • Media/Entertainment • Entertainment • A new film is like a startup. It is the riskiest business: Shah Rukh Khan

ETPrime

## A new film is like a startup. It is the riskiest business: Shah Rukh Khan

tish John, ET Bureau • Last Updated: Aug 26, 2018, 12:17 PM IST

**Synopsis**  
In a freewheeling chat, SRK lays bare his thoughts on how the business of film will be in times of Netflix.

Actor [Shah Rukh Khan](#) walks into Studio 8-C at [Film](#) City Complex in Goregaon, Mumbai, at 9 pm on the dot, belying the tardiness one associates with stardom. In a freewheeling interview with [ET](#), he talks about the

## **Section III: State of Indus Valley 2022**



# India in one tweet

On how challenging it is to get Indian customers to pay up



**Alok Goyal**  
@alokgoyal1971

...

"In India, SMBs behave like large enterprises while buying software, and enterprises pay like SMBs"

- Quote of the day from the [#SaaS](#)Talks yesterday with [@ketankapoor](#) [@rahulpangam](#), [@nikhilgupta197](#) and [@ArpitM7](#)

8:51 PM · Feb 4, 2023 · **11.2K** Views

# State of Indus Valley 2022



**Funding Macro**

**CleanTech**

**Media**

**Ecommerce**

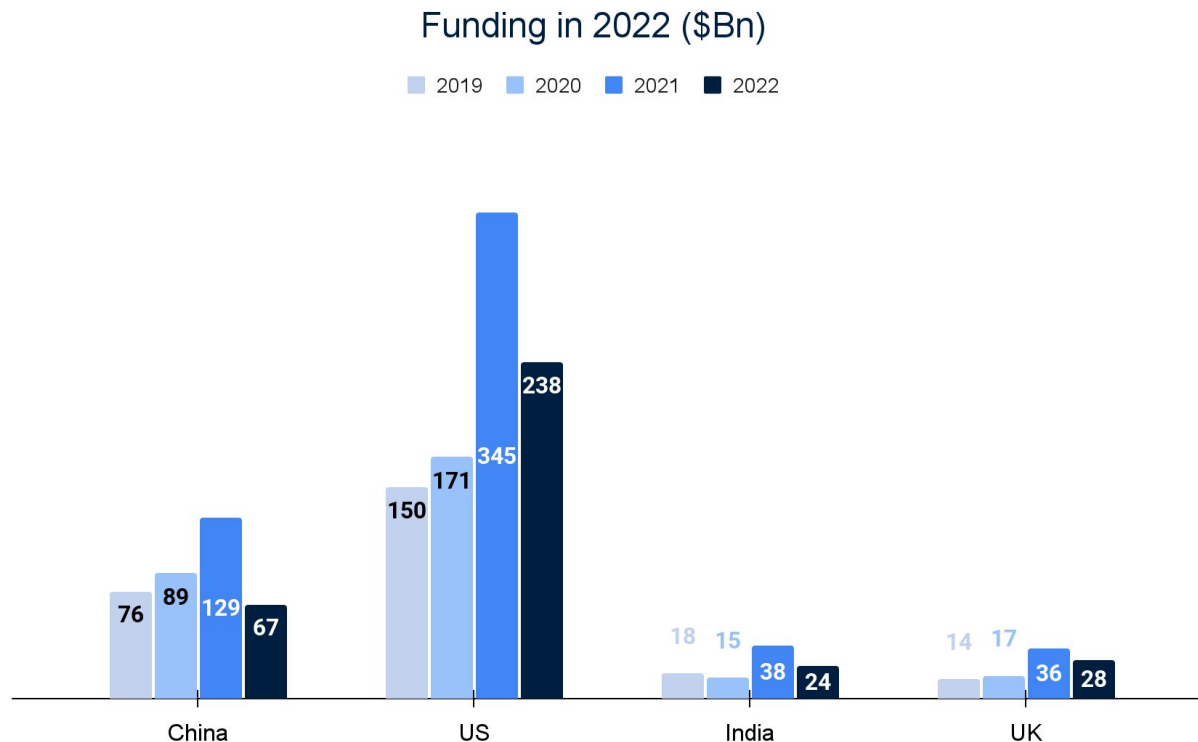
**SaaS**

**Indus Valley Playbooks**



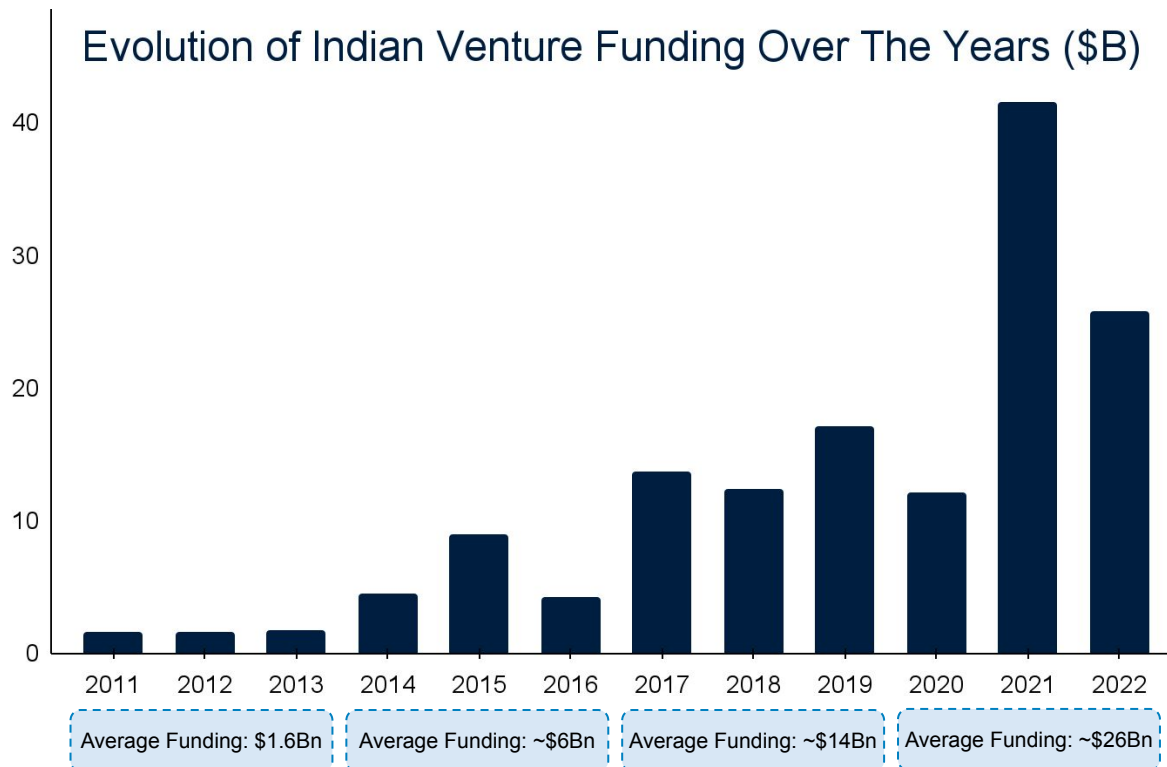
# 2021's red hot growth funding market cooled sharply in 2022

The decline in the Indian market mirrored global trends



# The evolution of the Indian venture capital market

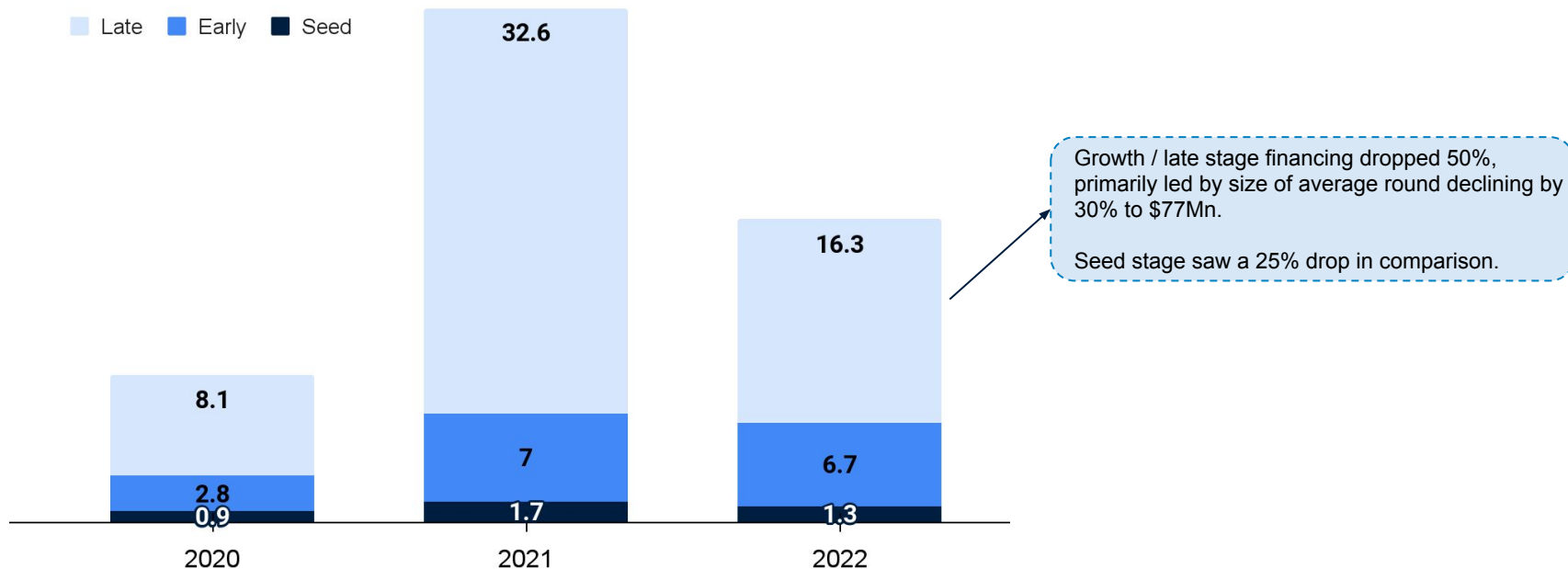
Near 15x rise in annual funding over the last decade



# Drop in venture funding led largely by drop in growth funding

Seed / early stage financing saw a less-pronounced drop

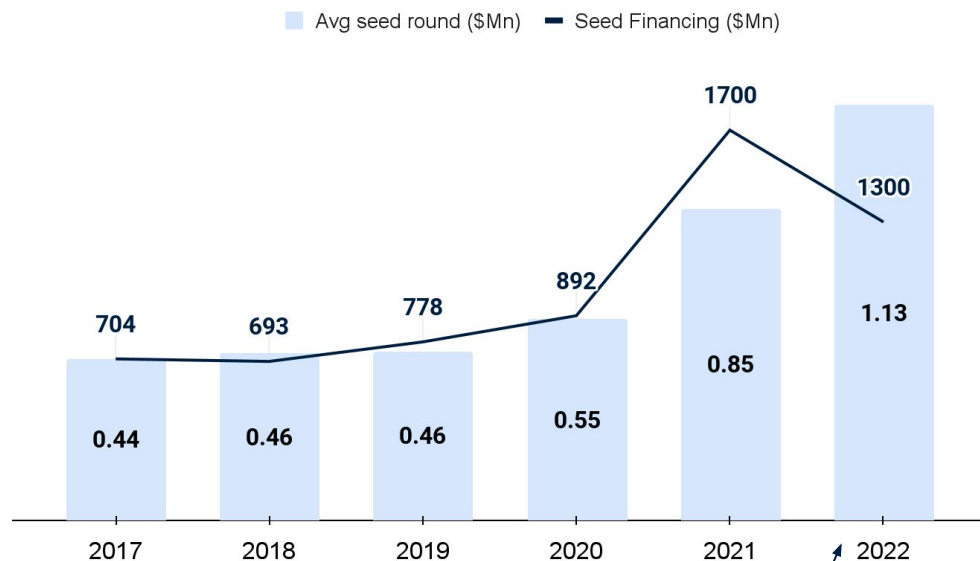
## How Seed, Early and Late Stage Financing Stacks Up (\$Bn)



# The seed rounds are supersizing!

The average seed round has grown 3x from 2017 to 2022, underpinned by capital supply, and rise of pedigreed founders.

Seed Rounds - Avg round size and Financing (\$Mn)



## Greater capital availability

Money coming in at the seed stage has doubled in the past few years, led by increased number of India seed, microVC funds (joined by super-angels), as well as later stage and global VCs playing early.

