



THE NEXT WAVE
Unicorns of today,
Giants of tomorrow

Produced by BDO in India

BDO

ACKNOWLEDGEMENT

We would like to express our appreciation to all our respondents and members of the industry for sharing their experiences, valuable inputs, and time. We also extend our sincere gratitude to our Partners Akhilesh Pandey, Jiger Saiya, Jeetu Bairathi, Karan Gupta, K M Prabhu, Lata More, Mandar Gadkari, Nitesh Mehta, Pranay Bhatia, Rajesh Thakkar, Manish Bathija, Amrish Vaidya, Smriti Saluja, Saumil Shah, Sumit Kumar, Suraj Malik, Swanand Deshpande and their teams for their assistance in helping us receive a phenomenal response to our survey.

Through this survey we aimed to highlight the sturdy growth of Unicorns in India, and identify the factors that help build and power these businesses making them future leaders. Our survey received 70+ responses from the PE/VC community, giving us robust insights into the operational, financial and sustainable frameworks of growing businesses. We hope this report serves as a valuable guide not only for Unicorns / Soonicorns but also for established companies who continue to seek growth.



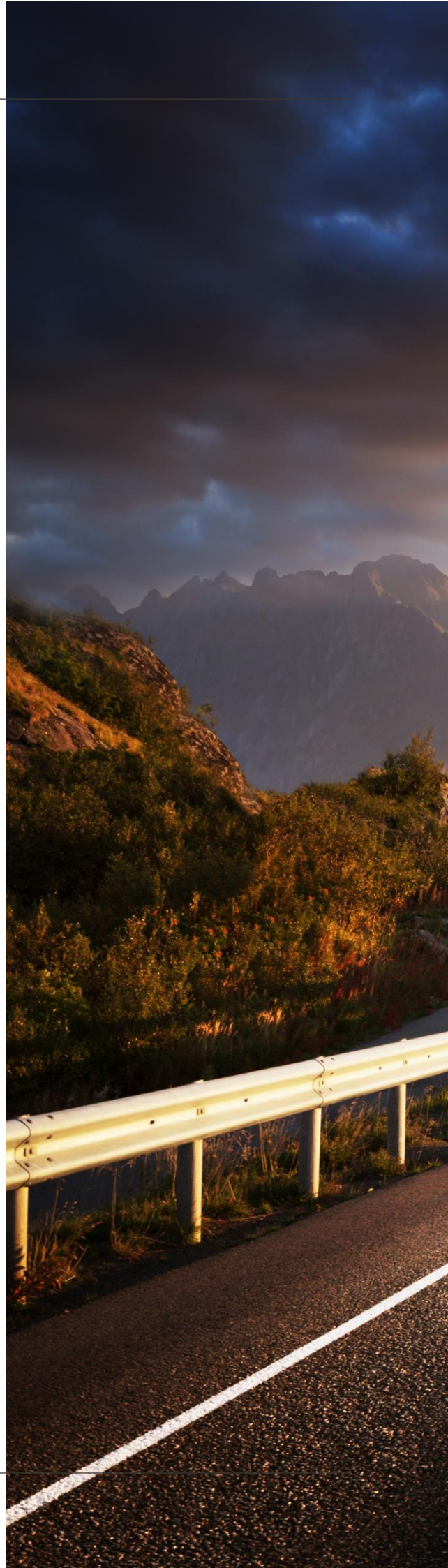
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PREFACE

NEXT Unicorns from India

Our maiden survey was designed to identify characteristics/ moats that investors look at while identifying Unicorns, as well as to unearth interesting names from India which are on their way to become "Giants of Tomorrow". As we see many exponential factors at play, these giants are well poised to leverage India's growth economy.

India's compelling growth story

India's promising base of Unicorns/ Soonicorns will surprise the world in 2019.

2018 was an eventful year - Following US and China, India became the third largest country with respect to incremental additions to the Unicorn Club. This dominance will only accelerate as the (existing + new) emerging leaders of tomorrow leverage the structural changes in India.

Like China, India's big advantage is a huge and vibrant domestic market. With a 1bn + population base, increasing number of aspirational & tech-embracing entrepreneurs, pervasive technological innovation, consumption story (a growing prosperous middle class), strong agricultural & industrial roots, high savings rate, exponentially growing digital infrastructure, favourable regulatory environment and declining cost of doing business only suggest India's growth story can only surprise. Unlike traditional business houses, data & next- gen technologies are making Unicorns/ Soonicorns more competitive.

India is also witnessing many B2B firms becoming Unicorns/ Soonicorns in comparison to the past few years where B2C Unicorns were the talks of the town. The Unicorn Club is also diversifying in nature with participation from many more sectors.

Emerging giants of tomorrow

Domestic startups are disrupting and influencing various industries, redefining business models, consumer experience and the investment world at large. They are thus becoming leaders in their respective industries and creating enormous wealth early in their development. In China, companies such as Tencent, Ant Financial, Baidu and JD.com emerged as giants in less than 25 years, in line, we may see some of India's Giants become Decacorns and Global giants much faster than expected.

We will see strategic partnerships and M&As by these Unicorns/ Soonicorns to strengthen their market share, deepen the understanding of their consumers, and increase the value of their own brand. Many Unicorns/ Soonicorns will embrace broadening of leadership and induction of independent directorship.

Not to forget the critical support of the capital markets that will further fuel the growth of Unicorns/ Soonicorns. Investor Group is also diversifying and increasing their AUM base in India. Family owned offices and first generation entrepreneurs are relatively rich and unexplored resources.

To the 70+ PE/VC community who took our survey and whose opinions are featuring in this report, we would like to extend our thanks for taking time out of their tight schedules to share their wisdom, insights and experiences. Their responses may provide valuable guidance for the Unicorns / Soonicorns, emerging start ups themselves, and for the established companies who continue to seek growth.

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What worked for India in 2018: Extracts of interviews from PE/VC community

- India added 8 Unicorns in 2018 (vs. 9 Unicorns in a span of 6 years from 2011 to 2017). India is currently home to 26 unicorns with maximum attaining the unicorn tag in 2018. About 60% of the funds raised by Indian start-ups were invested in Unicorns. B2B enterprises will add to the existing and burgeoning list of B2C players in the Unicorn list
- Every significant stakeholder in the Walmart-Flipkart deal made money validating India's attractiveness (scale returns)
- Leading Indian conglomerates have accelerated the pace of their strategic/ corporate venture arms and family offices: Tatas, Godrej, Mahindras, JSW, Azim Premji Trust
- Indian start-ups have raised more money than IPOs
- Home-grown start-ups becoming international: OLA, OYO, Freshworks, Druva, GreyOrange etc
- India is seeing emergence of serial entrepreneurs and PE/VC managers who are exiting existing set-ups, to start their next new ventures to build bigger
- Increasing interest from overseas investors (both existing/new) - 2018 was marked by an important milestone, for the first time in 20 years India got more FDI than China. 2019 will strengthen this further as we see even the non-US investors like Softbank, Naspers, DST, and others play a more dominant role in Indian startup funding

Source:

<https://medium.com/@sricapital/predictions-for-2019-5b8aa8a8e76f>

<https://inc42.com/features/2018-in-review-what-were-indian-unicorns-up-to-this-year/>

<https://www.bloombergquint.com/opinion/2018-building-and-capital-raising-2019-outcomes-of-scale>

<https://retail.economicstimes.indiatimes.com/news/industry/rise-of-unicorns-in-indian-start-ups-across-verticals-2018-in-retrospect/67251139>



EXECUTIVE SUMMARY

Key Takeaways from our Maiden Survey on “India’s Next Unicorns”

We divided our survey into five distinct dimensions.

Dimension 1: Growth/ Market share/ Diversification

Internet Software & Services and E-Commerce & Marketplace, as expected feature among the Top 5 sectors where Unicorns in India will emerge. **Three sectors which need to be watched for are : Fintech, Healthcare and AI/Robotics/BI.**

Big Data & Analytics and Supply Chain/ Logistics are ranked not too far from investor delight.

Moats drive differentiation, growth and profitability, leading to a USD 1+ bn valuation of these companies. Among the established Unicorns, many ventures weigh high on all 4 parameters - Disruptive Innovation, First Mover Advantage, Tech Paradigm Shift and Consumer Focus. For Soonicorns, First Mover Advantage received the highest score.

Unearthing future gems: Our survey unfolded 45+ interesting ventures whose business models rest on moats of both the established Unicorns and Soonicorns, with a diversified sector presence and ownership (refer [page 9](#))

Dominant factors for Unicorns to drive disruption are Technology, Focus on target customer segment and Client reach. Certain examples of Indian ventures that are disrupting their chosen ecosystem include Zomato (Dining Experience), BigBasket (Consumer Reach), Zolo Stays (Living experience for the students and singles).

Consistent attention to consumer needs leads to customer loyalty (e.g. Uber and Amazon). Investors believe two factors that differentiate and drive customer loyalty for a Unicorn / Soonicorn are:

- Relentless adaptation to stay ahead of industry trends
- Speed & excellence in execution

The twin factors of demand and supply are instrumental in making an entity reach the Unicorn status. India is a unique place where demand dynamics in multiple sectors are seeing structural changes. Respondents have rated “Market Potential in billion dollars” on demand side and “Clarity of Vision” & “Execution” on the supply side among the most important factors in creation and success of Unicorns.

Monetisation is THE KEY: From a revenue perspective, respondents are balanced between domestic and international markets. Also, 63% of respondents preferred revenue CAGR for the next 10 years in the range of 36% to 60%.

Dimension 2: Digital and Disruption - Positioning/ Performance/ Productivity

“Winner takes it all. Niches like Facebook/ LinkedIn/ Tableau are capturing a dominant market share (>70%)” The responses on a desired market position can be classified under four broad buckets - Untapped India, Dominant market share, Technology dominance and Competitive positioning. Dominant/ market leadership is a desired market positioning for a Unicorn/ Soonicorn. The success stories of PolicyBazaar, Swiggy, CarDekho amongst others are a testimony to this fact.

Majority of Unicorns have technology as their disruptive edge. As expected, **Technology Spend (Opex + Capex)** remains a dominant business head in driving Disruption. ~67% of respondents preferred spend at 10-30%. Only 6% considered a spend less than 10%. This technology disruption today equates countries/geographies. Bhavish Aggarwal, OLA’s CEO rightly puts it **“We are at the same place at the technology development as Uber or Didi is anywhere else in the world.”**

Investors prefer usage of big data and analytics in key areas of actual marketplace that influence consumer behaviour and drive demand/ revenue/ profitability. Internal factors like capex decisions and working capital management have been assigned lower weightage for usage of these next-gen predictive technologies.

The Chinese Unicorn Story: Technology and business model innovation are attracting capital. Chinese Unicorns’ are using AI in their customer experiences & engagements, talent resources and operational strategies.

Technology/ digital disruption is dramatically influencing the products/ services, company culture, customer experience, target customer segment and many other factors, thus driving differentiation. Respondents believe that following two attributes take ~50% mindshare in driving differentiation in the market ecosystem

- Products/ Services customers truly love
- Creating frictionless consumer experience

Addressing customers pain points/ requirements and cost disruption uphold, 71% of respondents in selection of a Unicorn / Soonicorn in a B2C segment.

Dimension 3: Opex and Capex Efficiency - Excellence in investee companies

Five factors have been ranked higher in valuing productivity of Unicorns/ Soonicorns -

- Customer acquisition cost (25%)
- Active subscriber base
- Sustainable cost advantage vs. traditional business model
- Customer satisfaction score
- GMV per subscriber

Post productivity, driving a profitable and comparatively a sustainable advantage on a consistent basis is equally critical.

67% of respondents believe Unicorns/ Soonicorns should enjoy 10-30% EBITDA advantage.

Cash is King!: 86% respondents preferred positive cash flows within 6 years.

Dimension 4: Management and Board Room Composition

Warren Buffett believes the quality of a company's management is a key factor on whether a stock will be a good investment. ~50% of investors have assigned higher weightage to entrepreneurs creating ventures in their field of knowledge and experience. **Co-founder & CEO of PolicyBazaar, Yashish Dahiya's impressive answer** on "What did Softbank find interesting in the models of PolicyBazaar and PaisaBazaar during the fund-raise discussions" is noteworthy: "We are one of the few internet companies **where the management holds more stock than the founders**. This reveals a certain ethos of the company."

Top 3 attributes entrepreneurs/ leaders must have to become a Unicorn owner: Vision, Eye for talent and Adaptability to change. Surprisingly weightage assigned to risk taking ability/ fearlessness and determination / passion to pursue dreams have a comparatively lower weightage.

Investors prefer and respect early induction of external/ independent directors as reflected in our survey findings: 70% of respondents prefer induction when firms reach USD 20-40 mn revenue size.

Dimension 5: Valuations/ Fairness/ Exits

"Preferred Methodology in Valuing Unicorns " - MCap/ Revenue or MCap/ GMV and EV/EBITDA are ranked higher, per subscriber metrics, (1) Life time value of subscribers x No. of peak subscribers' an entity can reach and (2) EV/subscriber x No. of peak subscribers score in between while DCF and burn rate are ranked as last two categories. Approximately, 70% of respondents feel that investors "are over-paying for equity in Unicorns". Elongation of profitability metrics and premium to be assigned to a differentiated business model have been cited as key challenges faced in valuing Unicorns.

United States and China ranked at 1st and 2nd respectively in emergence of Unicorns. India's rank moved to 3rd from 4th. The Unicorn story of United States has been driven by Unicorns consistently raising hefty sums from external and professional investors whereas in China, the Unicorns represent a unique confluence of capital (monolithic organisations) & ecosystem. Approximately two-thirds of respondents feel that India's Unicorn story will go the US way.

Preferred mode of exit route from Unicorns is Strategic buyouts/ M&As. Coincidentally this was reflected even in India's PE industry developments in 2018: Walmart-Flipkart, Samara Capital & Amazon in 'WitzigAdvisory', Teleformance - Intelenet etc.

