

Investor Sentiments and Emergence of Tier II City Pune as Startup Destination

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Abstract

Pune has 3200 startups and has produced few Unicorns. The growth of startups in any given region is an outcome of business growth of the startups and the investments that the startups attract from various sources of funding. Six startups have a valuation for more than USD 1 Billion and have joined the unicorn club with investments coming from Indian and overseas investors. 21 sectors have emerged as prominent ones where the startups have received funding at various stages namely, Angel funding, seed, pre-seed, venture funding, series A,B,C,D while unicorns have gone to series F. Large number of deals were seen in the third and fourth quarter of the year making Pune as the preferred destination of startups and investors.

Keywords : Angel fund, seed fund, startups, venture funding

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Startups have seen a great deal of upliftment both by way of performance and also by way of interest from the investment community. India's performance in producing almost 42 unicorns in last one year which is almost equal to the number of Unicorns in last decade reflects the speed at which the startup culture is shaping up in India. Now India stands 3rd in the world's unicorn list after US and China with 487 and 301 unicorns respectively. Startups have raised \$ 24.1 Billion funding which is 3X from last year and it is important to note that 48% of tech startups are creating solutions for India. In terms of share, BSFI accounts for 13 startups and 25% of investment in 2021. The startup eco system witnessed 750+ active investors in year 2021 (\$100 million and above) (Nasscom Tech Startup report 2021) . Figure 1 shows startups and investors in India.

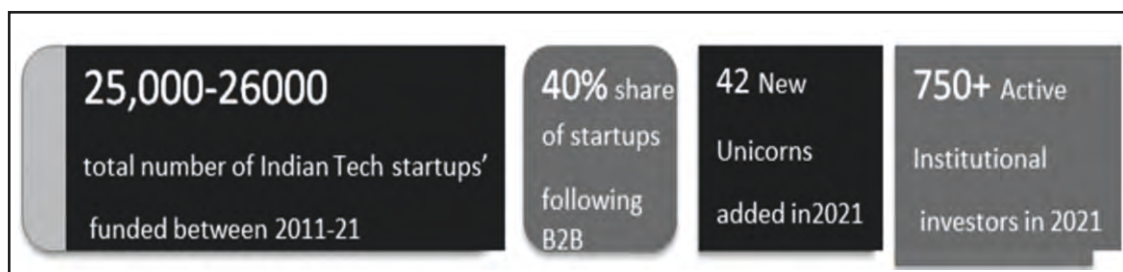


Figure 1. Startups and Investors in India

Source: NASSCOM. (n.d.)

Startup funding that was confined to three big cities namely, Bengaluru, Mumbai and Delhi/NCR has spread to eight big cities that include Hyderabad, Chennai, Pune, Jaipur, and Ahmedabad. The city of Pune has its own share of

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Unicorns namely, Firstcry, Druva, Icertis, and Mindtickles to name a few. It is evident that India needs more than three cities to handle growth, income generation, employment generation, and urbanization. Newly added Tier II cities offer a huge potential for growth and opportunity that is untapped (Agarwal, Bhuva, & Nagaraju, 2021).

The year of pandemic saw the sentiments of the investors high, especially in the second half of the year. It is interesting to study how emerging cities are able to gain interest for seed and pre-series A / Series A round. The focus of this paper is to understand how Pune is emerging as a startup destination with sustained interest of investors.

Review of Literature

'Bootstrap Finance' for startup and its significance has been emphasized by Bhidé (1992). It is the first step taken by startups in the formative stage of the enterprise for financing the enterprise. Startups in the initial stage are bootstrapped meaning financed by family, friends, and those known to them. The next step in funding is Business Angels (Mason & Harrison, 2008; Sherman, 2005). Investors interested in the initial stage of the startup termed as Business Angels are those who are interested in the initial stages of a startup (Mason & Harrison, 2000; Sherman, 2005). Business angels are investors who invest in an enterprise in the initial stages when the startup is developing (Wetzel, 1983). In another definition by Manson and Harrison (2008), Business Angel is somebody who is willing to invest in an unlisted company with no family connections and take active part as adviser or actively manage the enterprise as member of supervisory board.