## A new class of 'fluent' founders + visible signals

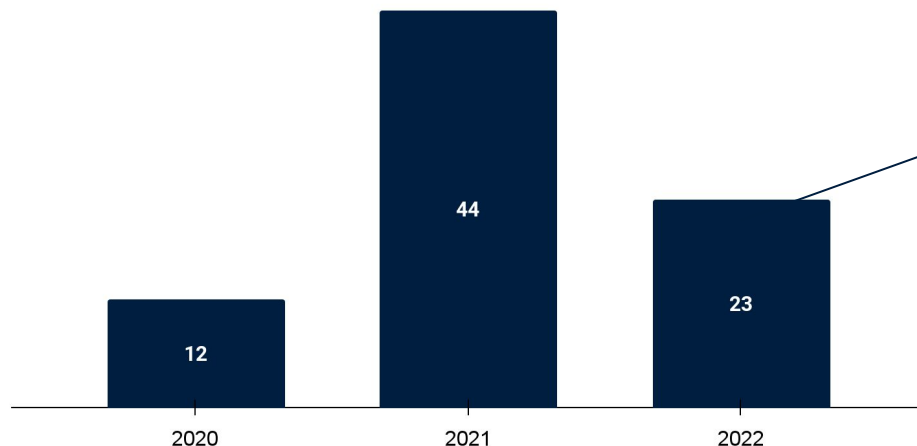
Repeat founders, experienced operators, as well as first time founders who have learnt online, and are able to signal their fluency well via experience, pedigree, building in public, being selected into accelerators etc., are attracting higher capital, and often from later stage and international investors, for whom these signals are more easily visible.

2,003 seed rounds in 2022 dropped to 1,150 in 2023; but the average seed round grew by 30% to \$1.1Mn

# Unicorn minting slows down

Number of unicorns drops to 23 with no unicorns in second half of the year

#Unicorns in the last 3 years

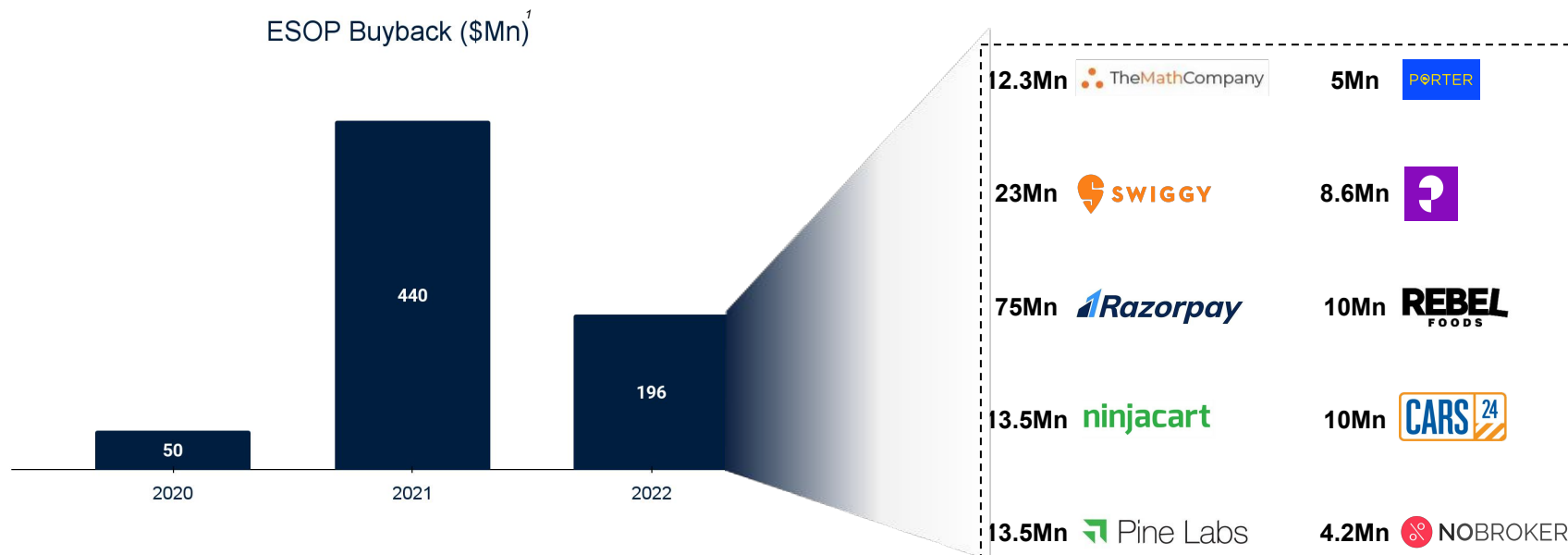


Majority of the unicorns (17 out of 23) were across 4 sectors

Sectors	Companies
SaaS	
FinTech	
Logistics	
ECommerce	

# ESOP's not fabulous!

ESOP buybacks dropped by over half this year, impeding wealth creation

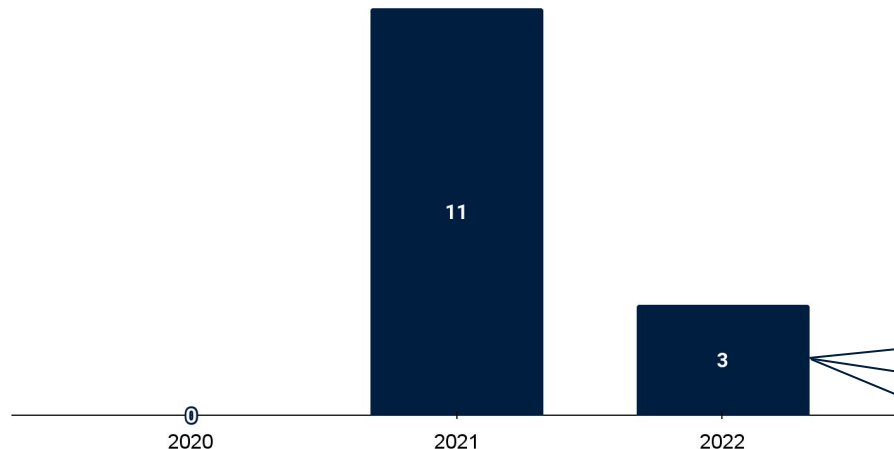


1) Still 2022 will see \$2-2.5Bn of wealth accruing to startup employees: ~\$200Mn ESOP + value of ESOPs of '21 IPO listings available for encashing after 1 year lockin; a fair amount of this will flow in as angel capital into startups. Source: Inc42, FinTrackr;

# Listing Blues

Sharp drop in the number of Indian startups going for listing

Listed Indian Startups



Oyo, Boat, Droom, Mobikwik, Pharmeasy delayed listing, broadly led by concerns around the reception their listed peers have received in the public market.

Name	Listing Date	Returns <sup>1</sup>
<b>paytm</b>	18th Nov 21'	-60.5%
<b>policybazaar</b> <small>Compare. Buy. Save.</small>	15th Nov 21'	-52.03%
<b>NYKAA</b>	10th Nov 21'	-63.06%
<b>CarTrade</b> <small>.com</small>	20th Aug 21'	-65.76%
<b>zomato</b>	23th July 21'	-56.9%
<b>Nazara</b> <small>TM</small>	30th Mar 21'	-37.15%
<b>EaseMyTrip</b> <small>.com</small>	19th Mar 21'	-54.62%
<b>Tracxn</b>	20th Oct 22'	-17.46%
<b>SULA</b> <small>VINEYARDS</small>	22nd Dec 22'	13.44%
<b>DELHIVERY</b>	24th May 22'	-35.53%

[https://www.livemint.com/companies/start-ups/boat...](https://www.livemint.com/companies/start-ups/boat-at-60-million-raises-fund-for-ipo)

**BoAt raises \$60 mn, freezes plan for IPO | Mint**

28-Oct-2022 — **BoAt** raises \$60 mn, freezes plan for IPO · The Mumbai-based company filed its draft initial share sale papers with the markets regulator in ...

# Retail investors are missing out on startup growth stories

Retail investors got access to 99%+ of value created in HDFC Bank, while they are yet to access value in Paytm

## HDFC Bank



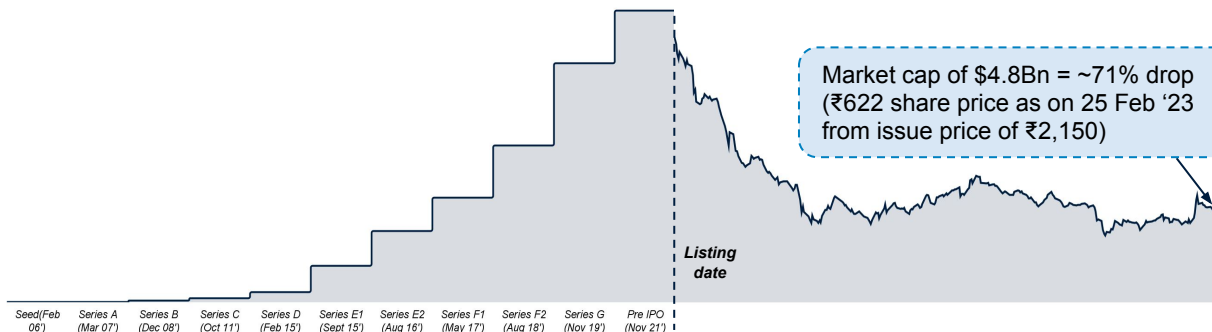
Public market thought leaders feel late stage investors are juicing out all the value before listing.

*"They [HDFC Bank, Infosys] did not have venture capital coming in the middle, providing the unlisted capital, whipping up the valuations, and then IPO-ing out when the businesses or the growth cycle was coming to a near peak... and they [VCs] distorted the entire return spectrum by capturing the return from start to the midpoint for themselves and leaving the stock market... the IPO market to fend for itself by listing those companies when they've already more or less sucked the juice out of the returns.*

*'So my view is that small-cap investing...I am saying to every promoter who has got a good business model, please list as early as possible. Let the retail be your venture capitalist'.*

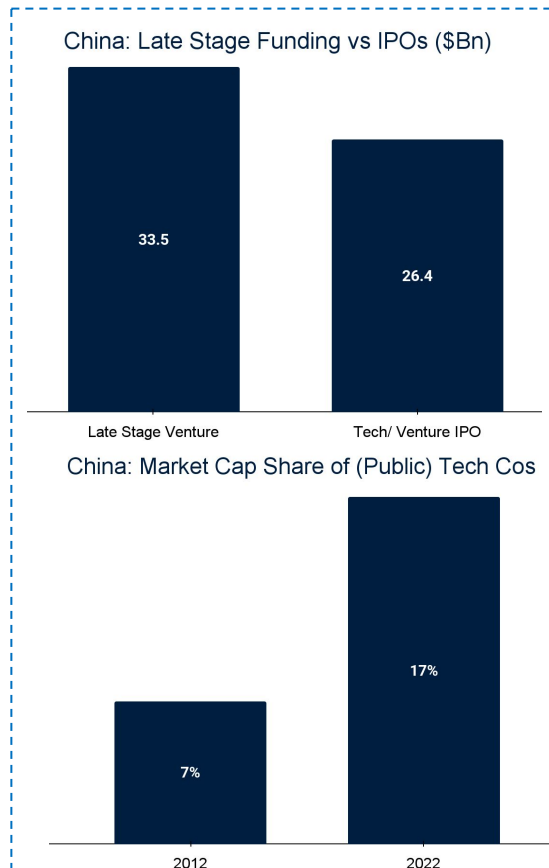
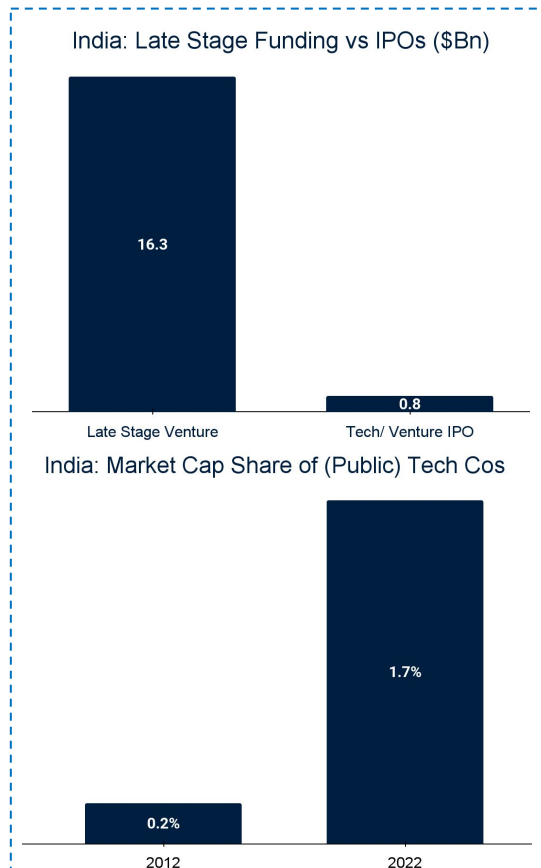
**Shankar Sharma, renowned and (a rather) vocal public market investor.**

## Paytm



# Private money dominates late stage financing in India

Tech IPOs are dwarfed by late stage financing






(1) Without startups listing early, and without an active tech IPO market, India's tech market capitalisation will continue to see an undersized share (~1.5% of overall market capitalization).

(2) Given 100-200Mn paying consumers (India1 to India1+2), founders targeting domestic spends need to be cognisant of the amount of capital they raise at growth stages, for at every stage the incoming investor is seeking a 3-5x return. The best companies in India have understood this and have budgeted capital raises and growth appropriately.