Top of Mind Unicorns/ Soonicorns (in detail on page 47): Apart from the well-established Unicorns, Soonicorns that have seen maximum mentions are BigBasket, Bookmyshow, CureFit, Delhivery, Lenskart, Mobikwik, Rivigo, and Zerodha.

DETAILED ANALYSIS OF SURVEY RESPONSES



DIMENSION 1

Growth/ Market share/ Diversification

2018 was marked with total number of 311+ Unicorn companies globally (including whisper valuations as per CB insights, (Source: <https://www.cbinsights.com/research-unicorn-companies>) with India ranked 3rd. What changed from 2017 to 2018 for India was the addition of new sectors (Ed Tech, Food Delivery, B2B etc.) even as stronghold of Internet Software & Services, E-Commerce & Marketplace and Fintech only increased.

The pre-2018 Unicorns largely belonged to the sectors of Internet Software & Services, E-Commerce & Marketplace and Internet Retail with the exception of ReNew Power Ventures (Energy & Utilities).

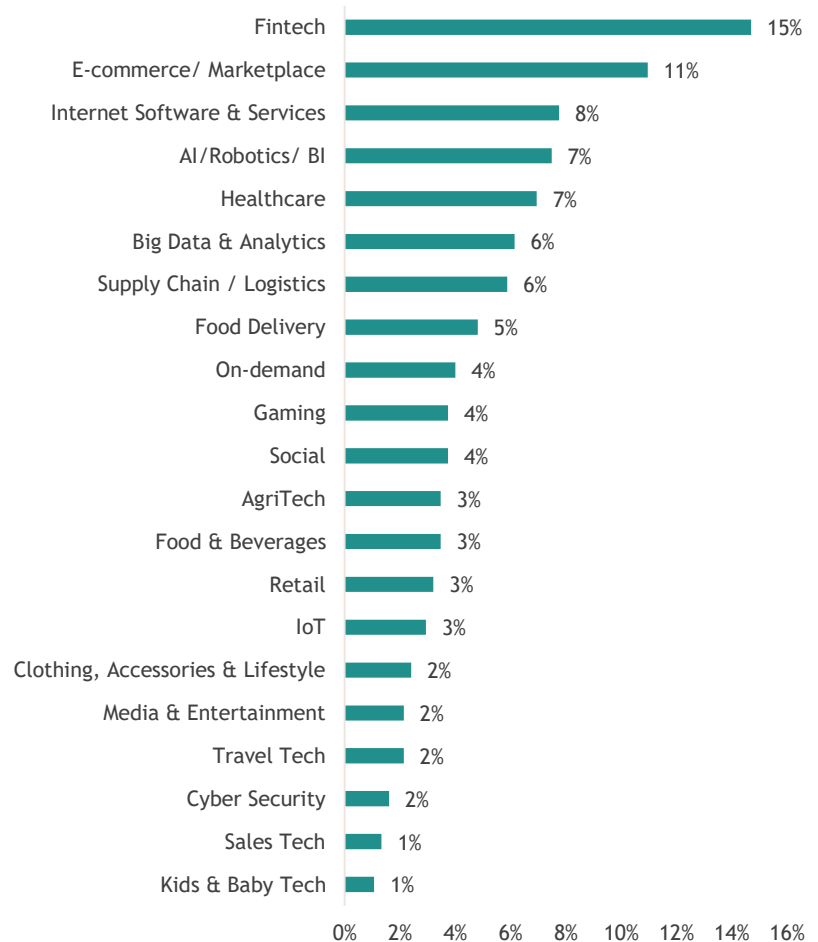
Our survey findings on “Sectors in India where one would see emergence of Unicorns” highlights the following sectors, where, investors believe the next Unicorn’s from India will emerge:

1. Fintech
2. E-Commerce & Marketplace
3. Internet Software & Services
4. Healthcare
5. AI/Robotics/BI

Thus, interesting sectors to watch would be Fintech, Healthcare and AI/Robotics/BI. Sectors that may surprise are Big Data & Analytics and Supply Chain & Logistics.

The sector trend in India is largely similar except for AI/Robotics/Bi.

Fintech, E-Commerce/ Marketplace, Internet Software & Services, Healthcare and AI/Robotics/BI are Top 5 sectors to see emergence of Unicorns in India (% share = ~50)



Many factors have contributed to growth/profitability and USD 1+ bn valuation of these companies. First and foremost is “Moat” and its sustainability. Legendary investor Warren Buffett devised this concept of economic moat. A great business is one that can fend off competition and earn high returns on capital for many years to come. These moats are structural advantages that protect and elevate companies from competition. Very similar to “physical moats surrounding and protecting a castle” fortifying its existence/ growth.

To understand their strongholds, we asked investors to differentiate their Unicorns/ Soonicorns, investee companies under the following Moats - surely these would have influenced them to invest.

Disruptive Innovation, First Mover Advantage, Tech Paradigm Shift, Consumer Focused

Among the established Unicorns, many ventures weighed high on all 4 parameters.

For the Soonicorns (the Next Unicorns) First Mover Advantage received the highest score (probably the technology wave became all pervasive).



Our Survey also unfolded interesting ventures which are likely to be Unicorns (may surprise positively) in the coming years. Sector presence and ownership status is well diversified. The business models of these emerging names are resting on Moats of both the established Unicorns and the Soonicorns.

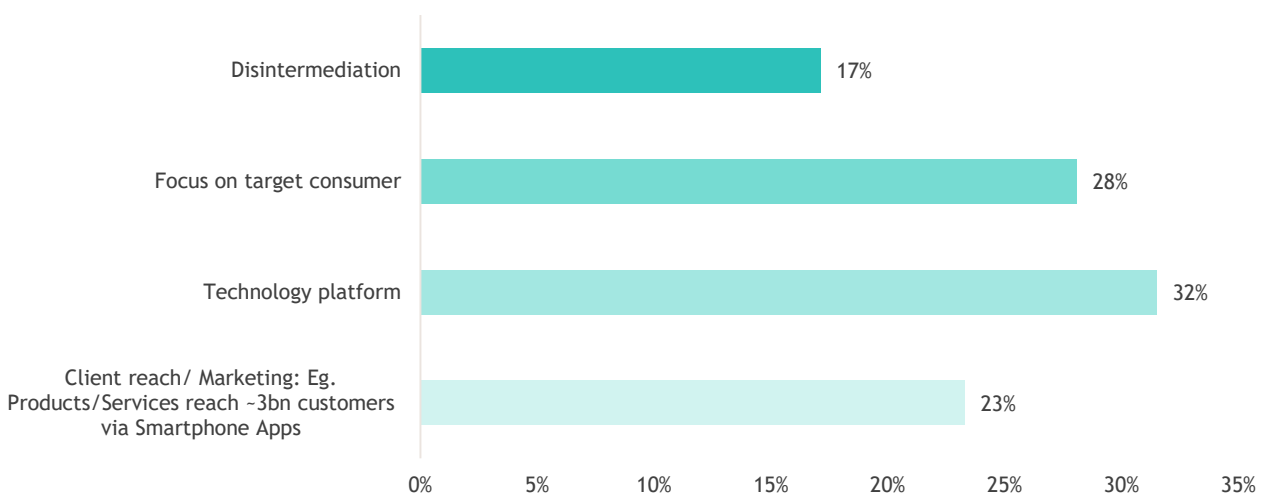
Companies	Disruptive Innovation	First Mover Advantage	Tech Paradigm Shift	Consumer Focused
Existing Unicorns				
Flipkart, InMobi, Mu Sigma, OLA, OYO, PolicyBazaar, Quikr, Swiggy, Udaan, Uber	8	8	8	6
Soonicorns				
BillDesk, Delhivery, FirstCry, Grey Orange, MSwipe, Pepperfry, Power2SME, Practo	5	6	5	5
Ventures that can surprise				
AgroStar (Ulink Agritech), Artoo, Ascent Health, Aye, Betterplace, Bharat Serums, Box8, Docker, Esskay Fincorp, Faircent, Five Star Finance, Frontdesk.ai, Gadgetwood eServices Private Limited (Yaantra), Hero Electric, HealthifyMe, Hopscotch, InCred, IndianMoney, IIFL Wealth, Infibeam Avenue Ltd, Intelligence Node, Kama Ayurveda, Licious, Locus, Medikabazaar, MoveInSync, Northern Arc, Nowfloats, Nykaa, Nysaa Retail Private Limited (1-India Family Mart), Omniactive, Pharmeasy, PocketAces, Pratilipi, Purple, Raw Pressery, RenewBuy, Scapic, SmartCoin, Sigtuple, Tala, Tonetag, Total cloud, Ultraviolette Automotive, Unbx, Veeba, Videonetics, WoW Momo.	25	25	23	23

These Unicorns/ Soonicorns are undauntedly the harbinger of India's faster economic growth, dominance of consumption, rise of youth, new set of entrepreneurs, etc. They are becoming industry giants in a much shorter time than their traditional established counterparts.

What's their mantra of "Getting big quickly and disrupting. How are Unicorns disrupting their chosen market" was our question

Generally 'Disintermediation' has been perceived as a key driver for success of next-gen enterprises. To our surprise, investors believe technology (known factor), focus on target customer segment and client reach are dominant factors driving disruption by Unicorns.

How are Unicorns disrupting their chosen market !



“Investors believe “There are fundamental gaps in many sectors in India - there exists ample scope for creating new markets and fulfilling demand. Fulfilment and convenience are equally instrumental in creating disruption by Unicorns.” Signaling India’s Unicorn Story will only become brighter and richer Year-by-Year !”

We found these threads well stitched in the following successful ventures and their underlying business strategies: (extracts from the interviews and source at end of every story for a detailed read)

DISRUPTING THE DINING EXPERIENCE

Zomato is an interesting story on client reach/ focus/ dining experience....their mission says it all “Our mission is to ensure nobody has a bad meal”.

In words of Deepinder Goyal, Founder and CEO “We need to find a solution to be able to deliver a nutrition rich, hygienic meal for under Rs 50 - that’s what will get us to **feed a billion people in a day**. What I am saying is - 3 mn a month is a small number compared to a billion meals a day. So, while we are happy that we are here, we are very focused on what needs to be done.

We now know very well that money alone doesn’t build great companies. In fact, great companies are better built without a lot of money.

I can also claim that we are the largest food and restaurant search platform in the world.

About 20 percent of our cost is being focussed on new areas - experiments - we are in investment mode.

We have very few exclusive restaurants in Bangalore because the competition was already bigger there. The same goes for Hyderabad. In Delhi and Mumbai though, most good restaurants are exclusive to us. Every

restaurant four plus rated on the app is only on Zomato. We out innovate everyone on product, and win.

We have 25,000 restaurants on our food ordering network of which 7,500 are exclusive to our platform (one-third!). The total number of restaurants in the top 10 cities are 75000, but then Shanghai alone has 250000.

Imagine where this is going to go. The top 10 cities in India over time should have a million restaurants. The size of our cities is huge. In India, the per capita is a minuscule percentage compared to the rest of the world. Here the restaurant industry is still very nascent. I think the Indian market has been growing at an interesting pace in the last four-five years.

We are actually fighting hard to bring down prices and improve quality. We are even thinking of working with suppliers of fruits, vegetables, and meat so what one eats is safe. **We want to make sure that consumers think and believe that restaurant food is as safe as home cooked food.**

Source: <https://yourstory.com/2017/08/zomato-deepinder-goyal-interview/>

DISRUPTING THE CONSUMER REACH

Co-founder and CEO of BigBasket, Hari Menon shares the motive behind recent acquisitions, was to meet the customer’s early morning need - milk and milk products in a cost effective manner:

The acquisitions i.e. RainCan in Pune and MorningCart in Bangalore are for the milk subscription business. It basically deals with early morning delivery of milk and non-milk products. It’s a huge opportunity and a big business for us. The latter is the cheapest and a very low cost delivery mechanism because one needs to go in one building and deliver across all the flats. On a standalone basis itself, it can quickly become a Rs 1,000 crore business for us.

Source: <https://www.dnaindia.com/business/interview-new-distribution-channels-will-help-bigbasket-grow-says-co-founder-and-ceo-hari-menon-2687613>



DISRUPTING THE LIVING EXPERIENCE FOR STUDENTS AND SINGLES: ZOLO STAYS

Similar to the co-working concept, the rise of urbanisation has also led to an increase in the co-living market in India. Zolo Stays has carved a niche in this space by catering to the co-living market. Even the paying guest (PG) market in India is largely unorganised, with a huge gap in affordable living space.

- It aims at managing entire end-to-end services for its customers. It started operations on the lines of OYO Rooms and ramped up its inventory to almost 18,000 beds.
- However, the firm decided to change its business model after six months of operations to give more value to customers. From 18,000 beds, they reduced to zero inventory to change its business model to “full-stack,” where the firm takes care of allied customer experiences like food, DTH, housekeeping, WiFi, community services etc.
- About the differentiator, Dr Nikhil Sikri - co-founder and CEO says, “**Our costs are around 25 percent lower than industry standards with a very high customer satisfaction score.**”
- The PG and hostels market is ~USD 40 bn in India, and the market is growing at 16-18 percent per annum. With >10,000 beds, Zolo claims to be the largest co-living space provider in India.
- Talking about revenue, Nikhil, says, “Our annualised revenue run rate today is Rs 85 crore, and **we are growing at 15 percent month on month.**” Zolo’s gross revenues increased from Rs 6.2 crore in FY 17 to Rs 26.4 crore in FY18.