For many high tech companies the founders of the enterprise are financiers themselves (Bruno & Tyebjee, 1985; Freear & Wetzel, 1990; Moore, 1994), while the venture capitalists (VCs) and at times Business Angels take a second place (Freear & Wetzel, 1990; Wetzel, 1994). Funding from traditional sources like debt funding has taken a back seat, especially in the startup enterprise funding. In many instances, Business angels and venture capitalists complement each other with the increased and enhanced confidence in funding an enterprise interchangeably (Freear & Wetzel, 1990). A Venture Capital company invests at a slightly later stage and with larger amounts than the previous financiers in smaller number of companies (Dunkelberg & Cooper, 1983). Venture backed enterprises have a better sales traction and growth trajectory and thus, a positive impact in evolution of companies (Bruno & Tyebjee, 1985).

India's ecosystem is developing gradually and business angels are slow and cautious. Seed funds, Series A / Pre Series A are the real indicators of investment patterns in startups. As the sector becomes prominent with initial investment and business performance increases, the continued interest of further investors. The funnel is broad initially with small amounts in many sectors than pan out to fewer as the funding amount increases and this is the scope of this paper.

The growth of the startup investment market evolves over stages of investors. The current study focuses on investment patterns in Pune that is seen as the emerging city.

Objective

The study aims to determine the number of deals in Pune in the year 2021 and establish a relationship with the impact of critical factors on investment deals.

It would also study the patterns of deals across sectors and emergence of futuristic investment focus areas.

Methodology

The study was exploratory. Data for the study were collected from sources namely, Crunchbase, ENTRACKR, reporting in the Economic Times, Hindustan Times, other information available on internet etc. and were analyzed using statistical tools.

Table 1. Startups from Pune in Unicorn Category

SN	Name of the startup	Area	Funding -2021
1.	Mindtickler– Valuation \$1.2 billion	Sales readiness technology that companies can customise with their own content and data.	Series \$100
2.	Digit Insurance – Valuation-\$ 3.5 billion	Online insurance industry(which is gaining from the transition to a digitised economy)	\$200 million
3.	Icertis – Valuation \$ 2.8 billion	CLM emerging as the fastest growing Software as a Service (SaaS) category	\$80 million
4.	Druva– Valuation \$ 2.0 Billion	Cloud data protection and management	\$147 million
5.	Firstcry Valuation– \$ 2.10 Billion	Kid products easy with a range of products that include feeding, bathing, diapering, and toys for baby	\$315 million
6.	Rebel foods– Valuation \$ 1.4 Billion	Food tech-Cloud kitchen	\$175 million

Working Definition

Unicorn : A startup that reaches a valuation of \$1 billion.

Discussions and Results

The city of Pune emerged as a prominent destination for various rounds of funding and a total of 53 companies received funding in 2021.

Overview of Venture Capital Funding Pune - 2021

Pune city has seen the emergence of few Unicorns with Mindtickler, Digit Insurance, Icertis, Druva, Firstcry, and Rebel foods based in Pune crossing USD 1 billion. Table 1 shows startups from Pune in unicorn category.

These have joined the category of Unicorns and continue to attract investors in the city and support the list of Indian Unicorns. All of them are technology driven startups in different sectors like SAAS, Foodtech, Cloud, Fintech, and Salestech.

Breakup of Funding to Startups

Pune witnessed an investment of \$ 560.71 from other startups (not in the Unicorn category) and the prominent sectors that received the maximum funding were Fintech, Financial services – 52.49% of the deal amount. Table 2 shows total deals other than Unicorns - sectorwise investments in 2021.

It is interesting to note that the highest number of deals were witnessed in Fintech, Financial services (13) with highest investment of USD 100 million and lowest of USD 0.5 million.

A closer look at the number of deals and the amount invested suggests that Fintech and financial services had the highest numbers, and by and large the sectors are dominated by technologies like Deep tech, HR tech, Service tech, Agritech, AI, and Biotech SaaS. This clearly suggests that Pune is the hub for technology based startups and is attracting investors to the city. Table 3 shows sectorwise deals and highest, lowest, and average deals size sectorwise.