# What can startups learn from the OGs of the Indian stockmarket?

India's stock market megacaps fall into three broad buckets

	1 Regulatory Rajas	2 Consumer Compounders	3 BIGwigs (BIG = Build in India for Global)
Examples			
Success Code	Leverage regulations and political capital to execute mega infrastructure projects successfully	Leverage understanding of consumer psychology to deliver the product with highest value at the highest margin.	Leverage Indian human capital to offer high quality solutions at affordable prices
Cardinal Sin	Being linked too closely to one political group, and subject to political risk	Growing ahead of the market	Sticking far too long with the initial product and not innovating, while your customer(s) evolves

*Let us double-click into Regulatory Rajas and Consumer Compounders, given their focus on the Indian domestic market.*

# Why India needs its 'Regulatory Rajas'

Implementation capacity, especially on infrastructure-building is a chokepoint, and firms with this skill are advantaged

*"Our worry is not where the Adani Group is picking up the capital in service of these ambitions. India is not necessarily short of capital to achieve some of these ends. **It is, however, certainly short of implementation capacity.** This is what Adani's companies have promised to supply. The public sector is too inefficient to build what India needs; the rest of the private sector is too concerned about political risk.*

*The public sector is not going to turn competent any point soon. Meanwhile, the sort of regulatory, legal and administrative reforms that would reduce political risk are off the table. So, who but Adani will build what the world's most populous country needs?*

***Nobody else in Modi's India has this specific mixture of confidence in government support, ability to navigate byzantine regulations, and willingness to risk enormous sums of money.** Some worry that Adani is too big to fail. He isn't. But he may be too unique to fail."*

- Mihir Sharma, "What really worries Indians about Gautam Adani"



Roshan Cariappa  
@RoshanCariappa

...

I want #AdaniGroup to succeed.

Why would I want someone who's building everything from ports to power plants, helping us become energy independent, solving hard problems like logistics & Infrastructure in a country at per capita of \$2000 to fail.

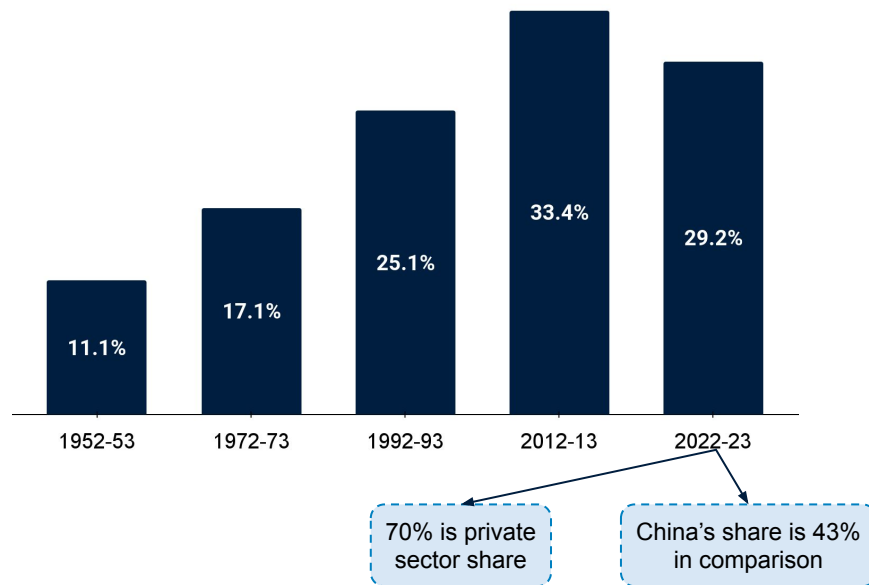
[I don't own any Adani shares.]

8:00 PM · Jan 27, 2023 · 292.1K Views

# India's low gross fixed capital formation is a growth chokepoint

Given low government contribution, the burden falls on the private sector largely and is shouldered by a select few firms

India's Gross Fixed Capital Formation (GFCF) as % of GDP



Increasingly the private sector is asked to chip in as government contribution to capital formation (all infra and productive assets) is low (interestingly ~60% of FDI also goes to Services!)

Adani and Reliance, and a few other firms are thus seen as national champions who can help us build infra faster.

Perhaps the most distinctive aspect of Modi's industrial policy is its promotion of companies that have acquired a dominant position in particular sectors of the economy. Japan and South Korea adopted a similar "national champions" strategy decades ago, with their *zai-batsu* and *chaebol* conglomerates. Consequently, the arguments for it are well known. With government assistance, favored companies can achieve huge economies of scale, create networks, and help pursue national economic goals. They can also strengthen a country's position in the global market.

National champions will have a special place in the Indian economy, as there will always be a need for firms who can shoulder the burden of infra creation.

# Consumer Compounders grow with the market

HUL, HDFC Bank, DMart etc., marry a sharp product proposition with a deep understanding of the customer's paying capacity

## Great growth companies get granular about growth early in the game.

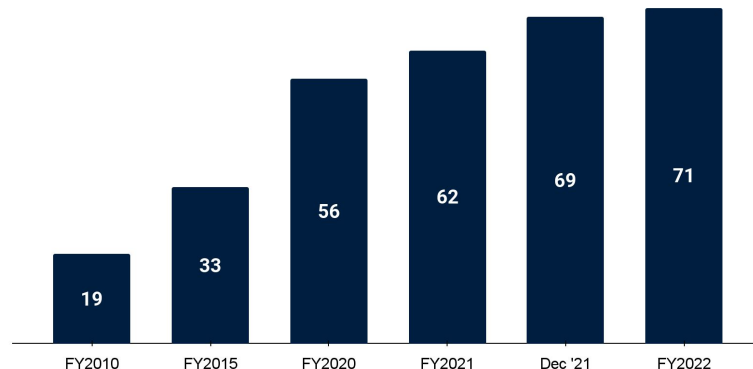
*"If you want to win in India, you need to define the many Indias that exist. Think of India as Europe, not as America, because they are very different markets. Leaders who are paranoid about consistent growth quickly break up India into many Indias. The key is to go deeper with the customers you have, which requires focus on retention and raising the share of wallet, as well as acquiring new customers. It's a game of juggling balls: retention, going deep, remaining relevant, and continuously making small acquisitions."*

**A sensible player does not grow too far ahead of the market.**

**Otherwise, you're bleeding money."**

- Ireena Vittal, ex-consultant and corporate consigliere

HDFC Bank Customers (Mn)



HDFC Bank is a great example of not growing ahead of the market. Over 30 years, and its customer base is ~70Mn which is 5% of the Indian market. And it is valued at \$100Bn!

# They take advantage of policy shifts and market corrections

Steady growth and building a strong balance sheet enables accelerating growth during short windows of opportunity

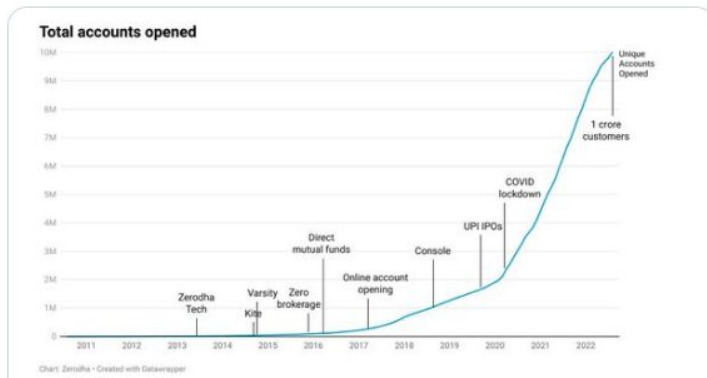


Nithin Kamath

@Nithin0dha

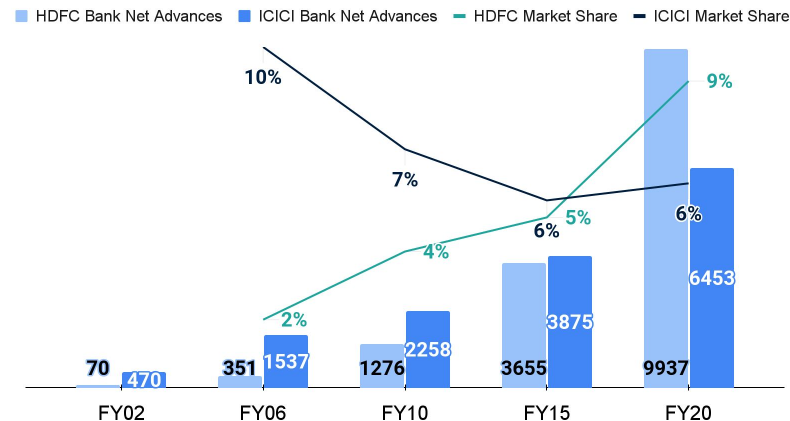
We, @zerodhaonline, just got to 1 crore customers. Looking back, the biggest tipping point was AADHAR for online account opening. Can't thank the Government & SEBI & Exchanges & Depositories enough for making this happen.

A few things we did that had unintended benefits. 1/5



In FY02, HDFC Bank was at 15% of ICICI Banks's advances. It took advantage of the 2008 crisis and the 2015-17 NPA crisis to pull ahead of ICICI Bank thanks to its strong balance sheet and conservative approach to growth.

## HDFC vs ICICI: Net Advances (₹Bn)



# State of Indus Valley 2022



**Funding Macro**

**CleanTech**

**Media**

**Ecommerce**

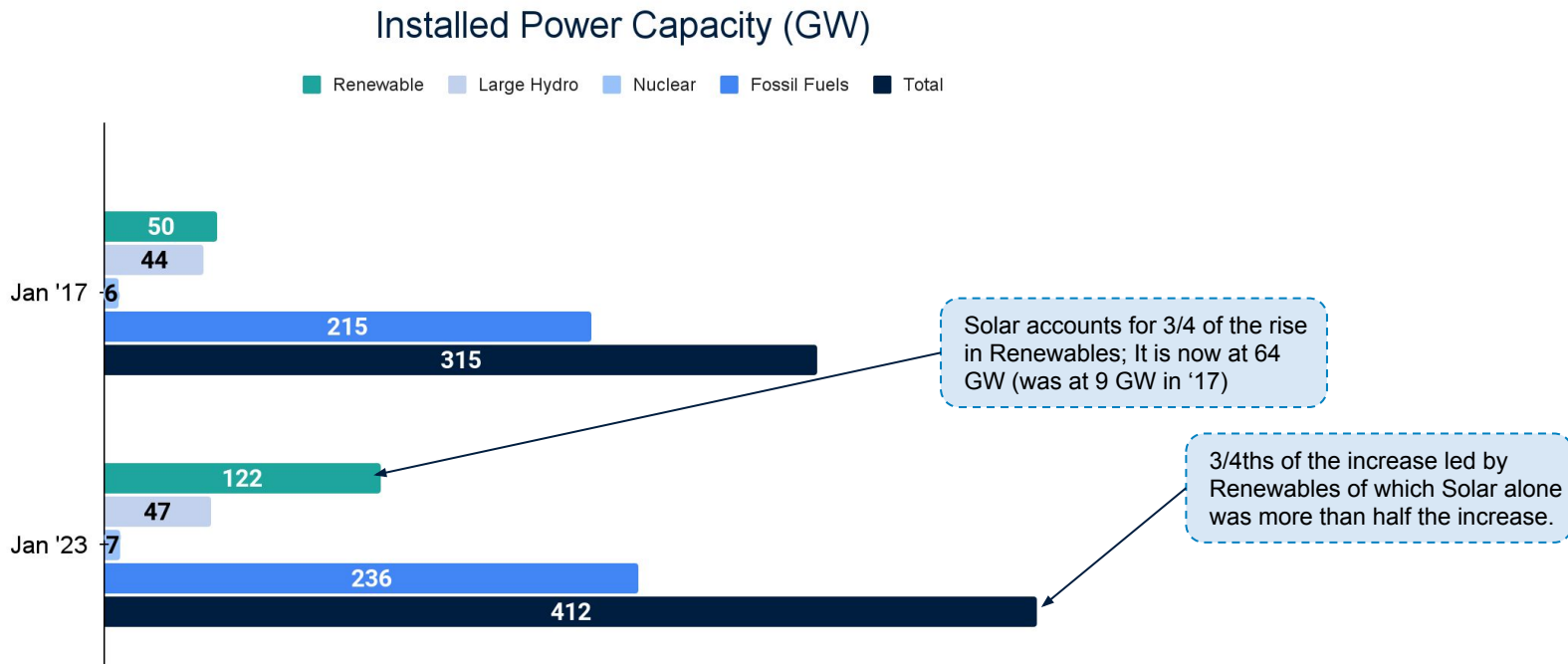
**SaaS**

**Indus Valley Playbooks**



# Quietly, but steadily India's Renewables share is growing

Renewables is ~30% of installed power capacity. 75% of the capacity increase over the past six years is thanks to Renewables.