Source: <https://yourstory.com/2018/08/zolo-stays-redefines-living-experience-students-singles/>

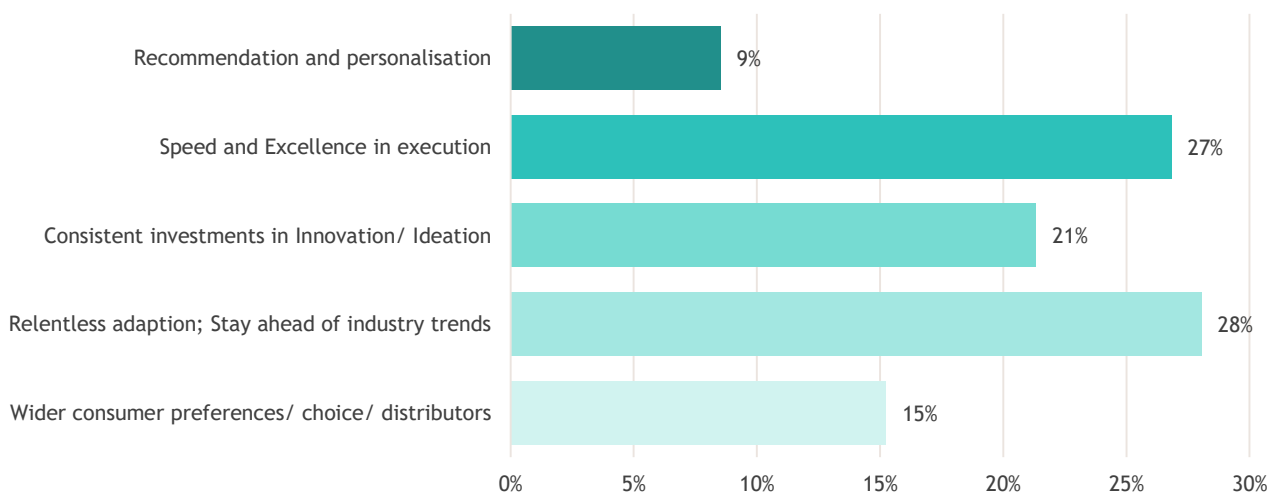
The pillar of disruption will be incomplete without the root foundation of customer's loyalty. As Peter Drucker stated "The purpose of a business is to create and keep a customer". Re-invention and disruption drives loyalty and survival. Well established global giants - Uber and Amazon - are one of most successful examples.

- **Uber** has constantly evolved its brand (from transportation to premium car services to ride sharing to food delivery) paying attention to customer needs and experience (loyalty programs, app, eats!).
- **Amazon:** A new study from Feedvisor, exemplifies Amazon's customer loyalty.
<https://www.forbes.com/sites/pamdanziqer/2018/01/10/amazons-customer-loyalty-is-astounding/#5b63120a11fe>

- **Amazon is addictive** - An astounding 85% of Prime shoppers visit Amazon at least once a week, while 56% non-Prime shoppers report the same
- **Amazon is their one-stop shop** - Compared with Walmart, eBay, Alibaba and Jet, Amazon leaves these competitors in the dust in terms of browsing products, deals, comparing prices and checking availability and delivery speed
- **Amazon is for savvy shoppers** - Customers' top reason for visiting Amazon is to compare prices (51%), and nearly half (44%) say they will always check prices on Amazon before purchasing on another site. Product reviews play an important role in giving them confidence to buy

Turning back to India, the Top 2 differentiating factors investors have rated for differentiating a Unicorn / Soonicorn for customers and subscribers to remain loyal are: (1) Relentless adaptation to stay ahead of industry trends and (2) Speed and Excellence in execution

Key differentiation a Unicorn/ Soonicorn should offer to drive customer loyalty



OLA....Perfect play of 'Relentless adaption, Stay ahead of industry trends, Consistent investments in innovation/ideation and Speed & Excellence in Execution'

As Ola's CEO Bhavish Aggarwal comments, " I'm a smart entrepreneur I believe in competitive shopping. Me and my wife, we don't own a car and we mostly use Ola. Also, we use Uber too, just to learn what different are they doing. And I almost always confirm we are doing better.

Innovation is parallel in our industry. **We are at the same place at the technology development as Uber or Didi is anywhere else in the world.**

How to track and improve as an entrepreneur?
It is an incremental process, every day you have to put those extra one or two hours to compound your long term goal with present operations. You need to be objective. You need to analyse where you have to be good at, where you have to be better at and keep improvising every day.

Source: <https://goamplify.co/Ola-CEO-Bhavish-Aggarwal-interview-at-THUB>

Investors believe "Creating a disruption that is scalable, managing regulations, maintaining consistency in quality of product and service, creating a difficult to replicate service/product, delivering a good consumer experience combined with great technology and unparallel user experience without compromising profitability, holds immense promise in consistently driving customer loyalty"



The twin factors of demand and supply are instrumental in making an entity reach the Unicorn status!

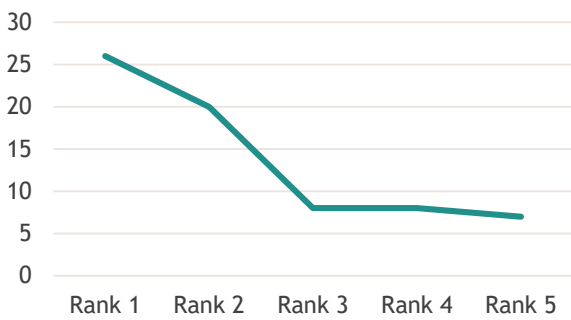
To our Survey question on “Can you please rank the following factors for the creation and success of Unicorn - demand factors: (1) Untapped Market/ Creating New Markets, (2) Market Potential in billion dollars, (3) Technology Moat, (4) Focus on Brand Building, and (5) Repeat Customers - loyalty pays ! - Respondents have rated Market Potential in billion dollars as one of highest factor among demand factors in the creation and success of Unicorns despite the huge dominance of technology!

Focus on Brand Building has been ranked at the lower-end. Technology moat and repeat customers have a perfect bell-curve. (Scores with above average rankings have been shaded blue to highlight above average ranking).

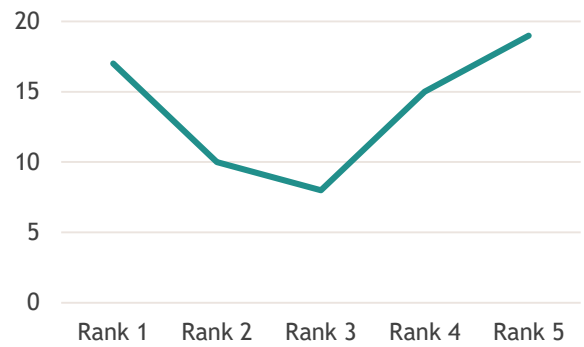
Attribute	Rank 1	Rank 2	Rank 3	Rank 4	Rank 5
Untapped Market / Creating New Markets	17	10	8	15	19
Market potential in billion dollars	26	20	8	8	7
Technology moat	11	14	21	13	10
Focus on Brand Building	3	11	13	22	20
Repeat Customers - loyalty pays !	11	15	19	11	13



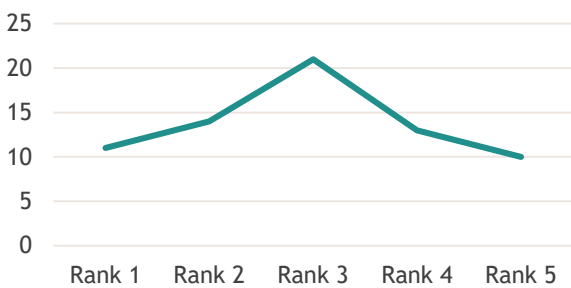
Market Potential in billion dollars - Clear Rating of Rank 1 and Rank 2



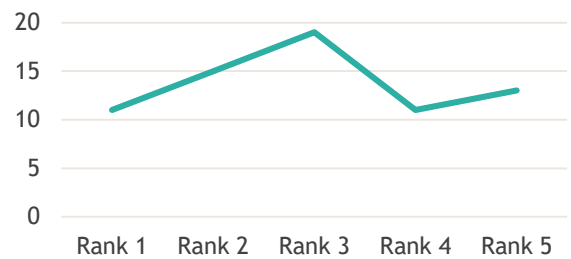
Untapped Market / Creating New Markets



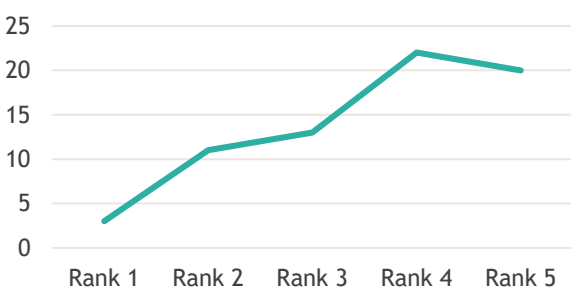
Technology Moat - Rank 3 a mid rating



Repeat Customers - Middle Ranking (ah ah bell curve)



Brand Building- Rank4/ 5 is preference



India has a unique place in the Unicorn Club where demand dynamics in multiple sectors are seeing structural changes :

ECOMMERCE & MARKETPLACE: Flipkart CEO Kalyan Krishnamurthy shares his views on untapped market segments, repeat customers and technology moat

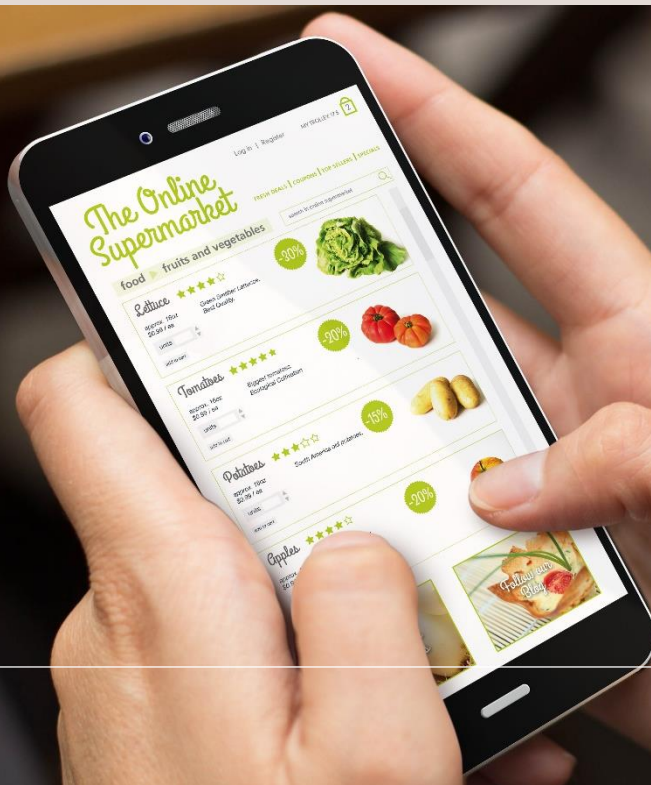
- Over the last 12-18 months we have seeded a lot of multi-billion-dollar sectors and categories. What we will do in the next 12-24 months is scale them and get a lot more customer adoption—for furniture, grocery, our refurbished goods platform, 2Gud, and our loyalty programme
- Every product initiative, every business we get into, or people decisions that we take, we make sure it is stable in three to four years. We have over 70% share in the large appliances business, for which we started building the supply chain in 2014. This year, it is truly a big business. **That's true Flipkart DNA, we don't want to win easy**
- Our app-in-app project, which we call 'Project Ultra' internally, is mostly payments and travel today. That is a multi-billion dollar business. In 2019, you will see that and Flipkart Plus scaling. By February or March, there will be an enhanced version of Flipkart Plus. The nature of the programme is loyalty, for which to work is a 3-4 year game

Source : <https://tech.economictimes.indiatimes.com/news/people/we-dont-want-to-win-easy-flipkart-ceo-kalyan-krishnamurthy/67048025>

GROCERY/ FOOD RETAIL: BigBasket on Huge Market Potential - Co-founder and CEO Hari Menon truly reflects the same (Nov, 2018)

- "We have doubled revenues and are looking at significant growth this year as well. Last year we closed revenues at Rs 2,000 crore and are expecting to cross Rs 3,500 crore. The number sounds really nice but it's just a fraction compared to the overall size of **food and grocery market that's pegged at between USD 500 and USD 600 bn. Just about 3% of it is modern trade** and there is a huge untapped opportunity to be looked at. For us, the growth going forward will be equally good as we are opening up some new channels of distribution
- It's a little over a year for Amazon and less than a year for Flipkart. Their entry has only opened up the market a lot faster. There is a lot of noise in the marketplace and everybody is talking/ advertising about it thereby building consumer awareness about the ease of buying/ transacting online for fruits, vegetables and staples. Consumers look at a complete basket to shop.

Source : <https://www.dnaindia.com/business/interview-new-distribution-channels-will-help-bigbasket-grow-says-co-founder-and-ceo-hari-menon-2687613>



GAMING: Dream11's strategy, vision, execution etc. fortify their focus on a less penetrated market

Over the years, Dream11 has grown to become a diverse platform by offering multiple sports. User base has grown from 0.3 mn users in 2015 to 38 mn in 2018. Harsh Jain, CEO and Co-founder of Dream 11 believes in the strength of a huge market to be tapped:

- “By 2020, there will be 300 mn Indian sports fans watching sports online, so we are sure that 33% of them will play fantasy sports, compared to the US where 65% of sports fans play fantasy sports”. While 90% of our users still continue playing for free only. Presently the focus is on creating awareness around fantasy sports in India where the potential is huge with an increasing number of sports fans”
- As India's biggest sports game with 38mn+ , their primary goal is to provide Indian sports fans with the best, most trusted single-match fantasy sports experience. **With 800 million TV sports viewers in India, there is huge headroom to convert passive sports fans into active participants and keep them engaged with their favourite sport**
- By offering freemium formats for multiple sports like cricket, football, kabaddi and basketball on our platform and becoming the official game for several leagues like the ISL, CPL & NBA already, we aim to bring together all sports fans **under one roof to fulfill their engagement needs**

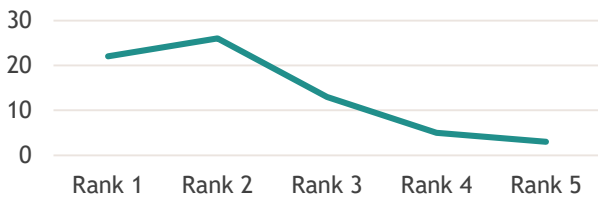
Source: <https://glaws.in/2018/06/19/feature-dream11-ceo-harsh-jain-discusses-companys-growth-future-prospects/>



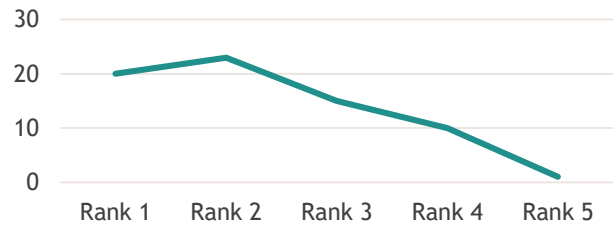
In a huge market size, an untapped demand ecosystem needs to be substantiated gracefully with supply side factors, to lay the foundations of a formidable Unicorn company. From the supply factors, respondents have rated Clarity of Vision and Execution as key factors in creation and success of Unicorns whereas Diversified Strategy has been clearly ranked at the low-end. Hardworking, brave and talented team have a perfect bell-curve. (Scores with above average rankings have been shaded blue to highlight above average ranking).