Table 2. Total Deals Other than Unicorns - Sectorwise Investments in 2021

Sector	Sum of Amount (USD)
AgriTech	\$ 78.00
AI	\$ 0.45
BioTech	\$ 1.40
Cultural	\$ 0.34
D2C	\$ 15.00
DeepTech	\$ 1.20
EdTech	\$ 5.37
EV	\$ 2.00
FinTech, Financial Services	\$ 294.33
Food & Beverage	\$ 8.33
Gaming	\$ 7.50
Health	\$ 32.92
HRTech	\$ 0.50
Logistics	\$ 75.76
Lot	\$ 0.10
Media and Entertainment	\$ 0.00
Renewable Energy	\$ 4.50
Robotics	\$ 20.66
SaaS	\$ 12.15
ServiceTech	\$ 0.20
Grand Total	\$560.71

Table 3. Sectorwise Deals and Highest, Lowest, and Average Deals Size Sectorwise

Sector	Sum (USD Million)	Number of deals	Average	Highest	Lowest
AgriTech	\$ 78.00	4	\$ 19.50	\$ 70.00	\$ 1.50
AI	\$ 0.45	3	\$ 0.15	\$ 0.30	\$ 0.15
BioTech	\$ 1.40	2	\$ 0.70	\$ 1.40	\$ 1.40
Cultural	\$ 0.34	1	\$ 0.34	\$ 0.34	\$ 0.34
D2C	\$ 15.00	2	\$ 7.50	\$ 13.00	\$ 2.00
DeepTech	\$ 1.20	2	\$ 0.60	\$ 1.20	\$ 1.20
EdTech	\$ 5.37	7	\$ 0.77	\$ 2.00	\$ 0.20
EV	\$ 2.00	2	\$ 1.00	\$ 2.00	\$ 2.00
FinTech, Financial Services	\$ 294.33	13	\$ 22.64	\$ 100.00	\$ 0.50
Food & Beverages	\$ 8.33	4	\$ 2.08	\$ 4.67	\$ 1.33
Gaming	\$ 7.50	2	\$ 3.75	\$ 5.50	\$ 2.00
Health	\$ 32.92	8	\$ 4.11	\$ 12.00	\$ 0.10
HRTech	\$ 0.50	1	\$ 0.50	\$ 0.50	\$ 0.50
Logistics	\$ 75.76	2	\$ 37.88	\$ 75.00	\$ 0.76
Lot	\$ 0.10	1	\$ 0.10	\$ 0.10	\$ 0.10
Media and Entertainment	\$ 0.00	0	\$ 0.00	\$ 0.00	\$ 0.00

Renewable Energy	\$ 4.50	1	\$ 4.50	\$ 4.50	\$ 4.50
Robotics	\$ 20.66	2	\$ 10.33	\$ 20.00	\$ 0.66
SaaS	\$ 12.15	4	\$ 3.04	\$ 5.40	\$ 0.25
ServiceTech	\$ 0.20	1	\$ 0.20	\$ 0.20	\$ 0.20
Grand Total	\$ 560.71	62	\$ 119.69	\$ 318.11	\$ 19.69

Table 4. Deals in B/C/D Funds

SN	Funding type	Amount (Million USD)
1	Series D	70
2	Series B	24
3	Series B	10
4	Series C	75
5	Series D	75
6	Series B	20
7	Series D	13
8	Series B	34
9	Series C	30
		351

The present study data suggests that the highest amount was raised in series B/ C/ D Funding amounting to USD 351 million and a total of 9 deals of the total deals by other startups of USD 560.71 million, making 62.67% of the amount from 16.98% of the startups in the city through this source (Table 4).

Figure 2 shows the number of deals vs amount invested in startups. As startups emerge and start showing business traction, the deal amount has increased in the city. It is important to study amounts in each sectors. For USD 75 Million and above, the three sectors that clearly have an edge are Fintech and Financial services followed by Agritech and Logistics in 2021. These sectors are likely to see traction enhancing next year as well. Table 5 shows sector-wise highest deal amount above USD 75 million.