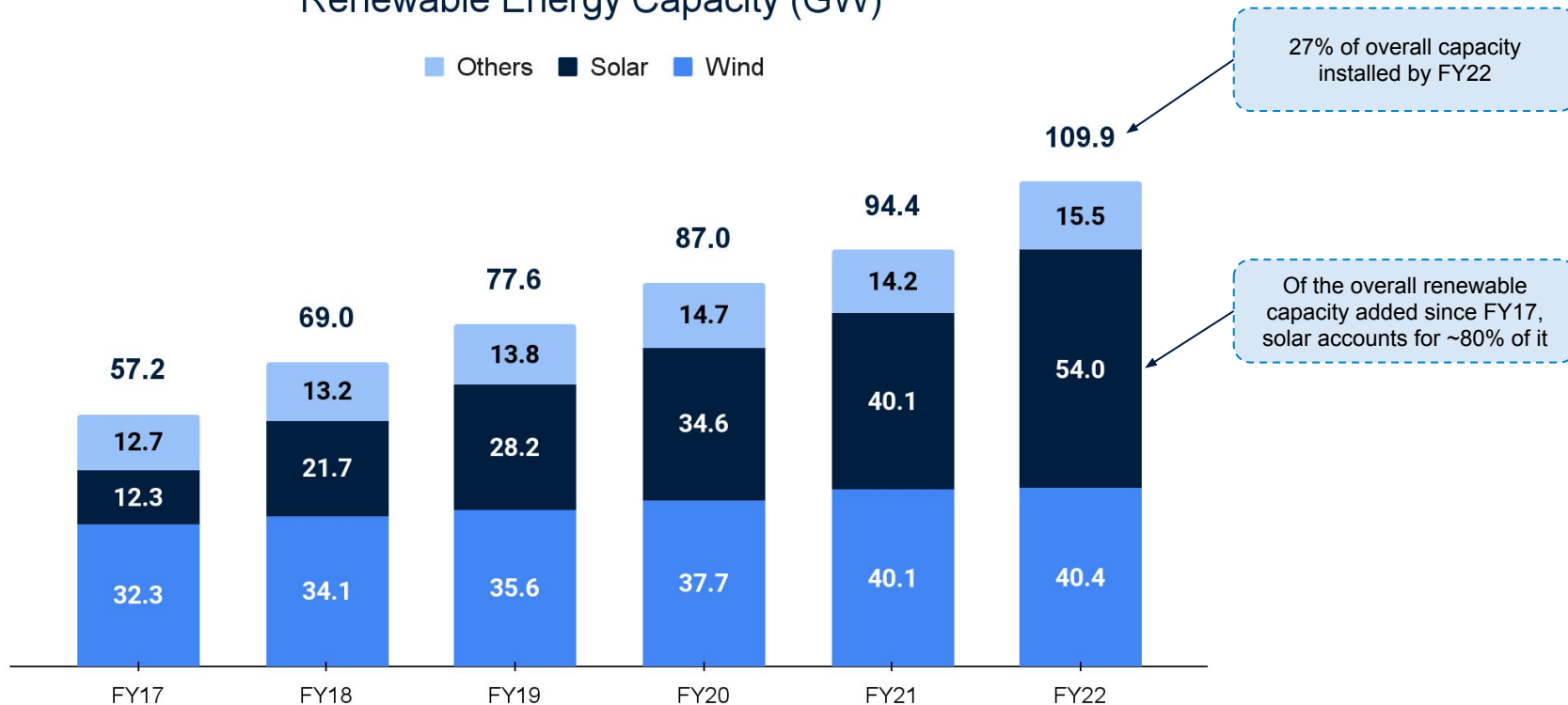
Despite being ~30% of installed capacity, Renewables only generated 12.5% of electricity (Apr-Dec'22); factors such as mismatch between peak demand (evenings) and peak generation (afternoons) play a role.

# How the Renewables stack lines up

Solar's rise over the past six years has been remarkable

## Renewable Energy Capacity (GW)

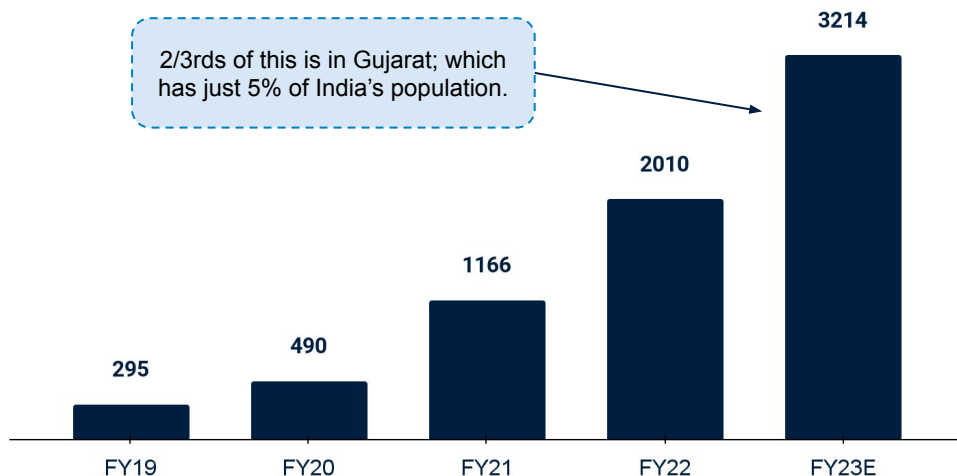
Others Solar Wind



# Rooftop solar is a tiny but vibrant part of the Solar story

Rooftop solar is leading to the creation of a new consumer market

Residential Rooftop Solar Capacity (MW)



Solar rooftop installation consumer brands are emerging.

**SON ASKED FOR A SCOOTY, DAD GOT HIM A BIKE**

**SOLAROOF MAKES YOUR DAD DILDAAR**

**TATA POWER SOLAROOF**

**KAMAI BADHAYE, DILDAAR BANAYE!**

**TOLL FREE 1800 25 77777**

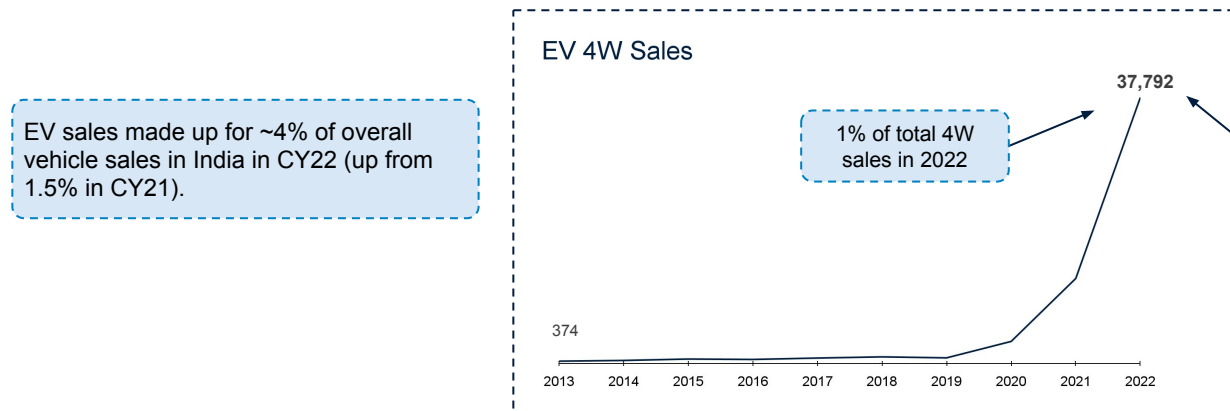
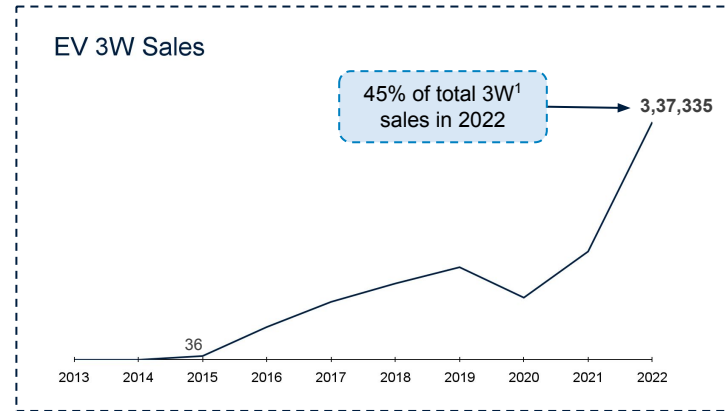
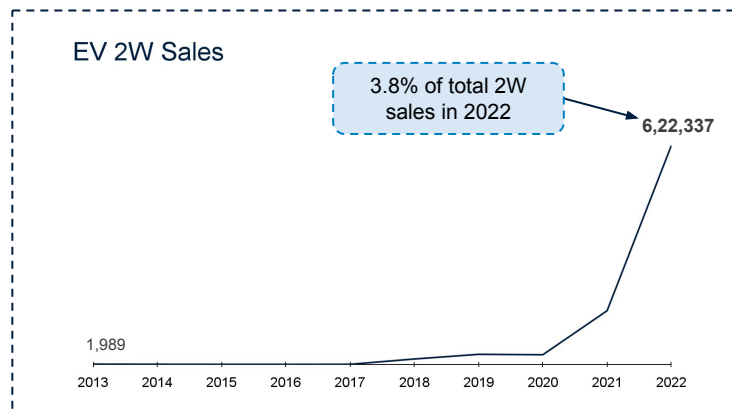
Savings up to ₹10000 per year\*

Easy Financing

\*Average savings for 3-4kW system.

# 2022 was an excellent year for Electric Vehicle (EV) sales

Total EV sales crossed 1Mn, however still makes up only 4% of the total India vehicle sales market, in contrast to China's 28%



EV sales made up for ~4% of overall vehicle sales in India in CY22 (up from 1.5% in CY21).

Globally, new car sales are expected to grow at 1%, but EV cars to grow at 25%.

In India, CY22 saw car sales grow at 23% and EV cars at 200% (both off low bases).

1) Includes passenger 3W rickshaws; Source: SIAM, Vahan;

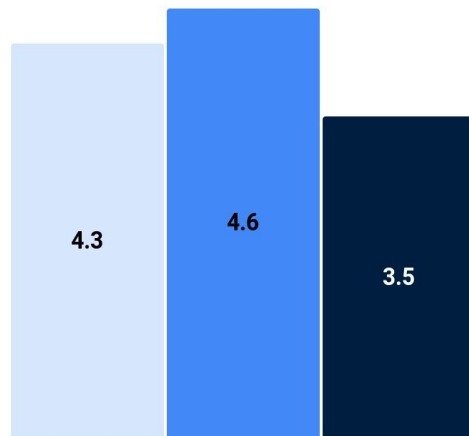
# Tripling of EV sales spurred by comparable cost of ownership

Subsidies help EV 4Ws have nearly caught up with cars with internal combustion engines (ICE); on 2W they are cheaper

Total Cost of Ownership/km of 2Ws (₹/KM)

ICE EV w/o subsidy EV with subsidy

Basis ~50k KM  
lifetime usage

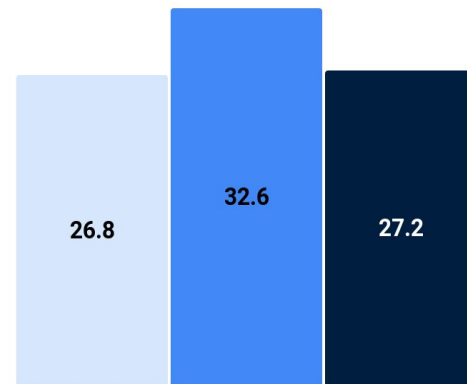


2W

Total Cost of Ownership of 4Ws (₹/KM)

ICE EV w/o subsidy EV with subsidy

Basis ~100k KM  
lifetime usage



4W

# **State of Indus Valley 2022**



**Funding Macro**

**CleanTech**

**Media**

**Ecommerce**

**SaaS**

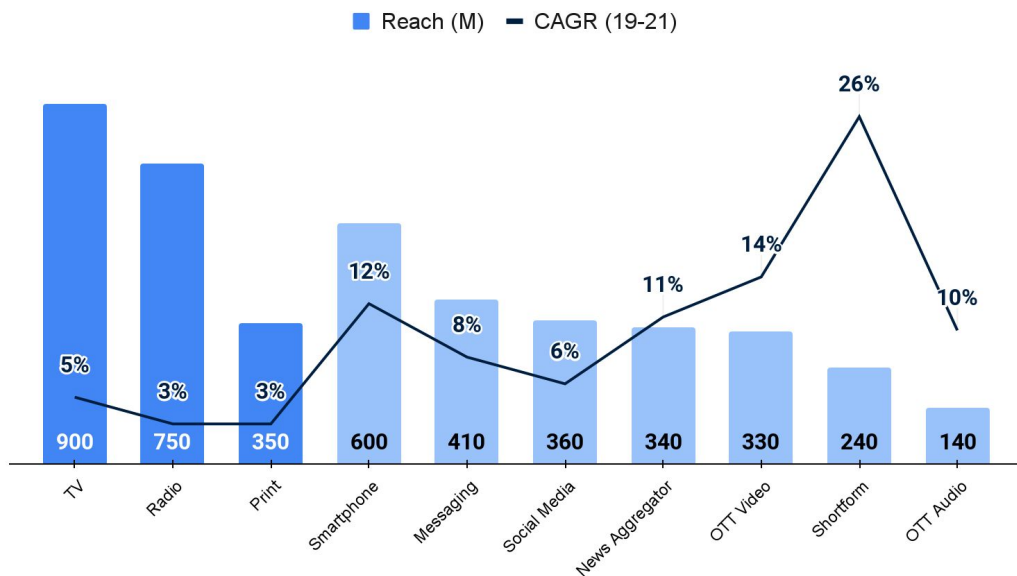
**Indus Valley Playbooks**



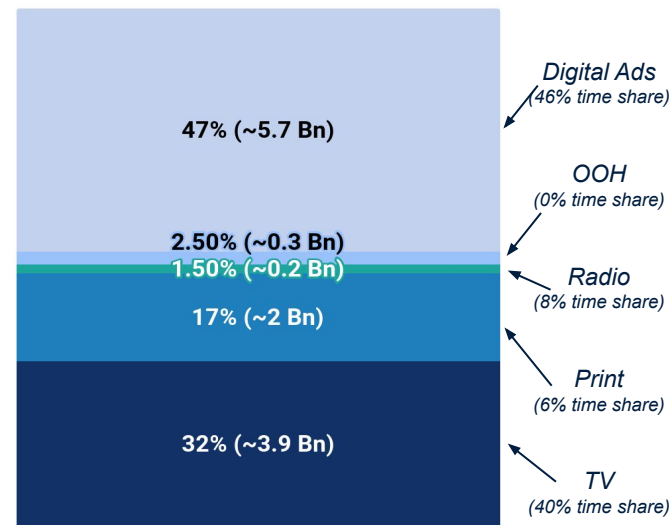
# The Indian Attention Market

Legacy media (TV, Print) still command close to half the ad market, despite lower attention shares than digital.

