ANALYSES OF FUNDING OF UNICORN STARTUPS

Abstract

Unicorns are the companies that have valuation of $1 Billion or more. Most of the unicorns are incurring losses and yet they are attracting huge funding. Even more curious part is that they are young companies who have made themselves to the list of Unicorns. The question is whether these companies are worthy of this valuation or is it just a start up bubble. The paper is based on secondary sources, mainly research articles, Annual reports, and web sites.

The paper is a case study analyses of Companies like Naaptol, yaatra.com, Snapdeal, PayTM, Myntra and BigBasket. Selected companies are analysed for their net worth, turnover, and Losses with respect to their funding.

Keywords: *Unicorns, Start-ups, Losses, funding, net worth*

Introduction

There has been a lot of hype about start-ups. It is now the world of new companies that are attracting heavy funding from the venture capitalists and other investors. But the question is what are the factors that drive the funding of these start-ups. As interesting, innovative this concept sounds, equally is the challenge involved in taking a newly start-up to height of success.

The paper is based on Case study analyses of few selected companies that had been incurring huge losses, yet having huge funding from the entrepreneurs. This seems to be surprising which makes me question what are the possible factors that can be responsible for the funding of the start-up? So, the paper makes an initiative of exploring at least some of such factors that affects the funding of a start-up enterprise.

Literature Review

The corporate Venture Capitalists (CVC) add value to start-up companies only when the start-ups have a strategic fit with the parent company of the Venture Capitalists. CVC's often leverage the resources of their parent corporations and are able to provide a variety of services and support. This appears to suit the specific needs of start-ups operating in different industries. CVC backed start-ups are able to obtain higher valuations at the IPO than non-CVC backed ones and are also able to receive higher takeover premiums when they become acquisition targets, (Ivanov & Xie, 2010).

Fitza, Matusik, & Mosakowski, (2009) analysed the ownership effect in the case of start-ups. In their analyses ownership was seperated into two components- a selection component that impacts investment, and a management component that explains significant variations in performance. They analysed the effect of venture capitalists (the owners) on the performance of start-ups. Cassar (2009) found in his research that the use of Outside funding, level of competition, and venture scale are positively related with the intended frequency of financial statement preparation. Also the deteriments of preparation frequency vary among different financial statements. Cash Statements are more important for Start-up firms having products in earlier stages of development and having greater degree of competition.

Gaining a "window" on new technologies is widely heralded as a strategic benefit that established firms gain through the provision of venture financing to startups. Prior studies show that information gained through CVC investing can improve the internal R&D productivity of established firms. This raises the intriguing possibility that while corporate investors can potentially reap added benefits through improved performance when acquiring startups, there are significant differences in their abilities to do so, (Benson & Ziedonis, 2009). Hsu (2006) in his analyses of 696 start-ups suggested that there is a substantial boost in strategic alliances and technology licensing like cooperative activities, in start-ups associated with VC-backed firms that can also result in the possibility of an IPO.

All Start ups initiate with a dream. But not always that dream comes true. On the road of achieving their dreams, they encounter innumberable challenges. Startups take time, effort, and energy. Funding is a major concern for startups and small businesses. Intensifying the challenge of raising funds, major leaps in technology have led investors to raise the bar in terms of how much legwork entrepreneurs are expected to do before even pitching their companies, (Sharifi & Karbalaei Hossein, 2015)

Objective of the Study

Considering the limited research undertaken on the relationship between the funding of start-ups and various factors that can affect the funding like net worth, profits, turnover of the enterprise, the paper has an objective to identify the various Predictors of funds raised capacity of Unicorns in India.

Research methodology

The approach adopted is secondary data analyses. The data is collected from websites and various research articles. The content analyses is undertaken to study the turnover, profit after tax (PAT) and the funding of few selected start-ups. The companies analysed are Naaptol, yaatra.com, Snapdeal, PayTM, Myntra and BigBasket. The data has been collected for six variables, viz., Funds Raised, Life of the company, Debt/Equity ratio, Networth, Turnover and Losses. The study employs correlation analysis and Multiple Linear Regression analysis to examine the impact of various variables on funds raising capacity of Unicorns. Funds Raised has been considered as a dependent Variable and life of the company, D/E ratio, Networth, Turnover and Losses are independent Variables.