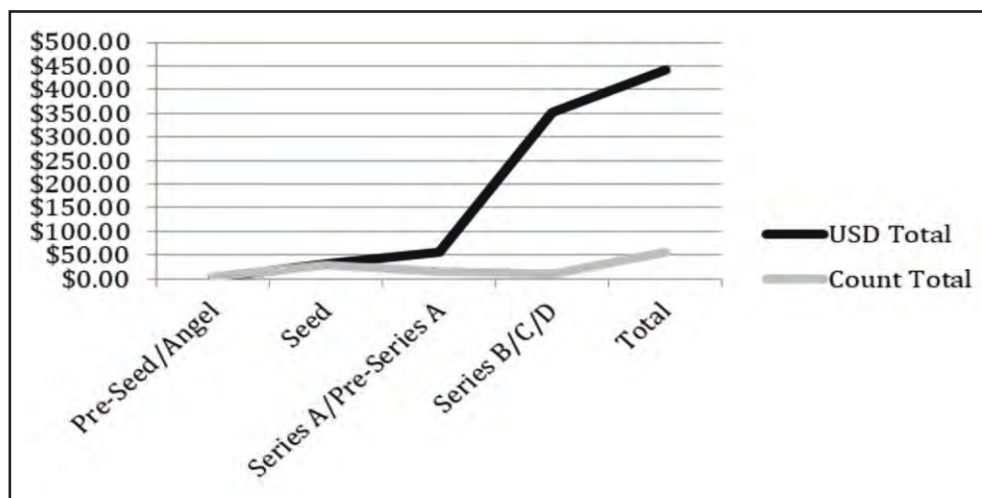


Figure 2. Number of Deals vs Amount Invested in Startups

Figure 3 shows sectorwise deal amount between USD 50 Million and USD 10 million. Figure 4 shows deals between USD 50 million and USD 10 million. Table 6 shows sector wise highest and lowest deals amount. The deal amounts between USD 50 million and USD 10 million showcases health sector as the emerging sector in the category. It remains to be seen how these companies show sales traction in year 2022 to sustain interests of the investors.

Table 5. Sector-wise Highest Deal Amount Above USD 75 Million

Sector	Total Deals Amount (USD)	Highest	Lowest
FinTech, Financial Services	294.33	100.00	0.50
AgriTech	78.00	70.00	1.50
Logistics	75.76	75.00	0.76