## Content Consumption - Annual Active Users (Mn) and Growth



## Ad Spends Across Media (~\$12 Bn)

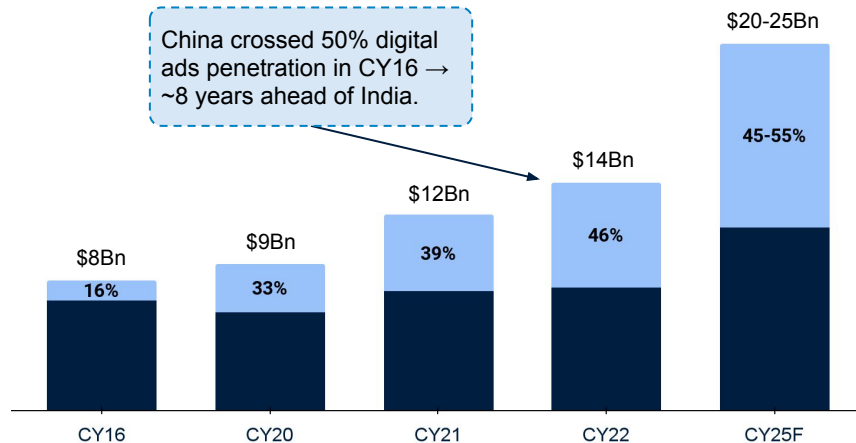


# Digital is ~half the ~\$14Bn ad market, and growing rapidly

The fastest growing part of digital media is merchant commerce led by Amazon, Flipkart and joined by Nykaa, Zomato etc.

## Growing share of digital in India Ads Market

Digital Traditional

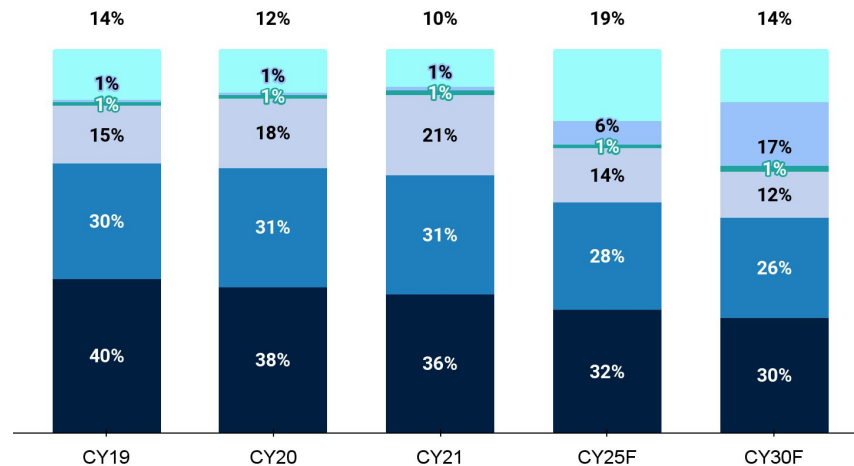


## Digital Ads Penetration (CY21)

US	China	UK
61%	82%	77%

## India Digital Ad Revenue Breakdown

Others Shortform apps OTT Product eComm Meta Google



Shortform video contributes to ~10% of overall time spent on content.



Shortform video contributes to ~1% of digital ad \$\$.

# India is the DAU / MAU farm for the world

The paying user to overall user share is low; and even the paying user pays little compared to their peers in the West

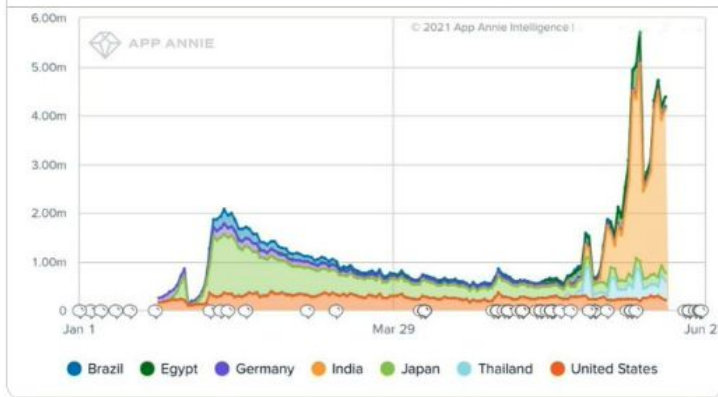


**Kunal Shah** ✓  
@kunalb11

India is the DAU factory of global social media companies earning them valuation without any meaningful contribution to ARPU.

**Varun Mayya** ✓ @VarunMayya · Jul 2, 2021

Clubhouse DAUs. US is dying, India sees spike.



7:10 AM · Jul 5, 2021

Both Ver Se (Daily Hunt's parent co) and Sharechat have raised \$3.4Bn each.



DAUs: 114Mn  
Annualized Revenue Rate: \$174Mn<sup>1</sup>



ShareChat

DAUs: 85Mn  
Annualized Revenue Rate: \$100Mn<sup>2</sup>

Annual ARPU of \$1.50 vs SNAP which has \$13 annual ARPU

# Newer media startups are going subscription-first

UPI's ability to spur small-ticket payments + biz models seen as harder to raise megafunds for, are driving this trend



**Lal Chand Bisu** @lcbisu · Dec 28, 2022

It's been an incredible year at Kuku FM!

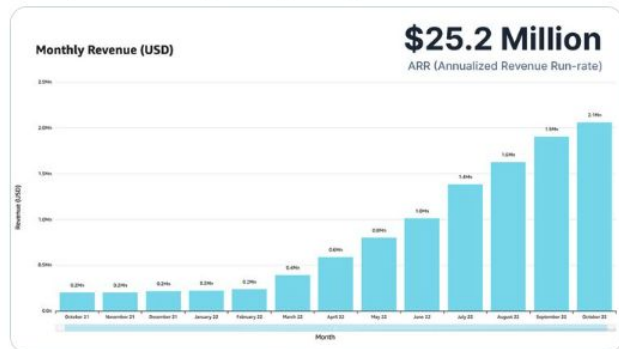
We've seen tremendous growth, going from 257k to 2.3 Mn active paid subscriptions in 2022, a 9x increase in the last 12 months.



**Rohan Nayak**  
@RohanNayak2

Pocket FM has surpassed 25Mn USD ARR (Annualized Revenue Run Rate). We have achieved 10x growth in revenue this year 🚀

Long form serialized fiction in the form of audio series has been pivotal in our growth journey.



10:16 AM · Nov 8, 2022

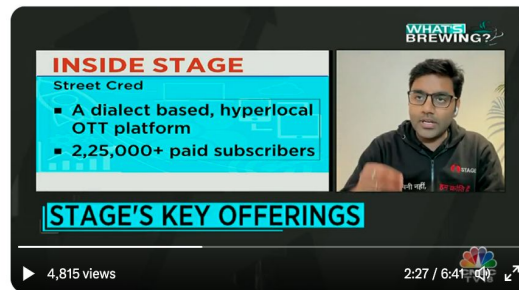


**CNBC-TV18** @CNBCTV18News

STAGE

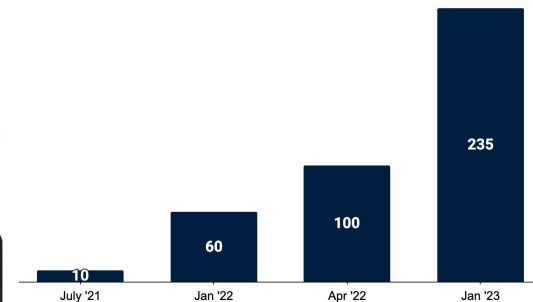
- ➔ A [#hyperlocal](#) OTT platform
- ➔ 225k+ paid subscribers across [#Haryana](#) & [#Rajasthan](#)
- ➔ Growing 30% MoM

Co-founder [@vinaykrsinghal](#) talks to [@ShrutiMishra\\_](#) about [@STAGEdotin](#)'s offerings, expansion plans & playing a bigger role in the \$15 billion highly competitive [#OTT](#) market.



6:45 PM · Jan 4, 2023 · 17.6K Views

Stage Paid Subscriber Growth ('000)

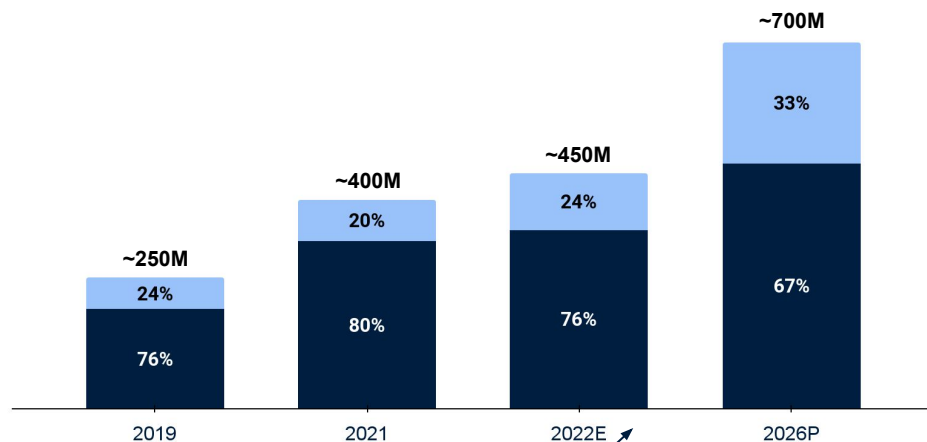


# Gaming scores even higher than media in getting its users to pay up

Virtual gifting (popular in Gaming) has emerged as the fastest-growing revenue stream for Sharechat

## Digital Gamers in India

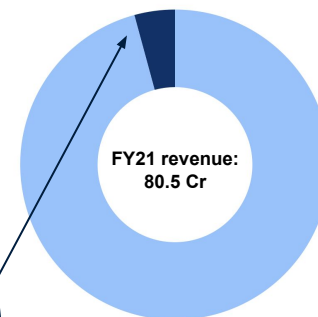
■ Paying Gamers ■ Non Paying Gamers



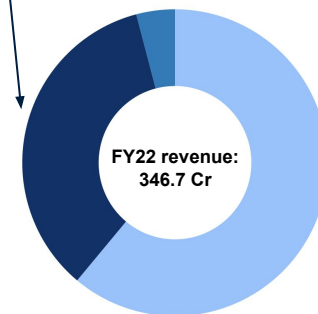
Gaming market in India added ~2Mn paying users per month in 2022 to reach ~110Mn paying users, second only to e-commerce

Chatroom gifting/ gaming is their fastest growing revenue stream (40x YoY)