Attribute	Rank 1	Rank 2	Rank 3	Rank 4	Rank 5
Founder Appetite (to get to the finish line)	21	10	12	22	4
Clarity of Vision	22	26	13	5	3
Hardworking, brave and talented team	3	9	27	25	5
Execution	20	23	15	10	1
Diversified Strategy, like expansion into business adjancies	3	1	2	7	56

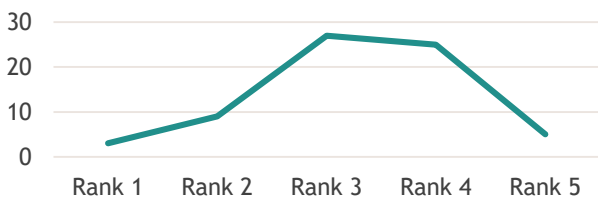
Clarity of Vision- Clear Rating of Rank 1 and Rank 2



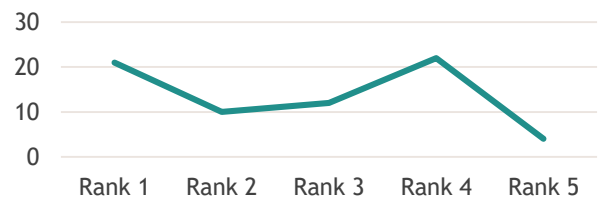
Execution rated high at Rank 1 / Rank 2



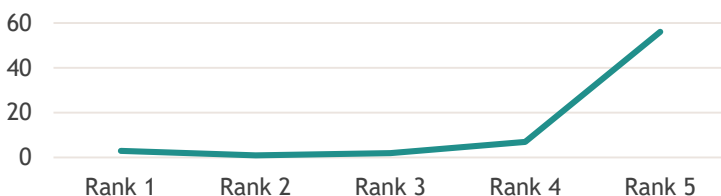
Team (Hardworking, Brave, Talented)- Rank 3/4 is the preference



Founder Appetite : Mixed Ranking among Investors



Diversification not key- Rated the lowest among supply factors



Swiggy's journey truly amplifies the "Founder's Appetite (to get to the finish line)" and "Clarity of Vision"

- Started in August 2014, food ordering and delivery startup Swiggy today has > 5mn mobile application installations, and has become the household name to order-in food
- The founder's success wasn't achieved overnight, and there were a few roadblocks on the way
- Coming from a background of entrepreneurs, Sriharsha (Harsha) Majety, founder and CEO of Swiggy says, One personality trait that has shaped him as an entrepreneur is stubbornness. "I was really stubborn about doing things that excited me and was ready to commit myself to it," he says
- One thing both Harsha and Nandan Reddy (Co-Founder, Swiggy) were sure of was doing a business that is a mix of technology jobs and offline jobs.** In his words "We thought we will find that competitive advantage by being not just a pure software company or not just a pure offline company," adds Harsha
- According to Harsha, finding the right technology co-founder is crucial for every startup, and that is where everyone struggles.
- They also saw that technology was making things work with a push of a button. Ola and Uber gaining success through their on-app booking made them realise the potential of hyperlocal delivery, and that was the genesis of Swiggy
- "There was no large company with ideas similar to ours and hence we saw a competitive advantage of building a hyperlocal delivery platform that moved things fast in city," adds Harsha
- A result of the founders' dedication and persuasion, within four years of its inception, Swiggy is a successful hyperlocal delivery platform and a household name for online food delivery.

Source: <https://yourstory.com/2018/04/learnings-failure-making-swiggy/>

Curefit is an another example which showcases how both, team and the execution are leveraging the multi-billion dollar opportunity in Healthcare

As rightly put forth by the Co-founder and CEO of CureFit, Ankit Nagori : "In India, healthcare infrastructure is evolving. A RedSeer report says preventive healthcare will alone be a USD 100-bn industry in the next five years. With this in mind, we wanted to provide a horizontal platform using tech and build various categories on it. **What works in our favour is the high retention rate and success stories we are seeing. We have 40 engineers who have previously worked with top tech organisations like Walmart labs, Ola, Myntra and Flipkart. They are highly focused on developing top-notch hardware and software"**

Source: <https://www.financialexpress.com/industry/the-challenge-is-to-transform-peoples-mentality-about-preventive-healthcare-says-ceo-of-cure-fit/1264026/>



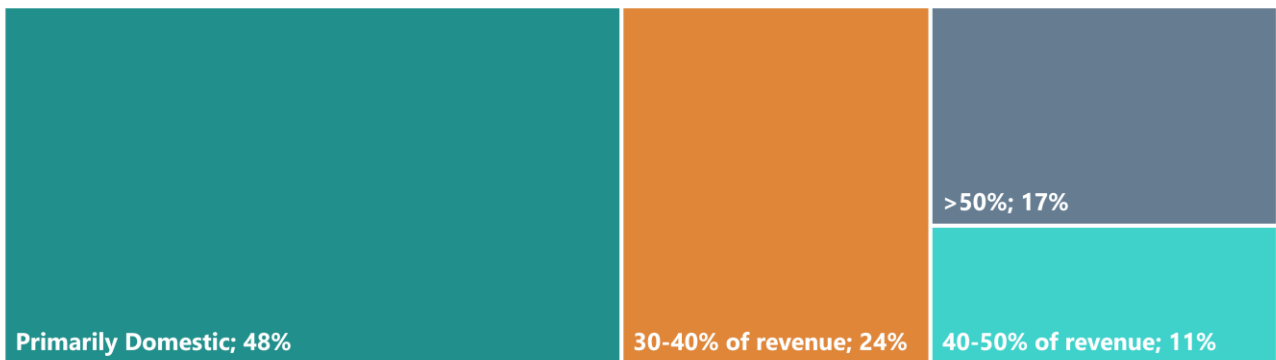
**Moat, demand & supply dynamics all in FAVOR!
But Monetisation is THE KEY.....perspectives of revenue growth, geo diversification**

Our question - International expansion is becoming critical for a Unicorn to achieve a Decacorn status. Uber expanded presence from San Francisco to 65+ countries in 5 years. What percentage share of the total revenue, you believe, should come from international markets?"

From a domestic vs. international revenue perspective, the respondents are almost equally divided.

Revenue (%) from international markets

■ Primarily Domestic ■ 30-40% of revenue ■ 40-50% of revenue ■ >50%



Indian Unicorns on way to becoming global giants

- Zomato has been expanding overseas since 2012 and operates in 24 countries, including Australia, Britain, Canada and the US
- Ola forayed into international markets starting in Australia and entered Britain and New Zealand
- Oyo ROOMS recently announced that it was setting aside USD 600 mn for expanding into China. OYO marked its entry in seven countries – China, the UAE, the UK, Indonesia, Spain, Portugal, and Japan – with an aim to add 50K rooms each month and have 2.3 Mn rooms by 2023. As of now, the company has 3.3 Lakh rooms in 500 cities across the world. Surprisingly, its largest and fastest growing business is in China (1.8 Lakh rooms in 265 cities), where it entered almost a year ago. OYO also made three acquisitions (Novascotia Boutique Homes, AblePlus, Weddingz)
- HealthifyMe sees Southeast Asia as its next target market

Source:

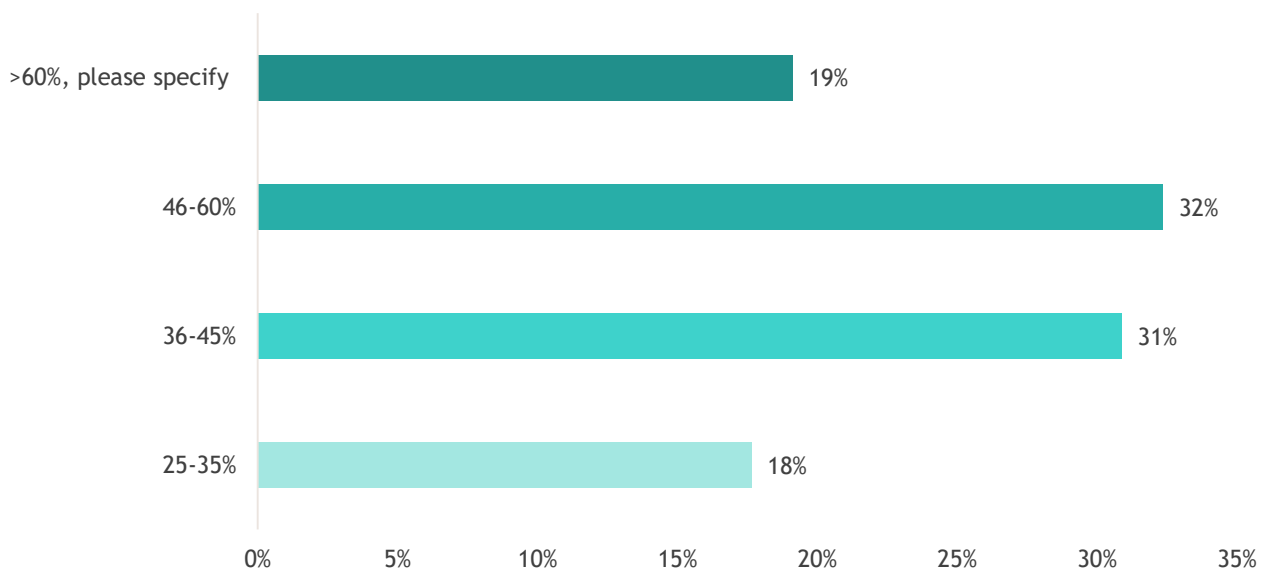
<https://m.dailyhunt.in/news/india/english/thehansindia-epaper-hans/rise-of-unicorns-among-indian-start-ups-newsid-104774532>

<https://medium.com/@sricapital/predictions-for-2019-5b8aa8a8e76f>

<https://inc42.com/features/2018-in-review-what-were-indian-unicorns-up-to-this-year/>

While public sources suggests established Unicorns like BYJU/ OLA / Zomato have grown at >60% CAGR in last 5 years (base year for OLA is upto 2017); over a further longer period of 10 years 63% of respondents prefer a CAGR of 36-60%.

Preferred Revenue CAGR for next 10 years



DIMENSION 2

Digital and Disruption: Positioning/ Performance/ Productivity

Our question - Winner takes it all. Niches like Facebook/ LinkedIn/Tableau are capturing a dominant market share (>70%) driven by breadth, technology edge etc. Your thoughts on a desired market positioning !”

The responses were very interesting and can be classified under four broad buckets.



Market Positioning (MP)

- Dominant/ Market leadership is KEY
- Address customer's pain points/wallets
- Consistently sustain the first mover advantage
- Network effect of products/ services
- Customer stickiness through content etc.
- Presence and/or dominance in niche and focused markets
- Unicorn should be in Top 3 list - there is enough market for even 2 and 3 positions but not beyond 3
- Right client composition & efficient unit economics
- In B2C sectors, it is always winners take all but in B2B sectors, the technology used and the problem it is solving are very important

Untapped India (UI)

- India is a huge market, with many white spaces yet to be addressed - even 10% market share can aid in becoming a Unicorn in some sectors
- Hit the bulls eye
- Be an early entrant in new market, raise huge capital and scale swiftly
- Understand the consumer in a billion plus consumer market

Technology Dominance (TD)

- Use of AI (Artificial Intelligence) & ML (Machine Learning) continues to grow exponentially. This will drive major changes in market ecosystem
- Given the exponential growth in the apps industry, it is equally important to capture the developer market as it is for leading the consumer market
- Innovation/ technology moat, first mover advantage and deep financial pockets

Competitive Positioning (CP)

- Stay ahead of the competitors
- Develop a differentiation which is difficult to copy

We found these broad four dimensions truly getting reflected in many of the established Unicorns in India:

Co-founder & CEO of PolicyBazaar, Yashish Dahiya on the huge untapped market, market share, execution, profitability and expansion in adjancies, Not to FORGET: The dominance of network effect

- While Insurance is a USD 41-billion industry in India, still large part of India is untapped. Insurance penetration in India is 3.5% vs. global average of 6%.
<https://www.cii.in/sectors.aspx?enc=prvePUj2bdMtqTmvPwvisYH+5EnGjyGXO9hLECvTuNvjBTANE9NuXxbmyBUB4+I5>; <https://www.deccanchronicle.com/nation/current-affairs/080618/insurance-penetration-low-in-india.html>
- PolicyBazaar sells ~25% of India's life insurance cover. Holds >7% of India's retail health insurance business
- In an industry that was largely untouched by digitisation, PolicyBazaar's success has imparted confidence that a change is happening
- Of our other ventures, PolicyBazaar is profitable. PaisaBazaar will be loss making for some years, and DocPrime will also be significantly loss making and will require investments. PaisaBazaar will continue to be funded through the profits earned by PolicyBazaar. And, PolicyBazaar's profits are more than the losses made by PaisaBazaar

Source: <https://yourstory.com/2018/07/no-ipo-next-18-months-focus-new-healthcare-venture-yashish-dahiya-policybazaar/>

India's Unicorn story is now seeing participation from B2B marketplace (untapped India). Udaan - on market potential and customer pain points they are addressing to become big : Co-founder Sujeet Kumar

"There are 50 mn SMEs in our country. 15 mn comprise MSMEs, another 15mn for the retailers, and the rest are in the HoReCa (Hotel/Restaurant/Café) space. Going by the latest reports, the total number of transactions that take place are 600-800 bn.