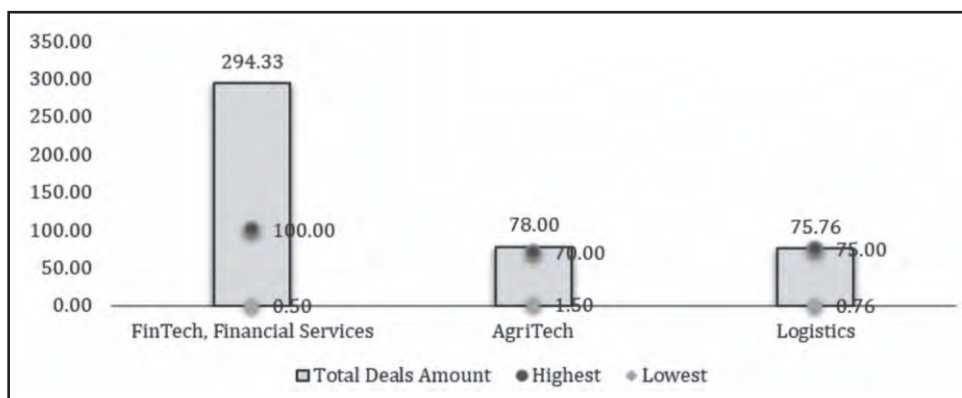


Figure 3. Sectorwise Deal Amount Between USD 50 Million and USD 10 million

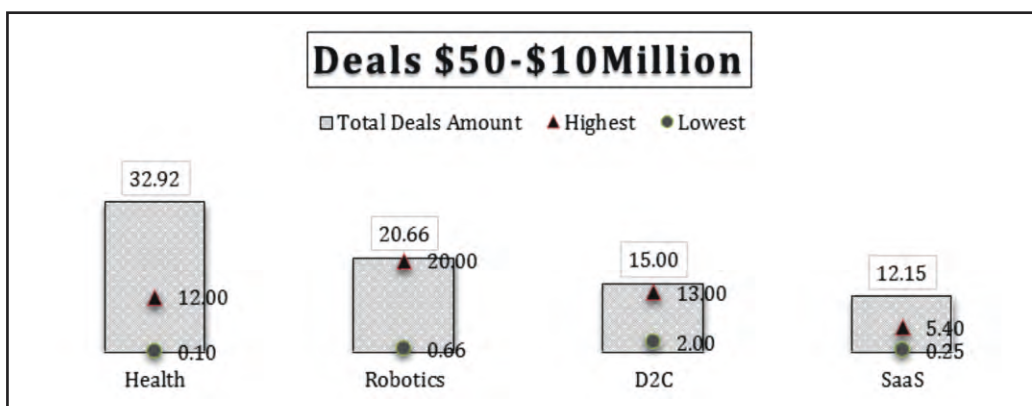


Figure 4. Deals Between USD 50 Million and USD 10 Million

Table 6. Sector Wise Highest and Lowest Deals Amount

Sector	Total Deals Amount	Highest	Lowest
Health	32.92	12.00	0.10
Robotics	20.66	20.00	0.66
D2C	15.00	13.00	2.00
SaaS	12.15	5.40	0.25

Table 7. Sectorwise Deal Amount Between USD 10 Million and USD 0.10 Million

Sector	Total Deals Amount	Highest	Lowest
Food & Beverages	8.33	4.67	1.33
Gaming	7.50	5.50	2.00
EdTech	5.37	2.00	0.20
Renewable Energy	4.50	4.50	4.50
EV	2.00	2.00	2.00
BioTech	1.40	1.40	1.40
DeepTech	1.20	1.20	1.20
HRTech	0.50	0.50	0.50
AI	0.45	0.30	0.15
Cultural	0.34	0.34	0.34
ServiceTech	0.20	0.20	0.20
Lot	0.10	0.10	0.10
Media and Entertainment	0.00	0.00	0.00

**0 deal amount is the undisclosed deal in the public domain*

13 sectors emerged at the bottom end; this makes the funnel of investment really large for amounts between USD 0.10 million to USD 10 million. Table 7 shows sectorwise deal amount between USD 10 Million and USD 0.10 Million.

It may be important to note that Pune is seen as the IT and manufacturing /automobile hub and is likely to emerge as the destination for startups in these sectors. The number of deals at the bottom of the pyramid is large providing opportunities to these and other players to enter the segment to keep the interest of the investors sustained.

Sectorwise Deals in Pune

A closer look at the beneficiary companies shows that about 45 of them received amount upto USD 10 million. The deals in Pune saw an interest from investors in agritech followed by e-commerce. Increasing number of sectors depicts the growing funnel.