Research Hypothesis

H1 There is no significant relationship between funds raised and life of the company.

H2 There is no significant relationship between funds raised and Debt/Equity Ratio.

H3 There is no significant relationship between funds raised and Net Worth.

H4 There is no significant relationship between funds raised and Turnover.

H5 There is no significant relationship between funds raised and Losses.

Data Analyses and Discussion

The following data has been collected about various start-ups and tabulated as under-

Table 1Details of Start-ups, their turnover, Losses and funding in FY 2014-15

(Figures in Rs., data is as per FY 2014-15)

S.no	Name of the Start-up Company	Year of incorporation	Brief about the company	Turnover	PAT/ Losses	Funds raised
1	Naaptol	2008	the third largest player in the digital	289 Crores	Loss 43 crores	665 crores

			commerce platform market with presence across TV, web and mobile.			
2	Yaatra.com	2006	one of India's leading Online Travel Agencies	263 crores	Loss 67 crores	520 crores
3	BigBasket	2011	online grocery store	178 Crores	Loss 61 Crores	695 Crores
4	Myntra	2007	leading fashion e-commerce portal in India	773 Crores	Loss 740 Crores	1831 crores
5	PayTM	2000	Mobile Retail Marketplace	337 Crores	Loss 372 Crores	4383 Crores
6	Snapdeal	2007	the second largest player in the Indian e-commerce industry	938 crores	Loss 1319 Crores	10,492 Crores

As observed in the table, there has been huge losses incurred by these start-ups in FY 2014-15, Yet, these companies have managed to raise huge amount of funding.

Table 2 Correlation Analysis

Variables	Funds Raised
Life	.261
DE ratio	-.225
Net Worth	.939**
Turnover	.750
Losses	-.888*

*Correlation is Significant at the 0.05 level (2-tailed)

** Correlation is Significant at the 0.01 level (2-tailed)

Correlation analysis shows that net worth is having a high correlation of .939 with funds raised and also significant. Profit after tax is having negative high correlation and also significant. Other variables are not significant.

A stepwise regression analysis was performed to select the predictor variable that account for most of the variation in dependent variable. In this procedure, the predictor variables enter or are removed from the regression equation one at a time.

Results of Multivaraite Regresssion Analysis

Table 3: Multiple Regression Analysis

Hypothesis	Dependent Variable Funds Raised			
S.no	Independent Variable	Coefficients	p-values	Variable Entered/Removed
H1: life →FR	Life	.299	.059	Removed
H1: D/E →FR	DE ratio	.057	.800	Removed
H1: Net worth→FR	Net Worth	.939	.006	Entered
H1: Turnover →FR	Turnover	.143	.644	Removed
H1: Losses →FR	Losses	-.336	.364	Removed

Model Summary[b]

Model	R	R Square	Adjusted R Square
1	.939[a]	.881	.851

a. Predictors: (Constant), Networth

b. Dependent Variable: Funds Raised

The above analysis shows that only net worth is a significant predictor of funds raised by the unicorns. Other variables are not at all significant predictors of funds raised. The value of R is .939 which is quite high shows that model is a good fit as the predicted value of funds raised is closer to the actual value of funds raised. Value of R-square is .881 shows 88.1% variance is being explained by net worth and remaining variance is unexplained.

Conclusion

The paper highlights the mismatch between the funding and the profitability of the Start-up companies. This makes us ponder what makes these young companies attract funding when they are heavily running into losses. Based on case study analyses of few selected start-up companies the paper highlights the importance of research work required in analysing the funding criterion of these start-ups. The paper concludes by highlighting a positive significant relationship between the net worth and funding of the start-ups.

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