The sector is characterised by a lot of inefficiencies in logistics, capital as well as selling and marketing. Those are pain points as well as market opportunities for us in the B2B space.

The success story of Alibaba in the B2B e-commerce space is a global testimony to this fact.

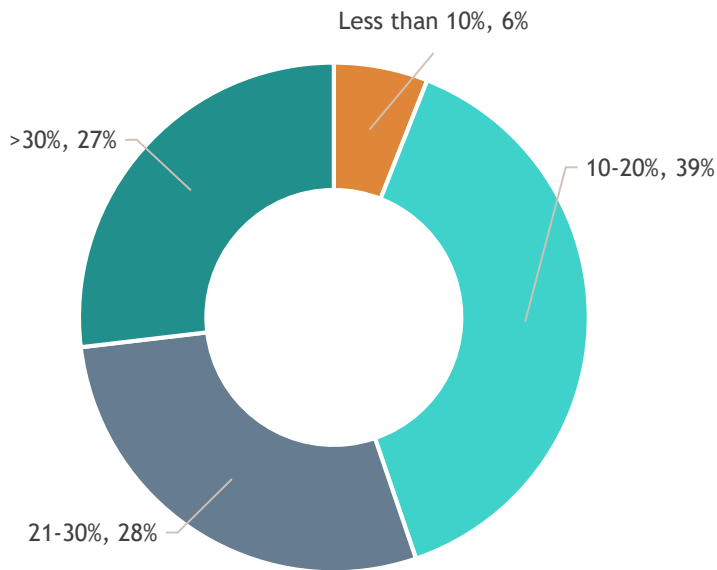
Source: Industry Sources



Majority of Unicorns have technology as their disruptive edge. “What percentage of opex + capex would you propose a Unicorn/ Soonicorn to spend consistently and annually on tech” was our question

As expected, **Technology Spend (Opex + Capex as a % of revenue)** remains a dominant business head in driving Disruption. ~40% of respondents preferred 10-20% where as 28% wished for 21-30%. Very few respondents (only 6%) are fine with less than 10% spend.

Annual and Consistent Spend (Opex + Capex) on Technology : 2/3rds prefer 10-30%; and only 6% fine with less than 10%



Rivigo and smallcase have leveraged technology as backbone of their success

Rivigo's Founder and CEO, Deepak Garg explains how they are leveraging technology: "Our entire operations are fully enabled by technology and that is the cornerstone of our business. A lot of technology goes into the trucks and the drivers. There is a central technology which tracks the trucks and the shipments as well. All of this helps making the operations more efficient, be it theft control, pilferage control, asset control, reliability management and safety. **We have infused technology to the extent that the entire operation gets seamlessly managed through automation rather than paper work and people.**"

Smallcase's All Weather Investing: The curious case of Asset Allocation with ETFs using algorithms

- "Intelligent algorithms rebalance the All Weather Investing smallcase quarterly, making sure money is in the right asset class at the right time," said Anugrah Shrivastava, Cofounder and Head - investment products, smallcase Technologies
- Online equity investing platform smallcase lets investors buy stocks portfolios and ETFs related to specific themes and strategies for higher returns. smallcase offers theme-based baskets - be it "Incredible India" or "The GST Opportunity" - with stocks listed in different proportions to offer the best returns
- smallcase baskets include "Magic Formula", "Smart Cities", and "Rising Rural Demand" etc.
- Final trade is on partner brokerage Zerodha's platform. smallcase platform claims to have close to Rs 1,200 crore worth of equities and ETFs traded on Zerodha's platform in the last 500 days.
- According to the company, close to 40,000-50,000 smallcases have been created by users until now, while only 68 have been created by the company
- It also has a stock discovery web platform called Screener, which allows users to find targeted stocks based on their growth and performance. With close to 100,000 users, Screener allows you to discover and research high-performing stocks and curate them on the smallcase platform
- The platform sees close to 78 % repeat rate (who have made more than one transaction on the platform)

Source:

- <https://micorporate.com/Bureau/Interviews/147/Deepak-Garg-Report-Joshua-David-Luther-Photography-Afsar-Baig-Founder-CEO-Rivigo-Pvt-Ltd>
- <https://www.dqindia.com/weather-investing-asset-allocation-etfs-launched-smallcase/>
- <https://yourstory.com/2018/06/bengaluru-based-smallcase-betting-big-thematic-investing-outperform-market/>

Technology / Internet Software & Services

A distinct example of creating scale, technology moat, repeat customers and brand building + Profitability:

BrowserStack : Co-founders Ritesh Arora and Nakul Aggarwal shared " The business idea made browser and app testing painless for 2 mn designers, developers and testers. The ability to test a piece of software on anything, from a laptop using an old version of Microsoft's Windows XP, say, to the latest iOS operating system on Apple's iPhone X or the many versions of Android on a multitude of phone models, has made **BrowserStack indispensable to customers**. Their technology already supports 60 mn tests a month today, which is more than double the volume they were handling 12 months ago. Today, in six years, BrowserStack has four products being used by customers in 135 countries, including Walt Disney, Tesco, Microsoft, Facebook, Twitter, Airbnb and Virgin Pulse.

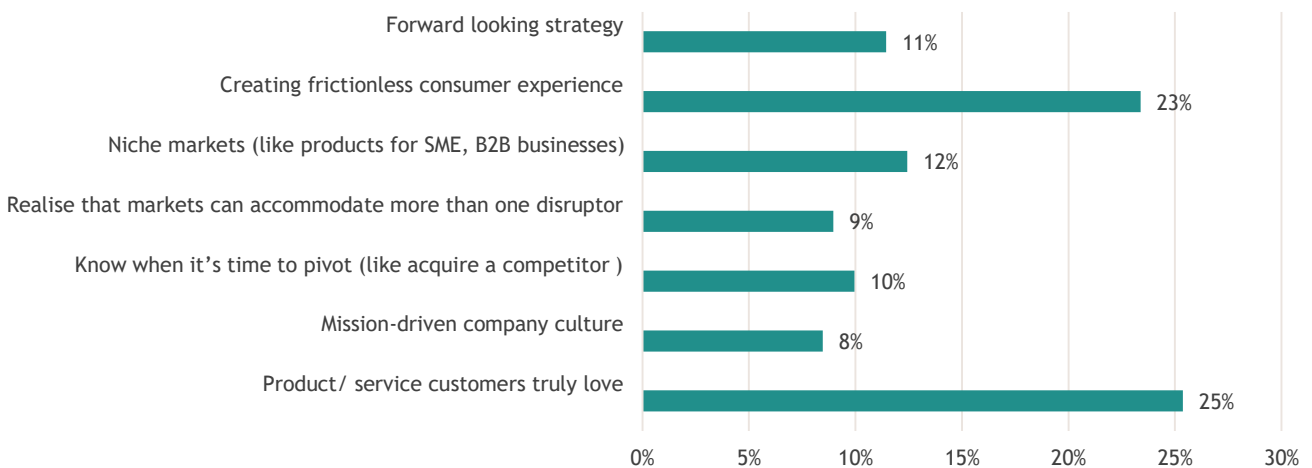
Source:

<http://www.forbesindia.com/article/leaderboard/meet-the-duo-thats-making-software-testing-a-childs-play/49795/1>

The Technology/ Digital Disruption by a Unicorn/ Soonicorn materially influences the products/ services you offer, company culture you build, customer experience you deliver, target customer segment you address etc. and creates a sustainable differentiation!

Our question - “Key business model differentiation/ positioning you look for in a Unicorn/Soonicorn”. Investors believe two attributes that take ~50% mindshare in driving differentiation and positioning in the market ecosystem are mainly (1) Products/ Services customers truly love, and (2) Creating frictionless consumer experience. One of the reasons for the success of Swiggy has been its industry-changing innovations and focus on delivering the best consumer experience.

Market place differentiation / positioning in a B2C Unicorn / Soonicorn



An international example, Airbnb

When Airbnb was struggling to gain initial traction in 2008, Paul Graham, a founder of well-regarded startup incubator Y Combinator, gave the CEO of Airbnb some advice. Graham told Brian Chesky that he should focus on creating a product that people truly love, not a product that people like. **As Chesky has gone on to say, it is better to make a product or service that one hundred people love rather than a product or service that one million people like.**

When people love a product, they evangelize it to friends and colleagues. The network effect of evangelism from a small but passionate group of customers is enough to propel most businesses to amazing heights.

Source: <https://www.entrepreneur.com/article/305843>

Creating frictionless consumer experience : The fastest 200cc bike is here and it's electric from Ultraviolette Automotive

- TVS Motor-backed startup Ultraviolette Automotive's electric bike surpasses the 138kmph mark claimed by KTM Duke 200, which is said to be the fastest 200cc bike in India
- "Our intent, when we started out, was not to build the best electric bike but the best mobility solution," said Subramaniam, who is CEO, pointing to the poor performance associated with electric vehicles (EV) for their low power and sometimes-unpredictable range—the distance a vehicle can travel on a single charge. "We want to showcase the superior performance of EVs over ICE (Internal Combustion Engine) vehicles and make them desirable. The boundaries of what's possible with EVs have not been pushed because of limited volumes," said Subramaniam
- Ultraviolette Automotive Pvt Ltd founders Niraj Rajmohan and Narayan Subramaniam claim the motorcycle, now in its fourth generation, has outperformed similar fuel-driven bikes in "design, performance, user, ownership experience" but will be offered at similar price point to increase accessibility of electric technology
- Aims to be the leader in the premium two-wheeler space, believes vehicles of the future "should adapt" to their users, and plans to introduce features such as preventive maintenance, remote diagnostics and "over-the-air" updates on a mobile application. Plans to set up a smart network of charging points on a city-wise basis, beginning with Bengaluru

Source: <https://www.livemint.com/Auto/HNFypBAbNDpFcnFNexulyL/The-fastest-200cc-bike-is-here-And-its-electric.html>

On creating frictionless customer experience and realising that markets can accommodate more than one player - Paytm's CEO, Vijay Shekhar Sharma shared

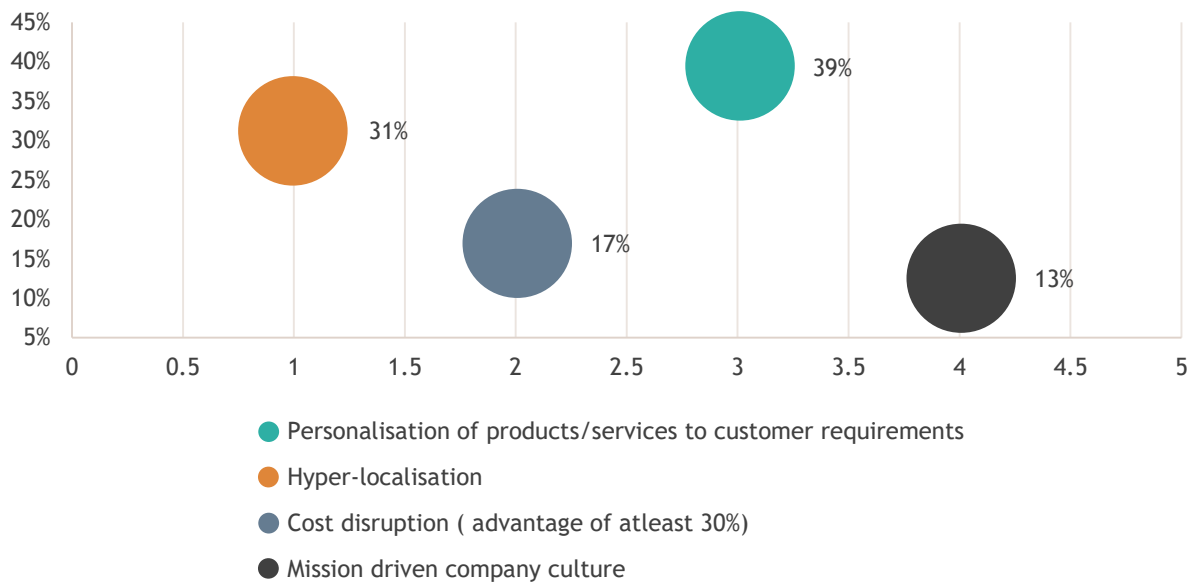
On e-commerce, we are very much in race with Flipkart, Amazon. This we intend to do by starting new streams of revenue, by increasing productivity of our staff, etc. Then we would like to break even.