## ShareChat Revenue - FY21



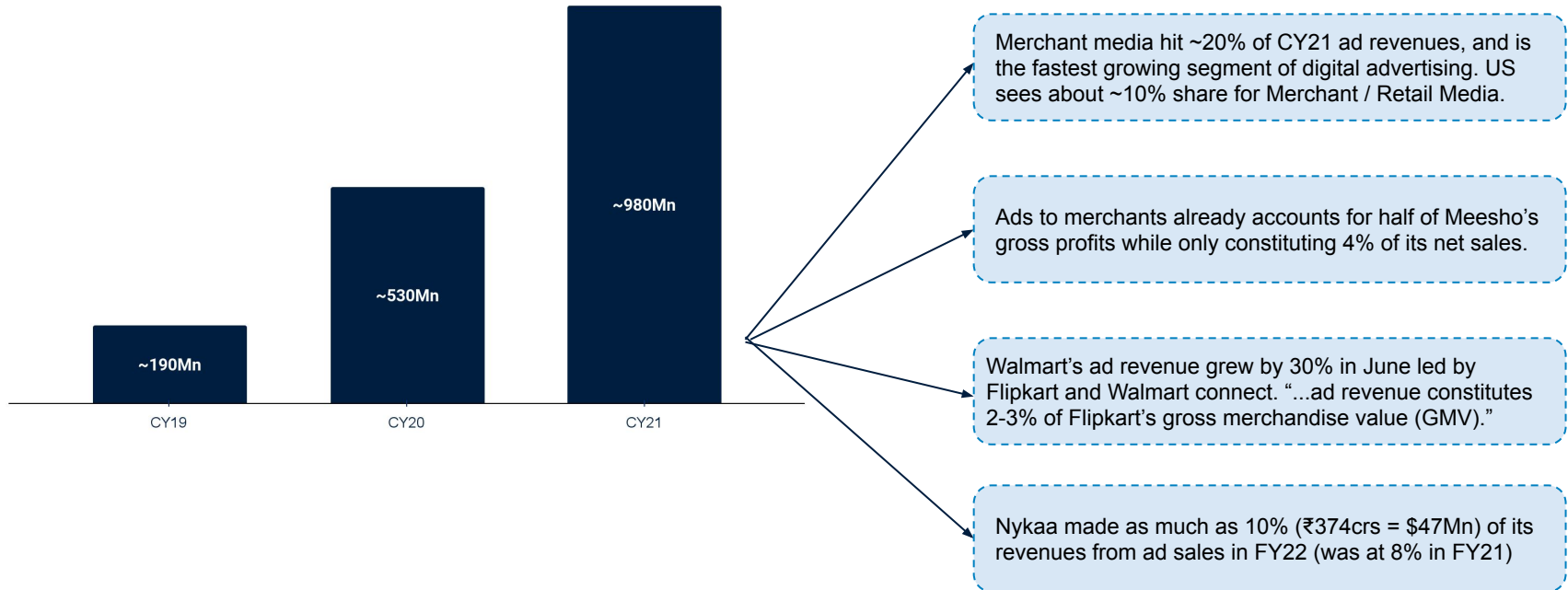
## ShareChat Revenue - FY22



# Ad income is the fastest-growing revenue stream for Ecommerce platforms

Ad income is anywhere from 1.5% to 5% of GMV of ecommerce platforms

Product eCommerce Ad revenue



# **State of Indus Valley 2022**



**Funding Macro**

**CleanTech**

**Media**

**Ecommerce**

**SaaS**

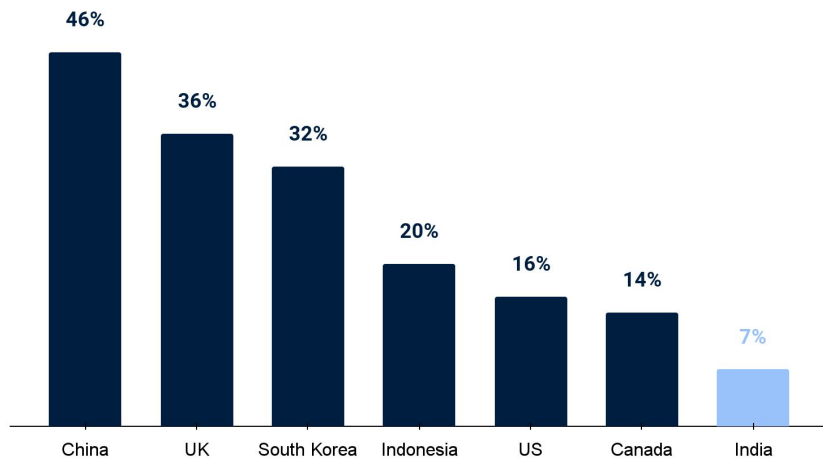
**Indus Valley Playbooks**



# Despite \$2K per capita income, India's online share of retail is ~7\*%

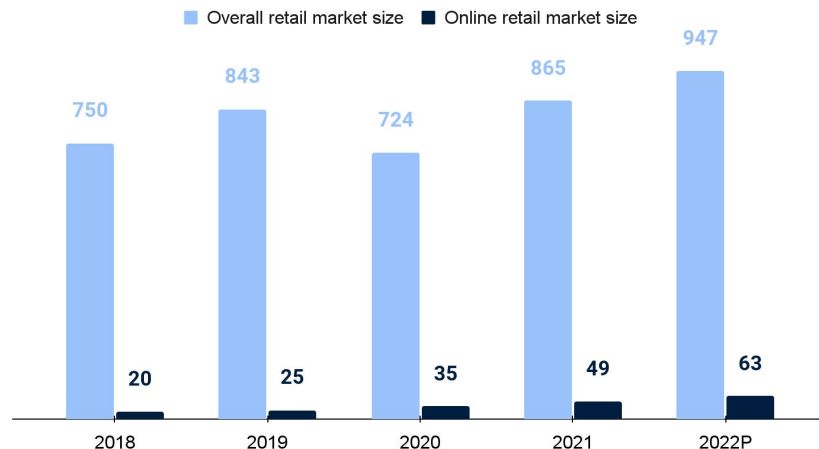
Covid effectively (more than) doubled online's share of retail from 3% to 7%

E-Commerce Market Penetration Across Countries



Globally ecommerce penetration was 14% of retail. It is likely to remain flat this year.

Overall and online retail market\* size (\$Bn)

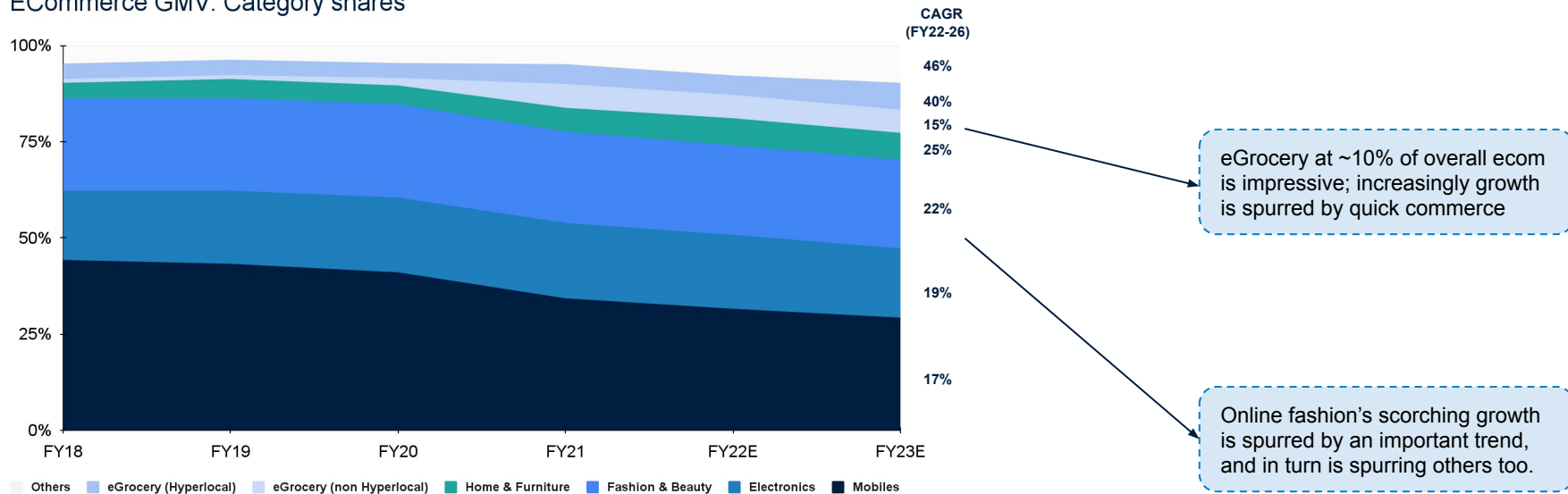


\*This is GMV. The actual final amount would be a bit lower factoring in returns and any discounts. The gap between GMV and Net Sales will be significant - up to 50% even - for apparel in particular. Less so for others. Apparel is about a sixth to fifth of the Indian etail market depending on which study you count. Source: Redseer, Jefferies;

# India's ecommerce market is broadening beyond mobile

Mobile's share is down from 50%+ in 2015/16 to ~30% now. Fashion is growing faster, though Grocery is the fastest growing

ECommerce GMV: Category shares

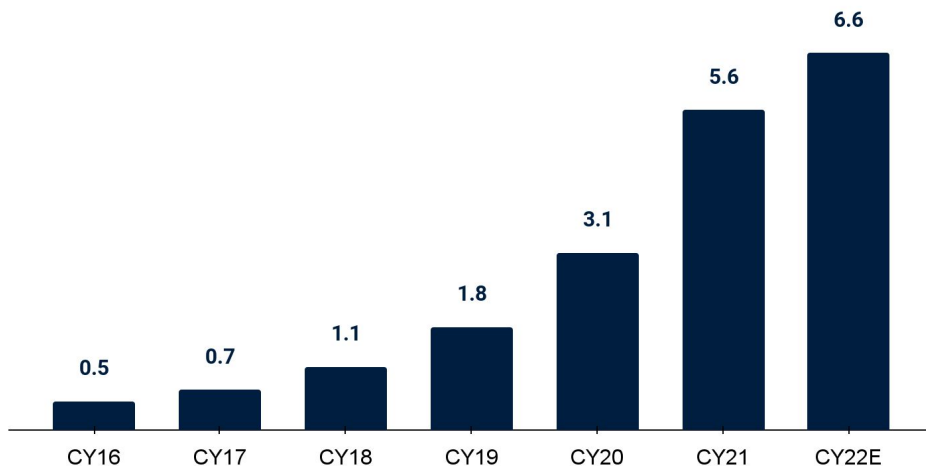


Let us unpack these two trends, rising eGrocery, and online fashion, in the next few slides.

# eGrocery has risen ~4xd post COVID, as India got used to buying online

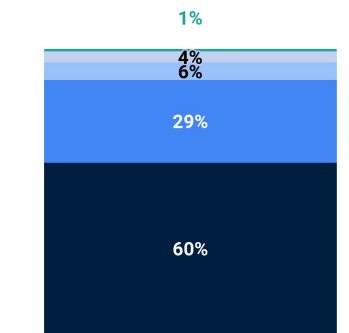
The fastest growing segment in eGrocery is Quick Commerce (delivery <20 mins)

eGrocery GMV (\$Bn)

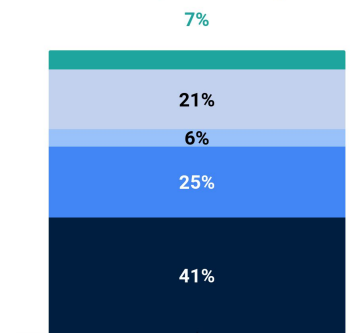


eGrocery is just over 1% of the overall grocery market.

eGrocery JFM'21 Split



eGrocery AMJ'22 Split

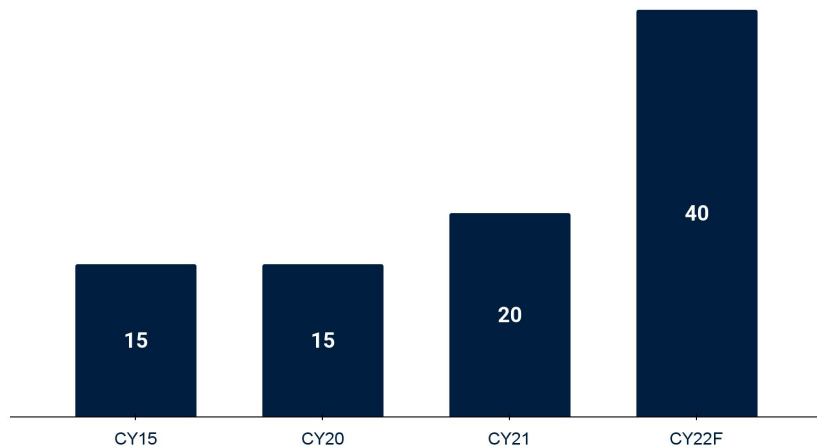


Slotted Delivery
  Horizontal
  Next Day Morning
  Quick Commerce
  Social Commerce

# Fashion is the other hot subsector; and the 2nd fastest growing!

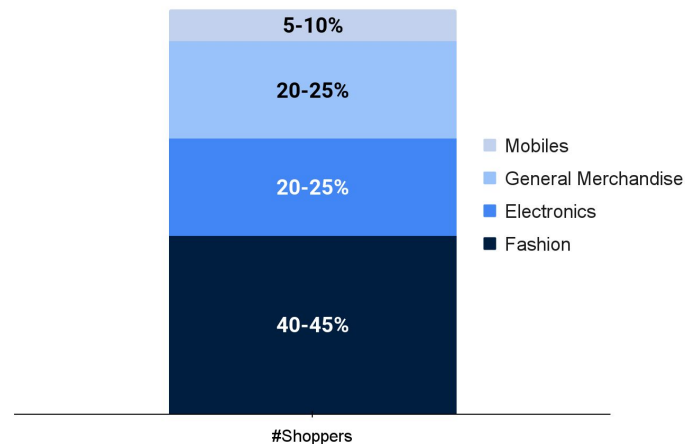
Fashion is ~23% of the ecommerce sector in India; critically it is bringing in close to half of all new users.