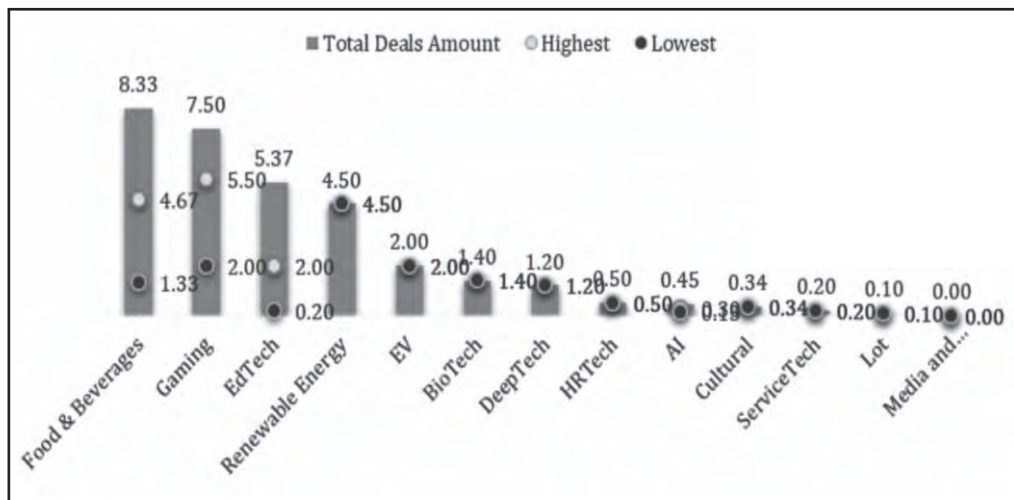


Figure 5. Sectorwise Deals Between USD 0.1 Million and USD 10 Million

Table 8 shows company-wise deals. Analysis of deals per quarter reveals that third and fourth quarter had the maximum number of deals - 41 deals out of a total of 63 deals. One reason for the increased number of deals in the third and fourth quarter was increase in vaccination and opening up of industries after the second wave of the COVID-19 pandemic. The fourth quarter saw an increased amount of USD 326 million which shows the positive sentiments of investors towards startup funding (Table 9). Figure 6 shows quarterwise deals.

Table 8. Company-wise Deals

Funding USD 0.1 – 0.5			
Name	Amount (USD)	Stages	Categories
PingoLearn	0.27	Pre Seed	EdTech
Indic Inspirations	0.34	Angel	Cultural
Superpro.ai	0.30	Seed	AI
Upswing Cognitive Hospitality	0.15	Seed	AI
ThingUp	0.10	Seed	Lot
Spardha	0.40	Pre-Series A	EdTech
Inspacco	0.20	Angel	ServiceTech
Risebird	0.50	Seed	HRTech
Gyde	0.25	Seed	SaaS
EventBeep	0.20	Seed	EdTech
iCardian	0.10	Seed	Health
EarWealth	0.50	Pre-Series A	FinTech
iThrive	0.35	Pre-Series A	Health
	3.66		
Funding USD 0.5 – 1			
Name	Amount (USD)	Stages	Categories
Quickshift	0.76	Seed Round	Logistics
ExtraaEdge	1.00	Seed Round	EdTech
Risebird	0.50	Seed	HRTech
Peppermint	0.66	Seed	Robotics
EarWealth	0.50	Pre-Series A	FinTech
	3.42		
Funding USD 1.0 – 2.5			
Name	Amount (USD)	Stages	Categories
UGAOO	2.00	Seed Round	D2C
Biddano	2.00	Seed Round	Health
Pariksha	2.00	Seed Round	EdTech
True Elements	1.33	Series A	Food & Beverage
Proeon Foods	2.33	Seed Round	Food & Beverage
ExtraaEdge	1.00	Seed Round	EdTech
Zvolv	1.50	Venture Round	SaaS
ImaginXP	1.50	Seed Round	EdTech
Phyt.Health	1.47	Seed Round	Health
Cygenica	1.40	Seed	BioTech
JetSynthesys	2.00	–	Gaming
goEgo Network	2.00	Seed	EV

4Fin	1.10	Seed	FinTech
BioPrime AgriSolutions	1.50	Seed	AgriTech
Dista	1.20	Seed	DeepTech
	24.33		
Funding USD 2.5 – 5.0			
Name	Amount (USD)	Stages	Categories
Easebuzz	4.00	Series A	FinTech, Financial Services
NIC Natural Ice Creams	4.67	Private Equity Round	Food & Beverage
Phi Commerce	4.00	Series A	FinTech, Financial Services
Greenjoules	4.50	Series A	Renewable Energy
Lio	5.00	Seed	SaaS
	22.17		
Funding USD 5.0 – 10.0			
Name	Amount (USD)	Stages	Categories
FPL Technologies	10.00	Series B	FinTech, Financial Services
BharatAgri	6.50	Series A	AgriTech
Wiggles	5.50	Seed Round	Health
SuperGaming	5.50	Series A	Gaming
Lio	5.00	Seed	SaaS
E42	5.40	Series A	SaaS
	37.90		
Funding USD 10.0 – 100.0			
Name	Amount (USD)	Stages	Categories
Agrostar	70.00	Series D	AgriTech
FPL Technologies	24.00	Series B	FinTech, Financial Services
FPL Technologies	10.00	Series B	FinTech, Financial Services
FPL Technologies	100.00	Venture Round	FinTech, Financial Services
FPL Technologies	75.00	Series C	FinTech, Financial Services
ElasticRun	75.00	Series D	Logistics
Haber	20.00	Series B	Robotics
Loop Health	12.00	Series A	Health
Fittr	11.50	Series A	Health
FirstCry	13.00	Series D	D2C
Altum Credo	11.73	Venture Round	FinTech, Financial Services
Zeni.ai	34.00	Series B	FinTech
Vayana Network	30.00	Series C	FinTech
	486.23		