The business opportunity resides in tier 2, 3 and 4 cities and smaller towns, which is being currently served by brick-and-mortar shopkeepers. The aim is to bring those shopkeepers online and make their customer base transact online. **Our power will not be in efficient supply chain or launching private label, but if a customer orders today, she should be able to either pick the product from the nearest shop or that shop should be able to deliver it to her.** In fact, more than 20% our orders are delivered within the same or next day. We believe that by next year, we would be able to deliver 50% of our order either on the same day or the very next day.....**Creating Frictionless consumer experience**

Source: <https://www.financialexpress.com/industry/paytm-ceo-vijay-shekhar-sharma-on-e-commerce-we-are-very-much-in-race-with-flipkart-amazon/953406/>

Addressing customers pain points/ requirements and cost disruption, uphold 71% of respondents selection of a Unicorn / Soonicorn in a B2C segment. This was the response to our question on 'Key customer/ distribution metrics you look at before subscribing to a Unicorn in a B2C model'

Personalisation and Cost disruption dominate a B2C Unicorn selection (71% in aggregate)



“Other key metrics used in evaluating B2C Unicorn / Soonicorn investments include scalable disruption, user experience & its consistency, premiumisation of product/ service, repeat customers / usage (%), reaching customers first, customer loyalty, customer acquisition cost, lifetime value of customer, network effect of offering/ technology and customer engagement metrics”

COST DISRUPTION: Lenskart Founder & CEO Peyush Bansal

Lenskart.com offers great value for money and customised eye-wear products and market report suggest that Lenskart has enabled to pass on the benefit of reduced costs to the customers in the form of almost 70% lower prices

"We have set up with facility to be able to innovate on design and manufacture high quality spectacle frames at lower costs. We will invest USD 5 million over the next three years and will be able to manufacture 3 lakh frames a month" Lenskart founder and CEO Peyush Bansal told

Currently, this facility will only meet half of our total frames demand. Rest we will manage through contract manufacturing, he added

"Over the period, we expect cost of these high quality frames to come down by 30 per cent," he said.

Source :

<https://retail.economictimes.indiatimes.com/news/apparel-fashion/accessories/lenskart-plans-to-invest-usd-5-mln-in-3-yrs/63262889>

<https://visionplusmag.com/2014/india/in-conversation-with-peyush-bansal-ceo-lenskart/>

The Mobikwik venture showcases how they are disrupting in a huge market with time efficiency, technology edge, product innovation (miniaturization/ affordability) and addressing customer pain points

- According to a report by BCG released in July 2018, digital lending in India will become a USD 1 trn market in next five years (as per industry statistics, less than 10% Indians have access to credit). I believe lending is the next big opportunity in India and a few profitable startups will emerge from that," says Bipin Preet Singh, founder and CEO, MobiKwik
- **Their instant loan product – Boost – promises loan disbursal in 90 seconds.** They have already approved in excess of 250,000 loans and are on track to becoming India's biggest digital lender
- The loan sanction decision is taken in less than 30 seconds, on the basis of an innovative risk scoring model called 'Mobiscore' (analyses and generates ~500 variables around customer's spending patterns and other parameters that the app has access to). The real-time underwriting has been possible only because of artificial intelligence and data analytics capabilities used in the entire loan journey
- **Founder and CEO Bipin Preet Singh believes:** Low customer acquisition cost, inbuilt scoring model, and quick disbursal are our key differentiators. We are the first digital lender to ensure disbursal of the loan amount in a matter of 90 seconds. We are offering instant loans of up to \$833 (INR 60,000) payable over a period of 9-12 months
- Acquired ClearFunds and entered wealth management. Clearfunds already had USD 45 m (INR 315 Cr) worth of assets under advisory (AUA) and its platform enabled clients to access over 3,000 direct mutual fund schemes across all 36 asset management companies (AMCs). Aiming to increase this to USD 250 mn (INR 1,800 Cr) in next one year, which is over a 5X growth. MobiKwik users will now be able to start their investment journey with as little as \$ 1.4 (INR 100)
- States loyal user base is very high and are witnessing new customer additions - to the tune of 3mn new users every month. **Real India needs a change in way financial products reach them and we are committed to making a huge impact**

Source:

<https://inc42.com/features/mobikwik-founder-and-ceo-bipin-preet-singh-on-his-plans-to-get-the-real-india-to-transact-online/>

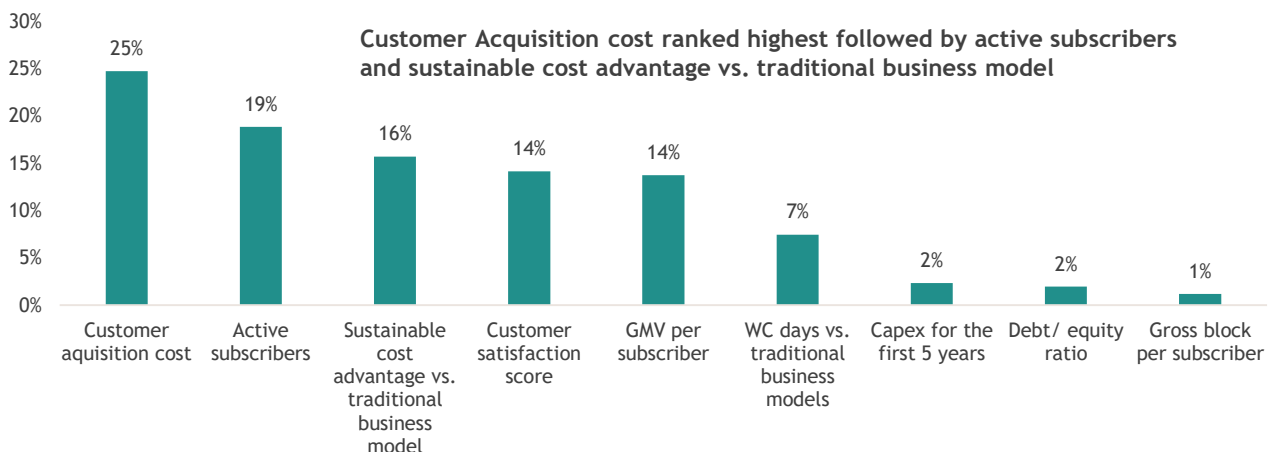
DIMENSION 3

Opex and Capex Efficiency : Excellence in investee companies

The journey of differentiation and monetisation must lead to a very productive organisation. Productivity investments pay for themselves.

Our question - ' Key business metrics you use to value productivity'.

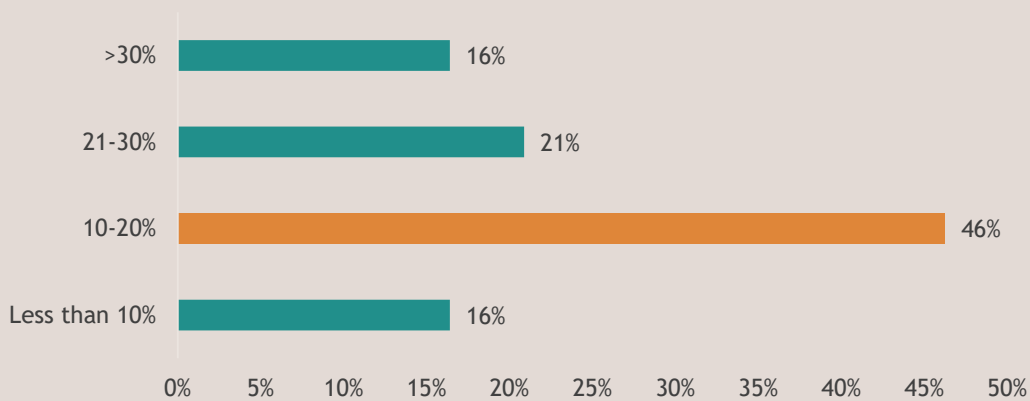
Five factors cornered mindshare in valuing productivity of a Unicorn/ Soonicorn - first being Customer acquisition cost, Active subscriber base, Sustainable cost advantage vs. Traditional business model, Customer satisfaction score and GMV per subscriber.



Other measures which investors use to value productivity are Cohort analysis, Life Time Value of Customer, Cost of Delivery, Frequency of Purchase, Significant and Sustainable difference in cost of delivery vs. Traditional business models, User engagement etc.

Post productivity, driving a profitable and a comparatively sustainable advantage on a consistent basis is critical. To our question on 'What EBITDA margin advantage your Unicorn/ Soonicorn should have vs. traditional competitors' 67% of respondents believe Unicorns/ Soonicorns should enjoy 10-30% EBITDA advantage (almost 50% of respondent universes place the share at 10-20%).

2/3rd respondents believe Unicorns/ Soonicorns should enjoy 10-30% EBITDA advantage vs. traditional players



Nykaa's Founder and CEO, Falguni Nayar on Market Opportunity and Profitability

- **Huge Market Opportunity:** The online beauty market is expected to touch USD 1.5 bn by 2020, and double to USD 3.3 bn by 2022. Nykaa is looking to increase the brands and categories it offers and open another 30 stores
- **Profitability:** Store-level profitability remains important. Very sure about the success of Luxe model and stores in metros. In metros, they see store-level EBITDA profits almost immediately. In certain other cities, they take 3 to 6 months to scale up. They will become profitable (at operating level) later this year
- **Believes for e-commerce, the main thing is to control the marketing cost, and Nykaa has a very strong marketing strategy that will enable them towards profitability.** They are always very focused on building the beauty category. Right now they are growing natural products category, and are also expanding into men's range and luxury offerings

Source: <https://qz.com/india/1278257/nykaa-ceo-falguni-nayar-talks-profitability-and-taking-online-beauty-brand-offline/>

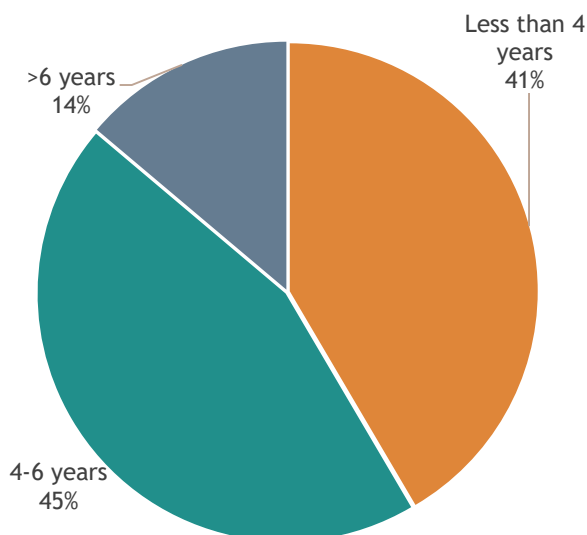
Portea Medical's Co-founder and MD, Meena Ganesh on Market Potential, Profitability, Diversification and Technology Centric Acquisitions

- India's home healthcare market stood at around USD 3.2 bn in 2016 and is expected to grow to around USD 4.46 bn by the end of 2018 and USD 6.21 bn by the end of 2020. The segment is growing at 25% a year in India, particularly due to the rise in ageing population, chronic disease problem and higher disposable incomes.
- **Portea Medical, India's largest out-of-hospital healthcare service provider, said it is set to become profitable in the next 18 months, sustaining a growth of 50-60 percent in revenue. Operations in most cities are at a break-even level**
- While the company makes half of its revenue from services provided, a third of it comes from sale of specialty medicines and the rest from renting out and trading medical devices and equipment.
- "We don't have any acquisition target in mind, but any target acquisition should be based on technology and led by technology," . Portea has acquired three companies till date - (1) MedybizPharma (2015) helped the company cross sell specialty drugs of high value to patients with cancer and rheumatoid arthritis, (2) Health Mantra India (2016), which deals in the sale and leasing of medical equipment. The two acquisitions together contribute around 50 percent of Portea's revenue (3) stake in PSTakeCare (2016), a platform that connects stakeholders of the healthcare ecosystem

Source : <https://www.moneycontrol.com/news/business/portea-to-turn-profitable-in-next-18-months-looks-at-acquisitions-in-multiple-segments-2735691.html>

Achieving positive cash flows continues to be an important and an instrumental yardstick by investors in evaluating Unicorns/ Soonicorns. We asked: 'What is your ideal achievement/ expectation of a positive cash flow generation for your Unicorn/Soonicorn investee companies'

86% of respondents prefer positive cash flows within 6 years



Focus on cash

- In his 2017 letter to shareholders, Buffett bemoans the new accounting (GAAP) rule that requires companies to include unrealised investment gains and losses in stocks in the income statement, which “will severely distort Berkshire’s net income figures and very often mislead commentators and investors... For analytical purposes, Berkshire’s “bottom-line” will be useless”
- He hilariously but truthfully states, “I expect considerable confusion among shareholders for whom accounting is a foreign language”. Understanding accounting is an uphill task given the pressures of our day jobs. So, investors could consider completely ignoring the statement of profit and loss and monitoring cash flow statements instead.

Source :

<https://www.thehindubusinessline.com/opinion/ten-lessons-from-buffet-for-investors/article23263369.ece>

DIMENSION 4

Management and Board Room Composition

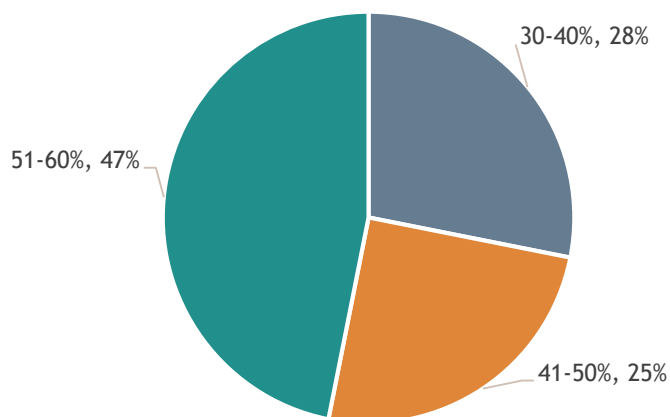
Warren Buffett believes the quality of a company's management is a key factor on whether a stock will be a good investment. "I think you judge management by two yardsticks," Buffett said. "One is how well they run the business, and I think you can learn a lot about that by reading about both what they've accomplished and what their competitors have accomplished, and seeing how they have allocated capital over time."

Source: <https://www.cnbc.com/2018/05/08/warren-buffett-heres-how-to-judge-management.html>

Our question - 'What weightage would you assign to entrepreneurs creating ventures in their domain of knowledge/ expertise'

-50% of Investors assigned higher weightage to entrepreneurs creating ventures in their field of knowledge/ experience

Weightage to entrepreneurs creating ventures in the domain of their knowledge/ expertise



Few investors have assigned a much higher weightage of 75% to entrepreneurs' knowledge / experience. This is more heavier in specialised domains like IoT and lighter in others like B2C.