#Online shoppers added year year (Mn)



>60% fashion shoppers were from Tier 2+ cities

Online shoppers added by category - 2021



# Fashion's growth is driven by incoming women users and the rise of social commerce

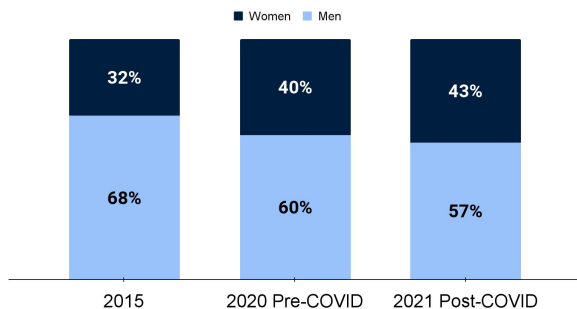
In turn Fashion's ability to offer lots of low-priced SKUs helps bring in more first time users, two fifths of whom are women

Women closer to a majority of new shoppers (in addition many men shop on women's behalf).

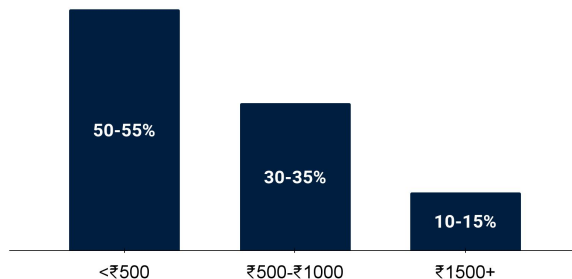
Fashion's ability to offer low price SKUs makes it more attractive to new users, given the initial risk-averse nature.

Social commerce and its distinctive model appeals to first time, largely India2 users.

New Women Online Shoppers Every Year



Entry Price Points for Initial Online Purchases



2 in 3

shoppers from tier-3/ smaller cities

~40%

shoppers are first-time e-retail shoppers

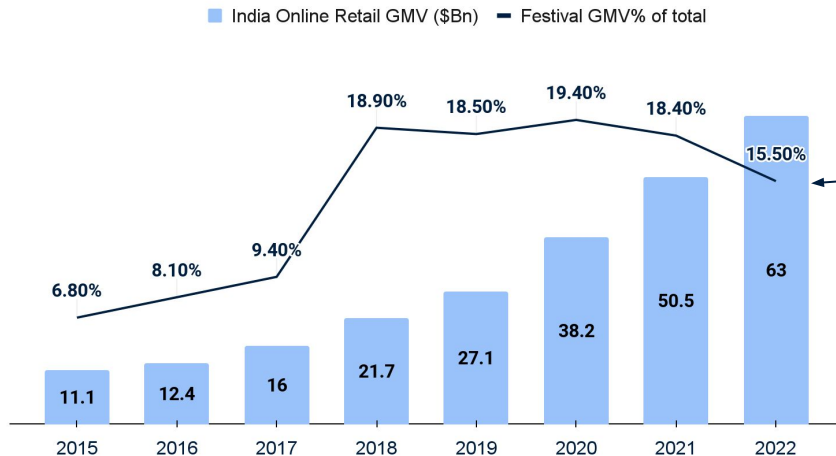
4 in 5

orders contain fashion/ home/ general merchandise items

# About a sixth of India's ecommerce GMV comes in one month

An October festival shopping month has emerged, pioneered by Flipkart, now joined by Amazon

Festival GMV Contribution



India's festival season = Black Friday (one day) sales in US

[https://www.cnn.com/2022/11/26/black-friday-online...](https://www.cnn.com/2022/11/26/black-friday-online-sales/index.html)

## Black Friday online sales top \$9 billion in new record

28-Nov-2022 — Consumers spent a record \$9.12 billion online shopping during Black Friday this year, according to Adobe.

Both the Indian and US shopping festivals are dwarfed by China's 11/11 festival (spread across two weeks now) with sales of CNY 1 Trillion (US \$140Bn)

[https://www.cnn.com/2022/11/11/business/singles-d...](https://www.cnn.com/2022/11/11/business/singles-day/index.html)

## China's Singles Day sales could top 1 trillion yuan even ... - CNN

11-Nov-2022 — China's Singles Day is the world's biggest shopping event, known for regularly smashing sales records. ... Published 7:15 AM EST, Fri November 11, 2022.

# India's biggest commerce marketplace is a Government B2B portal!

The Government eMarketplace (GeM) is likely to hit a GMV of \$24Bn in FY23 (well above Flipkart and Amazon's GMV)



**Economic Times** @EconomicTimes · 7h

Procurement of goods and services from government portal GeM is expected to cross Rs 2 lakh crore during this fiscal year on account of an increase in buying activities by different ministries and departments, a top official said on Wednesday.



ET

economictimes.indiatimes.com

Public procurement via GeM portal to cross Rs 2 lakh cr in FY23

Procurement of goods and services from government portal GeM is expected to cross Rs 2 lakh crore during this fiscal year on account of an increase in ...

The screenshot shows the GeM portal homepage. At the top, there's a search bar with the text "Looking for something on GeM?". To the right of the search bar are links for "Forward Auction", "Bids", "Sign Up", and "Login". Below the search bar, there are several promotional banners for various collections like "The Saras Collection", "Discover Pristine Khadi and Khadi Products on GeM", and "DIWYANG JAN COLLECTION". In the center, there's a section titled "Popular Product Categories" with six categories: "OXYGEN GAS & ACCESSORIES", "MEDICAL", "SARAS COLLECTION", "FURNITURE", "FIRE SAFETY", and "COMPUTERS". Each category has a list of products and a "View All" link.

**Popular Product Categories**

- OXYGEN GAS & ACCESSORIES**
  - Oxygen Concentrator
  - Oxygen Flow Meter
  - Compressed oxygen IS:309
  - O2 Gas Cylinders - Steel
  - HF Nasal O2 Therapy Unit
  - [View All](#)
- MEDICAL**
  - Hand Sanitizer
  - Air Pollution Mask
  - Surgical Gloves
  - Covid-19 Kit for...
  - [View All](#)
- SARAS COLLECTION**
  - Handicrafts
  - Handloom Texti...
  - Personal Care...
  - Accessories
  - [View All](#)
- FURNITURE**
  - Office Chair
  - Computer Desk
  - Lounge Chair
  - Storage Rack
- FIRE SAFETY**
  - Fire Extinguishers
  - Sprinklers Smoke
  - Detectors Fire
  - Alarms
- COMPUTERS**
  - Desktop PC
  - Monitor
  - PC Software
  - Printers & MFDs

# Indian CPG companies are ramping up their digital presence

Traditional players are beginning to develop serious digital muscle; presently do 5-10% of their sales via digital channels



Hindustan Unilever Limited

**Digital sales: 20%**

*"The entire process of getting insights into the consumers' mind is taken from our intelligent ecosystem. This also helps in our decision-making, be it our pricing strategy across SKUs, whether to invest in distribution channels, or promotion and in which media. Digital transformation will be a key factor in building the HUL of tomorrow."*

- Nitin Paranjape,  
Chief People & Transformation Officer, HUL

**TATA  
CONSUMER  
PRODUCTS**

**Digital sales: 9%**

*"We are witnessing positive responses across the platforms. It is helping us gain direct consumer feedback for new launches before we decide to scale them to other channels. So our D2C platforms are a goldmine of data and insights. We will continue to do experiments in this space. We want Tata NutriKorner to be a key D2C platform where all of our products are available."*

- TV Swaminathan,  
Global CDO, TCPL



**Digital sales: 9%**

*"We expect to report Rs 100 crore from digital brands on an annualised basis at the end of FY23 from all online channels. We are rolling out a series of digital-first new products this year. Our strategy is to use e-commerce as the launch platform for many new-age formats, build up scale here and then roll them out in other channels. We are also launching Dabur Shop, which is currently in its beta testing phase."*

- Ankush Jain,  
CFO, Dabur India



**Digital sales: 71%**

*"We are focused on building our presence in ecommerce, including expansion of our own direct-to-consumer estore. We are collaborating with the leading e-commerce platforms on all aspects of operations i.e. category development, marketing, supply chain and customer acquisition."*

- Sanjiv Puri,  
MD, ITC



marico

**Digital sales: 9%**

*"The company is on a digital transformation journey and going ahead it aims to build a portfolio of at least three digital brands, either organically or inorganically, with a combined turnover of INR 450-500 crore by FY24."*

- Saugata Gupta,  
MD & CEO, Marico



**Digital sales: 5%**

*"We are strengthening our e-commerce businesses. We are doing this because we do not see e-commerce as a channel in the future, but a separate business with a comprehensive approach to the entire consumer journey."*

- Sunil Kataria,  
CEO, India & SAARC, GCPL

"~5% of FMCG Sales are direct to consumers" as per the CEO of a large listed CPG play. The rest per him is distributor sales aggregated via digital platforms.

# **State of Indus Valley 2022**

**Funding Macro**

**CleanTech**

**Media**

**Ecommerce**

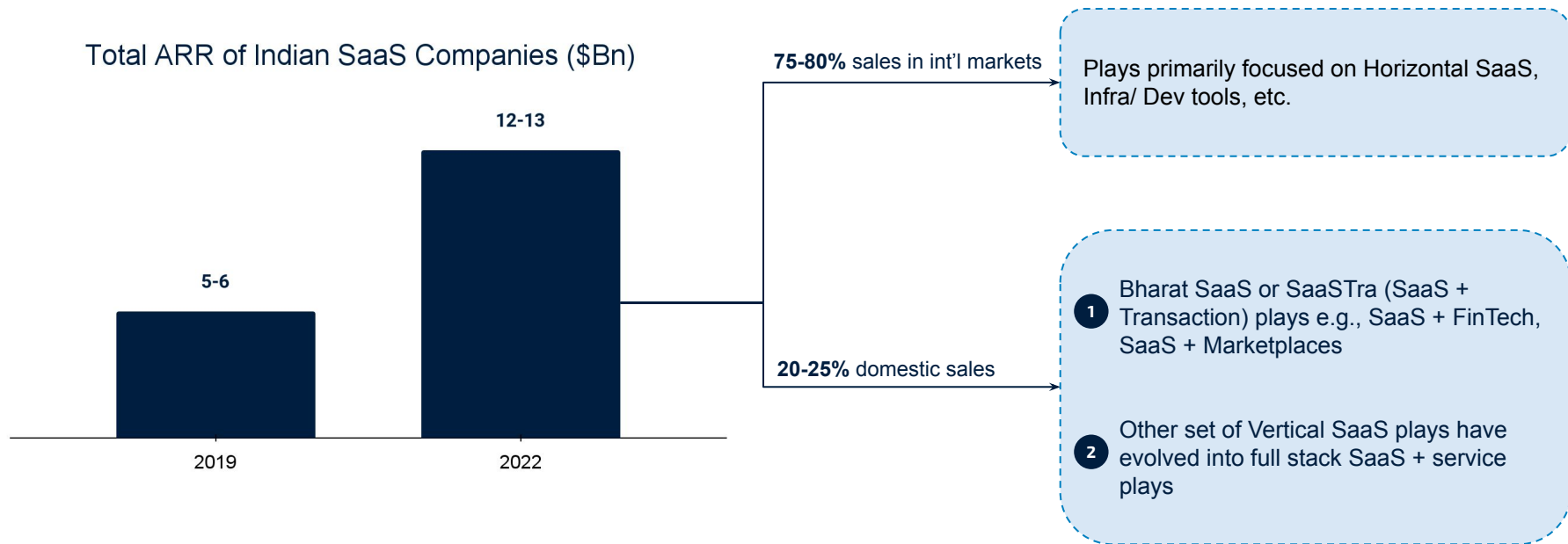
**SaaS**

**Indus Valley Playbooks**



# Two distinct SaaS playbooks exist in India

Playbooks are designed for where the customers are based, abroad or India.



# Build in India for the Globe (BIG) Playbook

Leveraging remote inside sales teams via an inbound marketing motion was a distinctive playbook Indus Valley pioneered



Zoho and Freshworks, joined by Chargebee and Kissflow (all Chennai firms!) - each built strong SaaS businesses leveraging a content-led inbound marketing/ inside sales model served from Chennai, which, thanks to lower people cost, delivered superior unit economics. Today, while we are seeing this playbook evolve and adapt to enterprise with in-person meetings, its origins were SMB-oriented and pioneered by these four.

***"I haven't met any of the customers face-to-face, not even those in India. Not even customers with whom we have US\$400,000 contracts. Every aspect of marketing and sales happened over the web – meetings, emails, collaborations, contract editing, digital signatures."***

- Suresh Sambandham,  
Kissflow

***"We were focused on SMB. We knew that since we were sitting in Chennai, doing sales over the phone and web, our ability to close really large deals in 2011 or 2012 was less. We might get a bigger deal by luck, but most of the time we were closing a lot of small deals. The decision to keep the focus on SMB and to keep building the product was important."***

- Girish Mathrubhootam,  
Freshworks

# Vertical SaaS, or Bharat SaaS innovates to overcome smaller TAM

Beyond SaaStra models, we have startups like Zetwerk, Shiprocket use SaaS as a springboard to move into transactions, or even to move beyond SaaS into pure marketplaces / transaction-led businesses.

