

India: Online potential remains alluring

By Kanupriya Kapoor in Mumbai

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Growth industry: information technology in India does not suffer from the bureaucracy often associated with the country's more traditional sectors

When Kunal Bahl quit his job at Microsoft, the technology company, to start his own deals website in India, salesmanship was the last thing on his mind. But in the face of a relatively conservative financial and cultural environment, Mr Bahl found himself quickly becoming an expert.

“I was constantly selling as an entrepreneur,” he says. “First, to your parents why you quit your job; then co-founders selling to each other to keep confidence up; selling to employees why it’s a good thing [to join a start-up]; selling to investors to get funding; and then finally to the public.”

He now runs Snapdeal.com, India’s largest ecommerce website, with a following of more than 15 per cent of the country’s 100m internet users and logging about 30,000 transactions a day. Mr Bahl, 30, is set on furthering the exponential growth the company has seen over the past two years.

A decade ago, Mr Bahl’s story may have been an anomaly in a society that traditionally favours those who choose a “sensible”, stable career path to become a doctor, engineer or civil servant. But as India’s economy liberalises and integrates with fast-changing global markets, some of the country’s youth are choosing to seek their own success. And while the number of entrepreneurs is increasing rapidly – 2011 saw a total investment of nearly \$1.2bn in start-ups, up from \$300m the year before – [the sector remains young and evolving](#).

Amid India’s slowing growth story, the allure of its untapped potential remains intact, and nowhere more so than among technology start-ups. Unlike other sectors mired in the country’s notorious bureaucracy, information technology’s history of innovation and minimal regulation continues to attract both talent and investment.

Nearly all technology entrepreneurs’ confidence lies in India’s impending internet boom as more people go online via cheap broadband and smartphones in mid-tier cities across the country.

Though trailing well behind China’s 500m internet users, India’s connected community is set to triple to 300m by 2015, an irresistible opportunity for those looking to tap into both rising connectivity and disposable incomes. Online retail is already a \$5bn industry and it is set to grow tenfold over the next decade, according to Avendus Capital, a global financial services firm.

Entrepreneurship in its modern form is still new to many Indian investors, who, though not necessarily risk averse, still expect quicker and higher returns on their investments, even from start-ups.

Many entrepreneurs who have experience in more developed financial markets may still find it difficult to raise the crucial initial capital, and often have to rely on personal savings.

“There is a lack of investment infrastructure and sophistication in India,” says Devneet Bajaj, founder and chief executive of Mobile Mandi, a technology start-up for rural India. “We have raised seed capital as we dug deep to find good international angels who have experience of investing in our sector, but it is much harder to raise early stage capital here. There is a certain type or group of investors who only want to invest in things that are creating a buzz right now. But I believe in investing in something that creates opportunity and long-term wealth so ... we have to re-educate investors about sectors outside ecommerce.”

Praveen Chakravarty, a founding member of Mumbai Angels, India’s first angel investing network, says investors’ attitudes to entrepreneurship have come a long way since the organisation was set up in 2006.

“There still is a tenuous ecosystem between investors and owners,” he says, “but the culture and attitude has changed dramatically in recent years. When we set up [Mumbai Angels] we told investors to be prepared to lose on 24 out of 25 investments. It was not at all a popular concept in India before that.”

While young risk-takers and [investors](#) have led the way in boosting the number of start-ups, both groups admit there is a need for greater support from the government.

In its March budget, the government proposed a 30 per cent tax on companies that receive angel investments. After persistent opposition from stakeholders, who stressed its potentially detrimental effect on start-ups, the tax was deferred for further debate.

Instead, stakeholders have called on the government to open up the country to more foreign investment and offer tax incentives.

“I would like to see the government give tax incentives to start-ups and to give seed-stage capital as it is not an easy process for us,” Mr Bajaj says. “They should remove all foreign direct investment restrictions in start-ups; they should be encouraging all this.”

With such heady levels of activity, India’s entrepreneurs are under pressure to produce the next revolutionary product or service. But while enthusiasm is high, industry members are optimistically managing expectations when it comes to true innovation, rather than simply replicating an existing business model.

Snapdeal, for instance, had to adapt its products and searches quickly to a demanding audience. As he recruits what he terms “outsourced innovators” – those who started out working for western companies – Mr Bahl believes homegrown innovation “will happen but it will take time”.

“It used to be about aping the western business models,” adds Mr Chakravarty of Mumbai Angels. “But, of late, innovation for India’s domestic markets has been indigenous, like mobile phones that provide a platform for frugal innovation. India may have an implementation deficit, but by no means an ideas deficit.”