Yashish Dahiya, CEO and co-founder PolicyBazaar.com is an expert in his industry. He also holds extensive knowledge of the consumer financial space in India.

Before starting his entrepreneurial journey with PolicyBazaar.com, he worked with First Europa, a Global Online Insurance Broker, as their CEO and was responsible for leading the global expansion and managing the business of the company across 9 geographical locations.

He has also had experience of working with an online travel aggregator, ebookers.com, a leading pan-European online travel agency and led their business as the Managing Director.

He started his career as a Business Unit Head at Illinois Tool Works and later moved on to Bain & Co. to work as a Management Consultant.

Source:

<https://www.policybazaar.com/expert-speak/yashish-dahiya/>

<https://startuptalky.com/startup-story-policy-bazaar/>

Behind 26 months to Unicorn status was 8 years of grit and hardwork - Udaan co-founder Sujeet Kumar

“When I was in Flipkart, I took delivery to 500 cities; and my city was not one of those,” says Udaan Co-founder Sujeet Kumar on how small his hometown is. Founded in late 2015 by ex-Flipkart executives, commonly known as ex-Flipsters, Udaan is a B2B marketplace. At Flipkart, for eight years Sujeet built operations, supply chain and logistics, while his Udaan Co-founders Amod Malviya was the CTO, and Vaibhav Gupta, was senior VP.

After exiting Flipkart, there was no plan of starting up. The trio turned angel investors, and Sujeet also consulted with Tiger Global for three months helping the investor’s portfolio companies.

“I realised I was a person of execution. Every time I would consult with the portfolio company on execution I would feel I should execute it. Then I thought I needed to start again. We nailed down B2B ecommerce in India because it is a unique proposition where 50 million small businesses are there with an easy internet play and yet it is hard to execute.”

Even while it works with third-party logistics firms, Udaan keeps control over the experience as it owns the tech platform. It also offers order management, accounting, and payment management solutions to merchants on the platform.

“Our experience, and the execution efforts we put in at Flipkart helped. We focussed on building teams fast, a lot of people who were a part of Flipkart heard that we were starting, and came onboard. At day zero, we had strong founding team. And that is super important. Then we focussed on system thinking how to scale tech, how to build processes.”

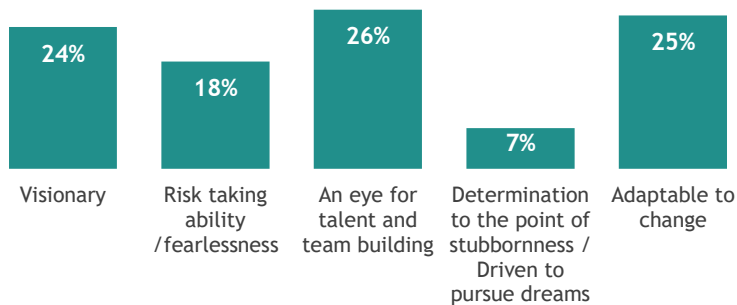
“We don’t build everything in-house we do partner, collaborate and work with different startups and entrepreneurs. Udaan is solving credit underwriting problem, B2B logistics, payment and sales and marketing, wherever there is a synergy, we work together.”

Source: <https://yourstory.com/2018/10/behind-26-months-8-years-grit-hardwork-got-us-unicorn-status-sujeet-kumar-co-founder-udaan/>

Our Question - 'Top 3 attributes entrepreneurs/ leaders must have to become a Unicorn owner'

Vision, eye for talent and adaptability to change, are personal virtues that investors assign higher in selecting Unicorns/ Soonicorns. Surprisingly weightage assigned to risk taking ability/ fearlessness and determination / passion to pursue dreams have a comparatively lower weightage.

Vision, Eye for Talent/Team and Adaptability for change have almost similar weightage in investor eyes wrt Unicorn/ Soonicorn owners

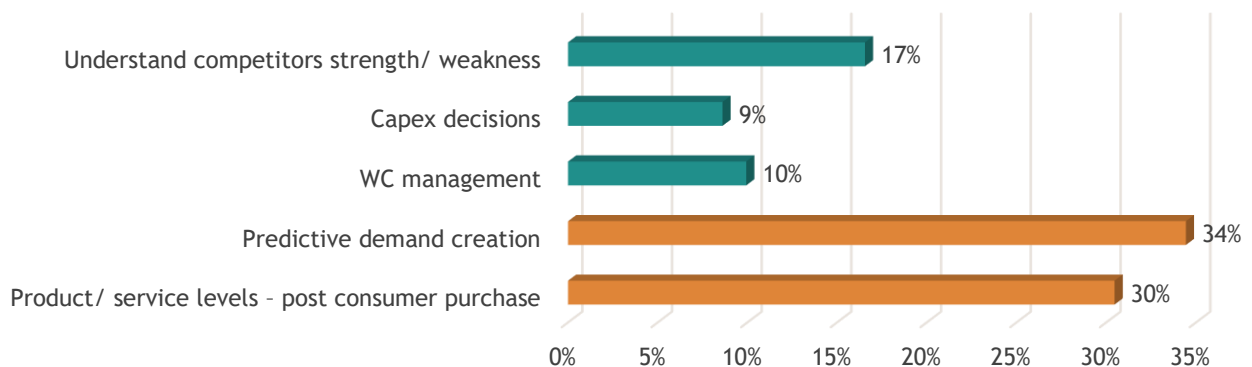


Other attributes that investors have given weightage are Ambitiousness, Communication clarity, Championship in products/ services, Prioritisation, Vision/Focus on desired achievements, Persistence, Knack of experimenting and Selling fast.

Our question - 'India is transforming from a data poor to a data rich country. Early adopters of big data and analytics will have a sustainable advantage.'

At what level is your Unicorn/ Soonicorn using these technology and tools'

Preferred areas (% of investors) for adoption of Big Data & Analytics



Increasingly, entrepreneurs/ founders have been implementing next-gen technologies in driving revenues and profitability. This is aptly reflected even in investor preferences towards usage of big data and analytics, mainly in areas of actual marketplace that influence consumer behaviour and ultimately drive demand/ revenue. Internal factors -capex decisions and WC management have been assigned lower weightage for usage of these next-gen predictive technologies.

“They (**BookMyShow**) engage and interact with millions of customers every month, both online and offline. This gives them unique insights into customer demographics, preferences, trends, which in turn makes them uniquely positioned to develop original content,” says **Prashanth Prakash, Partner at Accel Partners**, who led the venture capital firm’s investment in BookMyShow in 2012.

The Co-Founder and CEO of BookMyShow, Ashish Hemrajani eyes the big picture- wants to evolve from a pure-play online ticketing platform to a full throttle entertainment company. Ticketing has helped BookMyShow understand audiences. And its stronghold on the market has enabled it to a mass troves of data on viewing habits.

These insights help BookMyShow innovate on the movie-ticketing front, like enabling movie-going friends to split ticket costs on the app, allowing for food and beverages to be booked and offering discounts on restaurants in and around the theatre. This, along with the deep dive into original content, is a means to drive user engagement or “add value to customers”

Source:

<http://www.forbesindia.com/article/leaderboard/bookmyshow-eyes-the-big-picture/49657/1>

Another example of Vision, Growth, Aspiration and Leveraging Next-Gen Technologies (big data, analytics). **Harshvardhan Lunia, Co-Founder & CEO, Lendingkart Technologies Pvt. Ltd.,**

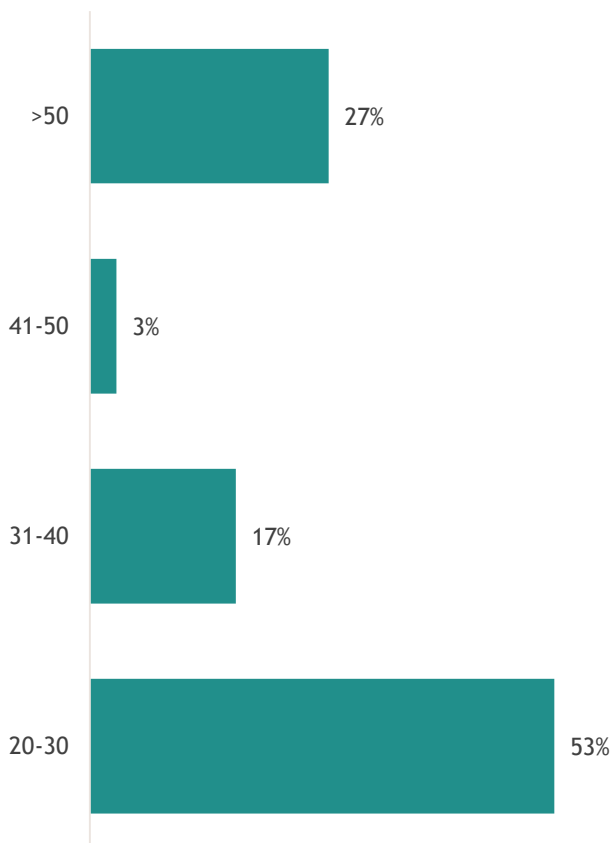
- India is a hugely under-served lending market of SME borrowers. Formal sources only cater to 22% of the total MSME debt financing
- We developed our services on 4 key pillars - Without human intervention, Instant, Simple, and Hyper-flexible. These services stand on the bedrock of cutting-edge technology that has defined Lendingkart’s leadership in the fin-tech space in India. We have developed technology tools based on analytics and big data to facilitate Lenders to evaluate their client’s business. Over 2,200+ variables are assessed to determine the financial health, comparative market performance, social reliability and compliance to statutory requirements to facilitate the Lenders to determine the credit worthiness of SMEs.
- With >100 channel partners supporting our effort, the endeavour is to reach out to 10,000 businesses in the SME space in the next six months.
- We aim to increase our reach across various credit product, geography and customer segments by **monetizing our data analytics and credit scoring platform, which other lenders can use to evaluate credit worthiness of borrowers**. Also, it will help us to disburse more loans without increasing our book size thus, increasing returns of assets for us.

Source:

<https://www.techbullion.com/interview-with-the-co-founder-ceo-of-lendingkart/>

Investors prefer and respect early induction of external/ independent directors as reflected in our survey findings “At what revenue stage (in US\$ million) do you think the Unicorn/ Soonicorn should induct external/ independent directors” - 70% of respondents prefer induction when firms reach USD 20-40 mn revenue size.

Majority of Investors (~70% of respondents) preferred induction of external/ independent directors when firms reach USD 20-40mn revenue



CoFounder & CEO of PolicyBazaar, Yashish Dahiya on what did Softbank find interesting in the models of PolicyBazaar and PaisaBazaar during the fund-raise discussions?

- What they really liked was the execution of the company. When we started PaisaBazaar four years back, we weren't the market leader. But today we are. So, there is belief that we can replicate this success in other industries where a similar skill set required.
- Also, I think it was the ethos of the company. We are one of the few internet companies **where the management holds more stock than the founders**. This reveals a certain ethos of the company

Source: <https://yourstory.com/2018/07/no-ipo-next-18-months-focus-new-healthcare-venture-yashish-dahiya-policybazaar/>

DIMENSION 5

Valuations, Fairness and Exits

Our Question - "Preferred Methodology in Valuing Unicorns (from the choices enumerated below in table)"

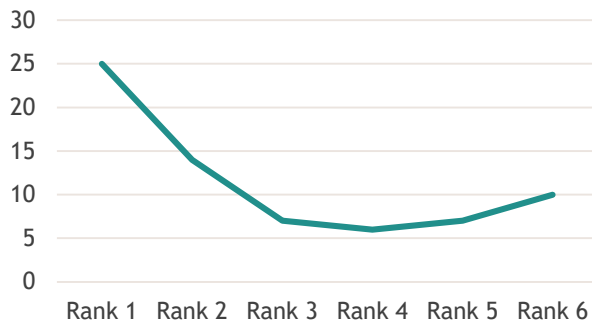
- MCap/ Revenue or MCap/ GMV and (2) EV/EBITDA are ranked higher
- Per subscriber metrics, (1) Life time value of subscribers x No. of peak subscribers an entity can reach and (2) EV/Subscriber x No. of peak subscribers score in between
- DCF and Burn rate being ranked as last two categories

(Scores with above average rankings have been shaded blue to highlight above average ranking)

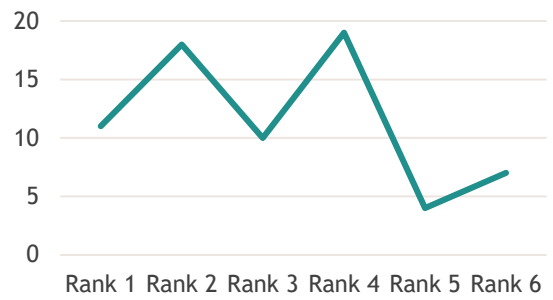
Preferred Methodology for Valuing Unicorns	Rank 1	Rank 2	Rank 3	Rank 4	Rank 5	Rank 6
M.Cap (value)/ Sales (x) or M.Cap / GMV	25	14	7	6	7	10
Life time value of subscriber x No. of peak subscribers' entity can reach	12	12	17	12	12	4
EV/ subscriber x No. of peak subscribers	5	14	16	20	10	4
EV/EBITDA	11	18	10	19	4	7
DCF	9	6	13	6	23	12
Burn rate	7	5	6	6	13	32



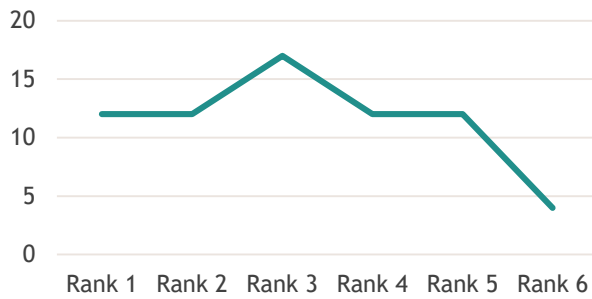
MCap/ Sales or MCap/ GMV - Most preferred