## SaaS + Marketplace (or SaaS + Fintech) to monetize Bharat SaaS



Sajith Pai  
@sajithpai

SaaStra - SaaS + Transaction as a model for domestic SaaS plays.  
24/25

### 3.6 SaaStra

It is worth noting that none of the SaaS unicorns in India have come from serving the domestic market – from Zoho to Freshdesk to Druva to Postman to Zenoti, all of them are global plays. Much of their revenue comes from serving global customers. Is a Bharat SaaS play possible – one where all of your customers are based in India? Well, yes, but the playbook that is emerging for domestic SaaS plays is as a SaaS + Marketplace model, one where you use SaaS software as a hook to fashion a marketplace, and then facilitate transactions and take a cut of it, or sell fintech / loan products. I like to call this model as SaaStra – a portmanteau of SaaS + Transactions. It is this thesis that Indian SaaS would grow as SaaStra and not a pure SaaS like in the West, that inspired our bet on Classplus and Procol.

3:50 PM · Jan 7, 2021 · Twitter Web App



SaaS for Teachers / Creators to offer classes online; Marketplace to help creators and educators sell content to students.

## Bharat SaaS pivot to transaction-led businesses / marketplaces

*“I think another key insight that Zetwerk had in the early days was that they are the best users of their software themselves. That a customer wouldn’t be able to get the most out of it because of the organizational mindset, the systems and the processes, and the motivation to use it well, is something that they have much more in-house than they can imbibe on a customer. And with that, the real business benefits of being able to make something faster, better, cheaper with more predictability is something that they can give to all their customers in a transaction-oriented way.”*

- Shailesh Lakhani,  
Sequoia



Full stack CX, procurement, and contract manufacturing (running a managed marketplace) - right from designing to fulfillment.

# State of Indus Valley 2022

**Funding Macro**

**CleanTech**

**Media**

**Ecommerce**

**SaaS**

**Indus Valley Playbooks**



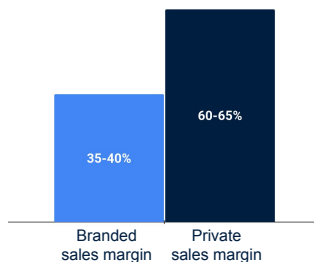
# All consumer marketplaces expand to offer private label brands

Margin expansion drives every marketplace to shift their product mix to private labels

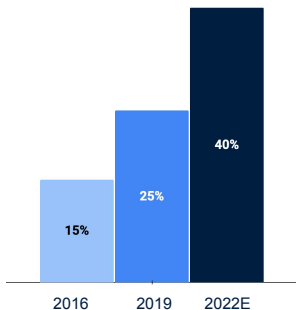


Apparel

Branded sales margin vs private label sales margin

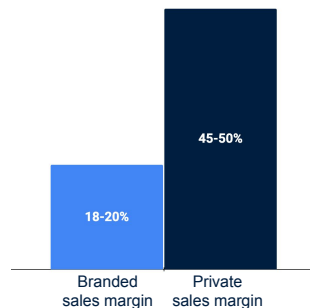


Share of online private label in overall sales mix

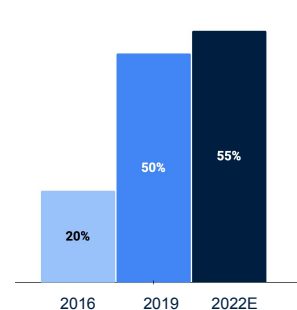


Furniture

Branded sales margin vs private label sales margin

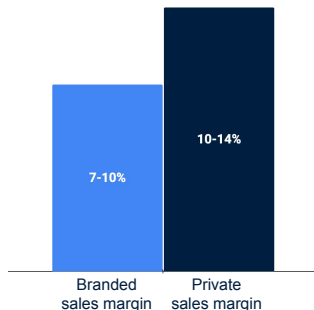


Share of online private label in overall sales mix

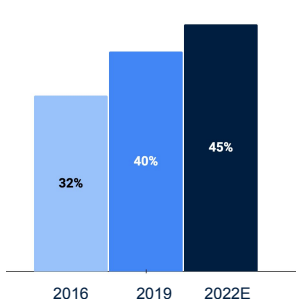


Grocery

Branded sales margin vs private label sales margin

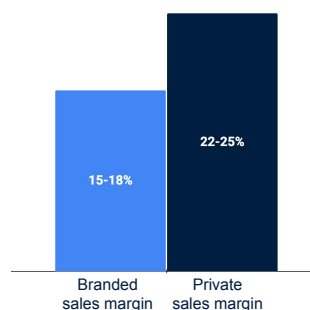


Share of online private label in overall sales mix

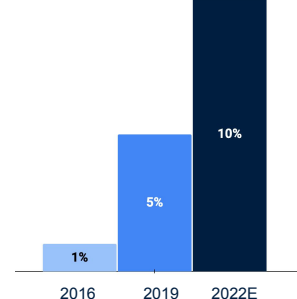


Wellness

Branded sales margin vs private label sales margin



Share of online private label in overall sales mix



# Even B2B eCommerce platforms are building private labels

Examples of how four different B2B eCommerce categories have expanded their private label play

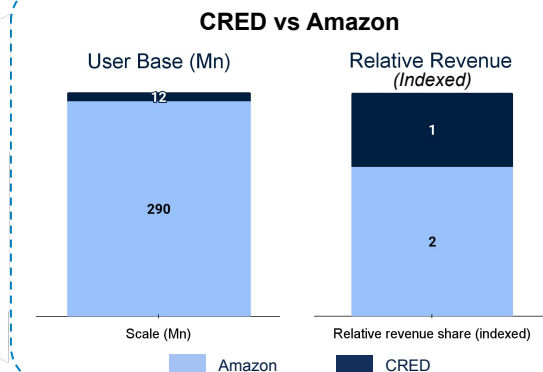
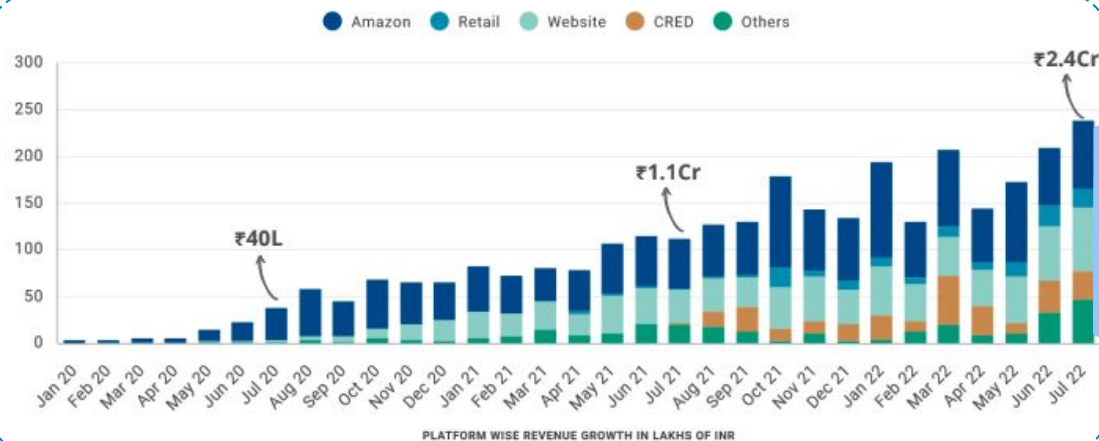
					
Category	Building Materials	CPG & FMCG	CPG & FMCG	Horizontal	Agri Produce
Private label/ categories					
% of revenue	50%-60%	N/A	10%-15%	N/A	20%-30%

# India1A ecommerce playbook: curation as commerce

CRED's store has scaled 10x times over the last 2 years, helping drive discovery for new-age D2C brands.

This is a slide extracted from a Digital Native brand pitch deck we received, describing their source of revenue.

CRED Store is an in-app, curated selection of brands and products. CRED members can shop using a combination of their CRED coins (which they receive for transacting on the app) and cash at member exclusive prices.



CRED is <5% of Amazon's user base but the share of revenue here seems to be about a third of Amazon. Per sources, for some of its partner brands CRED helps generate sales of as much as 50% of Amazon. CRED is emerging as an interesting sideways disruptor in e-commerce leveraging its base of creditworthy members.

# India2 sees commerce solutions focused around language, voice

India1 clicked on coloured rectangles on flat glass screens to shop; India2 needs a different UI

Innovations in voice and vernacular e-commerce are catering to India2 users who have low digital literacy. Many of them are not comfortable with English (~70% internet users in India prefer non-English). They need a different kind of UI, and also need added confidence for each step of the e-commerce journey (including search).

**Voice:** Continued surge in users opting for voice-based search, especially in tier-3/ smaller cities

**5X**

Y-o-Y growth in voice search users

**2 in 3**

users of voice search are from Tier 3 / smaller cities

**40%**

of voice search users searched for fashion

**Vernacular:** Fast growth among new shoppers in small cities

**3X**

Y-o-Y growth in voice search users

**70%**

of vernacular orders belong to Tier3 / smaller cities

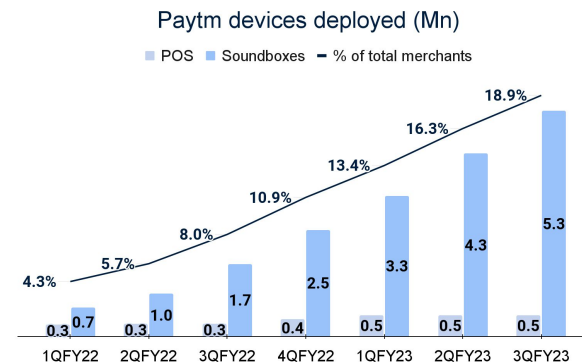
**1 in 2**

vernacular users are new online shoppers

# How to make money on UPI when the take rate is 0

Paytm innovated smartly to reduce merchant friction, enhance merchant convenience and used that to drive monetisation

As UPI payments grew, and customers and merchants reported friction around payment reconciliation (sms inbox fill limits of merchants' phones were a big issue), Paytm looked for solutions to enable real time updation without sms dependency.



**₹4K (\$50) one time**

Launched '18, now discontinued

**₹125 (\$1.5) per month**






Launched '19, has sold 5.3Mn devices

Paytm is consistently selling 1Mn soundboxes every quarter; accounting for ~8% of its overall revenues (₹50crs / \$6.5Mn monthly)

In addition, Paytm and other UPI payment enablers get a subsidy from the government. The total subsidy for FY23 was ₹2,600Cr (\$325Mn); Paytm gets around a fifth of this.

# 5 Distinct India-Unique Models

These are India-unique business models that arise from India's context and constraints

Company	Why are they interesting?	Underlying factors	Potential second order effects
 <b>MyGate</b>	Aggregating an urban cross section of India1 and organizing services	India1 cocooning themselves into large gated complexes (New Cantonments)	P2P Commerce (coordinating mechanisms) and P2P services
 <b>ZETWERK</b>	Aggregating MSME manufacturers to create a common front end	Broken, fragmented, sub-sized, and underutilized supply	Vertical Zetwerks emerging; Financing/ Procurement solutions
 <b>Urban Company</b>	Organizing the unorganized services/ formalization of the Indian economy	Massively irregular quality standards of services in India and low wages of India2	"UC for X" startups
 <b>CRED</b>	Aggregating India's most creditworthy & affluent credit card users to disrupt financial services and new forms of e-commerce.	Low trust nation. Power law amongst Indian consumers.	Cred scores as APIs for P2P lending and other P2P businesses
 <b>Classplus</b>	Creating a distinct model of monetization for SMB SaaS	Low willingness of Indian SMBs to play	"Classplus for X" startups/ SaaS Tra for other verticals

# Appendix



## Acknowledgements

As with all reports, this too rests on the labour of several analysts, researchers and writers who have preceded us. We stand on the shoulders of giants. We have acknowledged the sources and their contributions on each of the pages; a shout out to Redseer, Bain, Bernstein, Morgan Stanley and Credit Suisse in particular for their regular reports enabling greater access to data and enhancing understanding of the Indian startup ecosystem. Thank you to our friends at CRED, Razorpay, Dunzo, eSamudaay and Haqdarshak for their openness in explaining the world from their perspective, and sharing insights that inform this report.

Lastly, we would also like to thank Sakshi Sachan, Shashank Prakash and the wider Blume team for their inputs.

- Sajith and Amal

## About Blume Ventures

Blume Ventures is an early stage venture firm based across Mumbai, Bangalore, Delhi and San Francisco, that provides 'conviction capital' to founders across India consumer internet as well as software & enterprise technology.

We add value through a platform approach – over 60 specialists across shared CFO services, legal advisory, talent acquisition, capital raising, GTM enablement, operations support – who focus entirely on supporting portfolio companies and helping founders learn, thereby greatly improving their chances of success. Our value-added approach has helped us retain board representation in the vast majority of our top companies; the enterprise value of our top 30 companies is collectively valued at \$15.01B presently (all invested at seed stage).

You can read more about us at [blume.vc](https://blume.vc)