

India's new guard of start-ups

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When Sachin Bansal and his room mate Binny Bansal decided to quit Amazon India in 2007 to start their own "humble online bookstore", many thought they had lost their wits.

"A lot of people tried to talk us out of what we were doing," says Binny. "They used to say: why give up a proper job?"

Sachin also recollects friends warning him about the risks of setting up his own business. "We had a job, a good one, but we also had a dream and many people couldn't get this feeling, this ambition," he says.

Few believed that the two university friends – who happen to share the same surname – could turn a \$10,000 investment into a business generating multimillion-dollar revenues in less than five years. Today, some analysts value their company, Flipkart.com, at about \$400m.

The story of Sachin and Binny might be a fairly common one in Silicon Valley, where dropping out of university to set up a company has become the norm. But in India things are different. One reason people were so sceptical was that the two were first-generation entrepreneurs who did not come from a business family background – Sachin's father was a farmer and Binny's was a government employee.

"Junior analysts at investment funds found our business interesting but when they pitched our company to their senior partners they would turn us down as they thought that two guys like us couldn't scale up the business," says Binny. Historically, leading entrepreneurs and business executives are children from "business families". Meanwhile, somebody born in a family of professionals or government employees would end up following their parents' footsteps as a salaried worker – a throwback to the days when a person's occupation was tied to caste.

Apart from a few rare rags-to-riches stories – such as that of the late Dhirubhai Ambani who built Reliance Industries, India's largest listed company, despite being the son of a low-paid teacher in rural India – not many individuals have broken the mould.

Now, a new group of first-generation entrepreneurs such as the Bansals are overcoming social obstacles and taking advantage of the opportunities in the "new India".

"Initially, we were running the company with just two computers from our room," says Sachin. "The first order came 10 days after we launched the site. A guy in Andhra Pradesh bought Leaving Microsoft to Change the World by John Wood, who quit his job to set up the charity Room to Read. To us, it all seemed quite ironic as we had quit Amazon to change our lives," he says, as the two burst into laughter.

"It took us two days to find it," recalls Binny. "We sold it at a loss to make up for the delay in delivery."

Setting up the operation from scratch was the hardest task. "At the beginning, it took some time to get [book] distributors and vendors to believe that what we were doing was serious and had potential," says Sachin.

Flipkart broke even after only six months, allowing the two emerging entrepreneurs to start reinvesting profits into a new office space and employees. "We didn't take a salary for 18 months and lived off our savings and a little pocket money from our parents, who were very supportive," says Sachin. During the first year, the company grew at a phenomenal pace. Sales doubled on a quarterly basis as Flipkart's innovative cash-on-delivery payment system and growing titles catalogue became the favourite destination for the country's literati in search of their preferred book.

However, in spite of the stellar early performance, few serious investors approached the Bansals to back their project. "We knew it would have been hard to attract [venture capitalists]," says Binny. "We were just two years out of college with a short working experience. We had to build a customer base to prove that we had something real to offer to potential investors."

By mid-2009, investors started coming after them and they soon received their first \$1m from a VC fund. This was shortly followed by another \$10m investment from another US fund.

"From then onwards, the operation skyrocketed," says Sachin. "We opened multiple offices, hired new engineers and boosted our catalogue."

This new class of entrepreneurs has emerged over the past decade on the back of India's unbridled economic ascent, as old barriers and constraining traditions have been overcome by a more risk-prone and self-confident generation. They have a distinct profile: they have a middle-class background; their parents were wage earners; they went to India's top universities; some also have an MBA or PhD from the US; and they worked for a big company for a few years, before going on to set up their own venture.

Like the Bansals, Samir Patil, a former partner at McKinsey, and Susmita Mohanty, who worked at Nasa and Boeing, are two entrepreneurs who fit this profile. Inspired by Walt Disney and Sesame Workshop, the non-profit organisation behind Sesame Street, Mr Patil launched India's first child-focused media group in 2007 after he returned from New York, where he lived for several years. Meanwhile, Ms Mohanty returned to India in 2008 to launch Earth2Orbit, the country's first private sector space company, which consults the government's space agency and private sector groups to develop space-related business opportunities.

The rise of these new entrepreneurs became possible only after 1991, when on the brink of default India was forced to open its economy, says Ajit Rangnekar, dean of the Indian School of Business. "If you look back pre-1990s ... there were so many hurdles, you needed loads of licences, you had to be close to the government, capital was not easily available ... There were very few non family-run businesses," says Mr Rangnekar.

The success of India's IT outsourcing sector also played a big role in instilling a new entrepreneurial culture, says Padmaja Ruparel, president of Indian Angel Network, a community of early-stage seed investors. "Companies such as Infosys [India's second-largest company], which was set up in the late 1980s by a group of middle-class IT whiz-kids, proved that it was possible for anyone to turn a dream into reality."

Parminder Gill, a 42-year-old entrepreneur and co-founder of EduSports, which provides physical education programmes to nearly 200 private schools in India, says that the entrepreneurial ecosystem has hugely improved since he set up his first business more than 15 years ago. "The government isn't in your way all the time, there are more sectors we can invest in, people have money to buy our services thanks to the economic growth we have experienced ... it is a whole different story."

However, seed funding continues to remain a pressing problem, according to Vinarma Shastri, a partner at the consultancy Grant Thornton. He says that most funds prefer investing in companies with at least a year or two in the business, which means that many start-ups depend on personal or family savings to get things going.

The rise of India's new generation of entrepreneurs is still under way but what most observers seem to agree on is that the country's next generation of billionaires will be the likes of Sachin and Binny.