Table 9. Deals per Quarter and Number of Deals

Row Labels	Sum of Amount (USD)	Number of deals
Qtr1	47.17	9
Qtr2	100.52	13
Qtr3	86.5	22
Qtr4	326.52	19
Grand Total	560.71	63

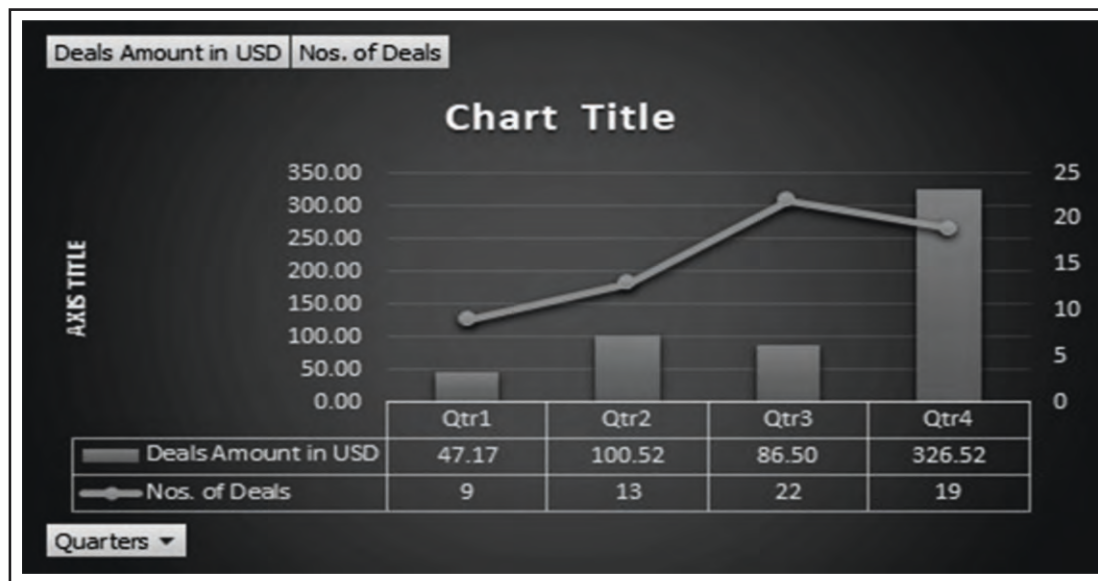


Figure 6. Quaterwise Deals

Implications

This study provides insights on how the sectors in startups are gaining significance from the perspective of investors. Emerging sectors provide great insight to the startups to plan their enterprise keeping in mind the investors' perspective as have emerged from this research.

Limitations

The study is limited to the city of Pune and the investments that came to the city in the year 2020–2021.

Conclusion and Scope for Future Research

The study reflects that 2021 has turned out to be the most promising year for startups in Pune with 3200 startups and a good traction of investments. The investments from series A, B, C, and D funding in the city showcase the growth of business for startups and enhanced valuation. At the same time, a wide spectrum of representation of sectors in funding opens up opportunities for more startups to join the sectors that are seen as investment savvy. However, the investment in social sectors has been low. The city attracted funds from India and overseas. It is important to note that the city has very few funds and most are driven from other cities. Thus, Pune has emerged as the startup destination and is likely to grow in future. Emerging sectors that have a good potential of growth are those in the mid band where investments have come in small deal sizes.

Future studies should concentrate on the number of funds that have made investments in startups in the city and the growth trajectory. It may be important to see how this year has fared against last ten years of growth to provide future predications.

Clearly, Pune is the city to watch out for in the near future for startups and investments.

Author's Contribution

Dr. Apoorva Palkar is the sole author of this research paper and she has worked on exclusively on the data, analysis, and interpretations. She has presented the work as reflected in the research paper.

Conflict of Interest

Dr. Apoorva Palkar, the author of this paper certifies that she has no affiliation and involvement with any organization or entity with financial or non-financial interest in the areas and subjects discussed in the research paper.

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