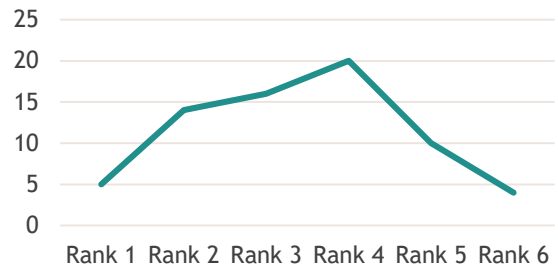
EV/EBITDA - Still a preferred mode for next gen Unicorns / Soonicorns



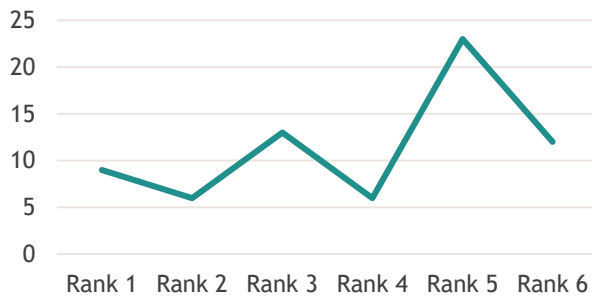
Life time value of subscribers x No. of peak subscribers an entity can reach



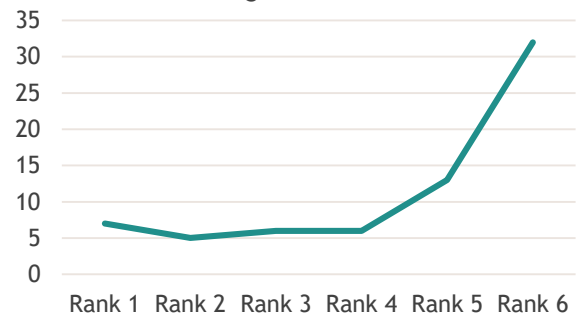
EV/Subscriber x No. of peak subscribers - appears to used as a supporting methodology



DCF - Ranked largely as a supporting methodology

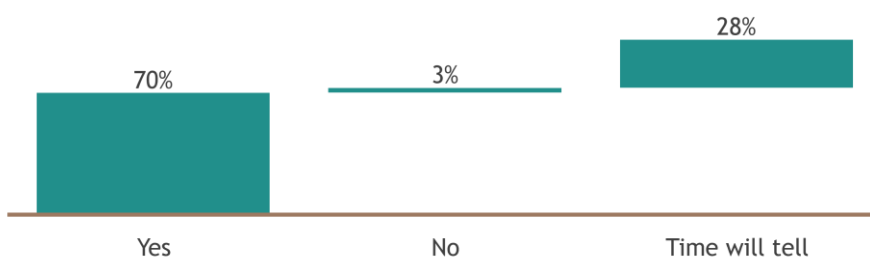


Burn Rate-Appears to be used towards far end in valuing Unicorns / Soonicorns



Approximately, 70% of respondents feel that investors are “over-paying for equity in Unicorns/ Soonicorns and hence are inflating their Market Caps” !

70% of respondents feel investors are over-paying for equity, 28% believe time will tell and only 3% believe that Market Caps of Unicorns are not inflated



Valuations have always been a function of growth and profitability. The growth rate of revenues can have a dramatic impact on the value of the business.

Business growth driving Byju's valuation: Founder and CEO Byju Raveendran

With its mammoth USD 540mn funding at a valuation of USD 3.6 bn, Byju's becomes the fourth-most valued startup in the country. “The business has almost doubled in the last six months.

The valuation growth is not because there were a lot of investors wanting to come on board—it's mostly to do with the business growth. Also, the fact that on a larger base we're growing faster, maybe there's some premium. Previous three years we've been growing at 100% each. This year, we're growing at 3X. We'll end the year at ₹1,400-1,500 crore, up from ₹500 crore last year (FY18). All the other product numbers are also growing fast. The model is also profitable.”

It's important to have a diverse investor profile. As promoters, we still hold a substantial part of the company. Why we also have a diverse set of investors is also because we're planning to do this for a very long term. When we look at future markets, some of them will be potential partners in those markets.

The plans continue to be as aggressive with the ed-tech startup aiming to notch revenues of Rs 1400 crore in FY 19 and a roll out of content in key regional languages such as Gujarati, Marathi and Tamil on its app.

Sometimes a large round happens due to the aspiration of creating one or two big markets. India will be a very large market, our primary market—that's a big advantage.

Source:

<https://www.livemint.com/Companies/znfGrluMAupNkJrkMLlcJ/Business-growth-driving-Byjus-valuation-CEO-Byju-Raveendra.html>

<https://economictimes.indiatimes.com/small-biz/startups/newsbuzz/byjus-ups-revenue-to-rs-490-cr-in-fy-18-drops-losses-by-half/articleshow/67474606.cms>

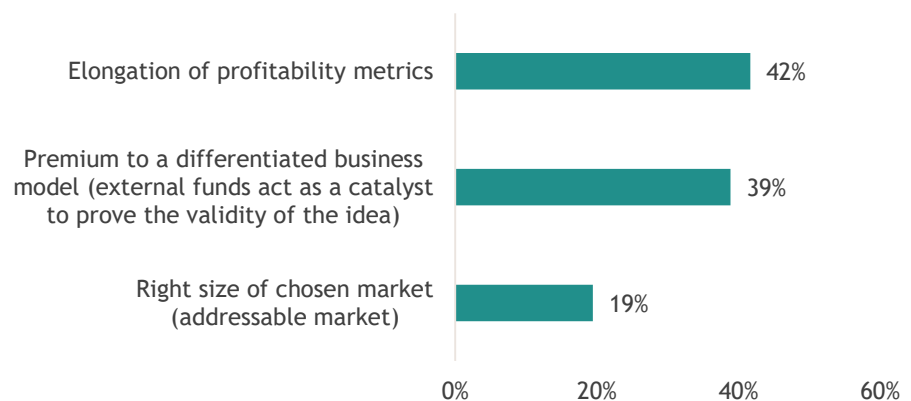


Maybe Unicorns are not valued perfectly as an asset class under the unlisted investment category. Maybe these business models need to be evaluated differently? Maybe the future has more in store with respect to their impact (industry structure, market share etc), profitability, cash flows etc!

Hence, we asked “Key difficulties you face in valuing Unicorns”.

Elongation of profitability metrics and premium to be assigned to a differentiated business model have been cited as key challenges faced in valuing Unicorns

Challenges faced in valuing Unicorns largely centre around elongation of profitability metrics and premium to be assigned to differentiated business model

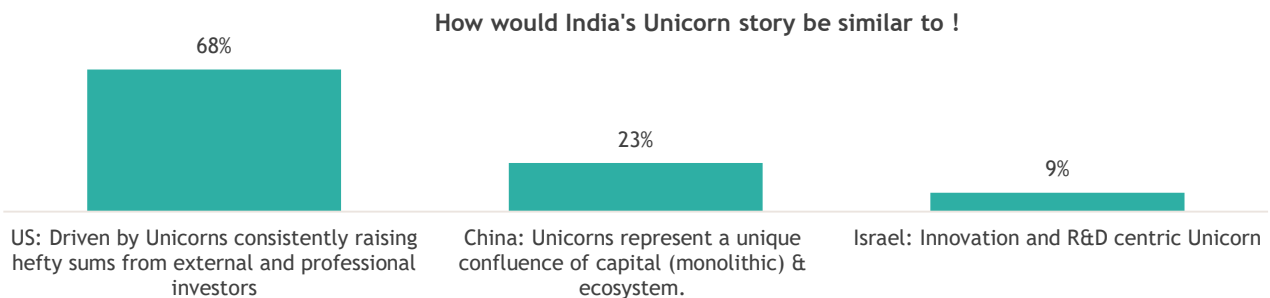


“Other difficulties in valuing Unicorns: Efficiency and ability of the management team to handle/deploy capital, increase valuation multiples in India (even as the growth rate of Indian companies are lower than the Chinese companies), predict the future and deliver on promised assumptions”

United States and China rank 1st and 2nd respectively in emergence of Unicorns. India's rank has moved up from 4th to 3rd. The Unicorn story of United States has been driven by Unicorns consistently raising hefty sums from external and professional investors whereas in China, the Unicorns represent a unique confluence of capital (monolithic organisations) & ecosystem.

We asked investors "Will India's Unicorn story be similar to US, China, Israel (Innovation and R&D centric Unicorn) or others"

Approximately, two-thirds of respondents feel that India's Unicorn story will go the US way !



This is one area where investors have shared maximum insights on India's path. Many investors believe India's Unicorn story will be a confluence of US and China experiences mainly a combination of hefty fund raise from external / professional investors and monolithic organisations / ecosystem.

Some investors believe:

- China has regulatory cap from external capital, US has network effect and a more professional approach to entrepreneurship
- India is a unique country due to its young age of entrepreneurs, evolving nature of network effect /ecosystem and drag from traditional/ legacy sectors in India
- India is able to experiment on far lower costs, and the Government has been building the infrastructure, which Unicorns are able to use and captialise on. This could result in a story that could be very different than US, China and Israel.
- While China is strategic and US is flushed with liquidity, India will have its unique pool of capital
- India will have fewer Unicorns but will be fundamentally driven

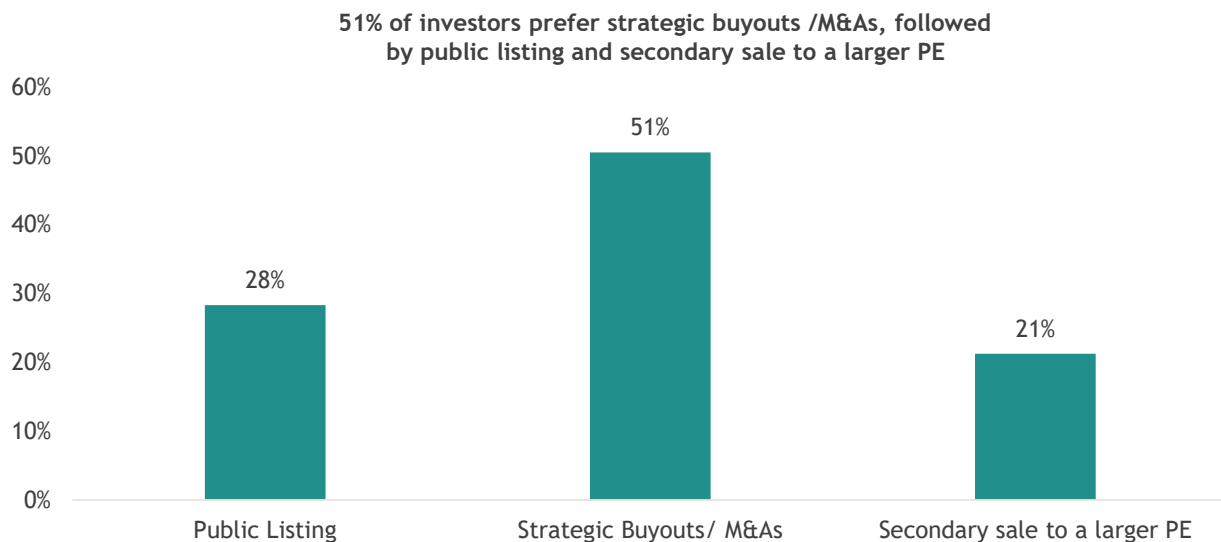
Assets need to be monetised and the PE/VC industry has set many new milestones in 2018. The aggregate value of US Unicorns in their exits since 2011 has been upwards of USD 75 bn+. Crunchbase Data shows 23 unicorn IPOs globally so far in 2018 (outpacing 2016 and 2017) and we are seeing impressive aftermarket gains.

Source: <https://news.crunchbase.com/news/global-unicorn-exits-hit-multi-year-high-in-2018/>

To our question “Preferred mode of exit route - Public Listing, Strategic buyouts/ M&As, Secondary sale to a larger PE” - Investors preference was towards Strategic buyouts / M&As to Public Listing.

Coincidentally this is also reflected even in India’s PE industry developments in 2018:

- In May 2018 we saw the world's largest retail giant, Walmart buy ~77% stake in Flipkart for ~USD 16bn in one of the largest e-commerce deals globally
- Samara Capital and Amazon are co-investing in a facilities support & management and value-added services company ‘WitzigAdvisory’ which has agreed to acquire More
- Teleformance acquired Intelenet for USD 1bn EV (~2.2x FY18 revenue) from Blackstone



TOP OF THE MIND UNICORNS/ SOONICORNS

Among the established Unicorns - Automation Anywhere, Freshworks, Hike, InMobi, Mu Sigma, Quikr, Shopclues and Snapdeal too deserve a mention.

From our channel checks, we see the following names also moving from "Soonicorn" to "Unicorn" status:

BlackBuck Logistics, BlueStone, CarTrade, ClearTrip Travel, Druva, Droom, Ecom Express, Financial Software and Systems (FSS), FINO PayTech, FreshMenu, GreenDust, Grofers, ItzCash, Limeroad, NestAway, NetMeds, Pine Labs, Power2SME, Practo, PropTiger, ShareChat, Voonik, and Zivame.

EXISTING

BYJU	OYO Rooms	Swiggy
Flipkart	Paytm	Udaan
OLA	PolicyBazaar	Zomato

UPCOMING/ SOONICORNS

1 - India Family Mart	Elastic Run	Rivigo
Ather	Healthkart	smallcase
Bandhan Bank	InCred	Ultraviolette Automotive
Bigbasket	Infibeam Avenue	Urban Ladder
BookMyShow	LendingKart	UrbanClap
Browserstack	Lenskart	Zerodha
Cardekho	Mobikwik	Zoho
Cure Fit	MSwipe	Zolo
Dailyhunt	Nykaa	Zoomcar
Delhivery	Pepperfry	
Dream11	Portea	

Source: <https://inc42.com/features/2018-in-review-what-were-indian-unicorns-up-to-this-year/>



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