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Exploring the success of Indian unicorns: A study of growth trends and economic impact

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Abstract

In the world of start-ups, private companies with a valuation exceeding \$1bn are called “unicorns.” The term was initially meant to symbolize the uniqueness and remarkable growth trend of these highly valued businesses. Furthermore, unicorns have evolved into representatives of creativity and economic vitality, driving the development of new technologies, the creation of jobs, and the generating of money within their ecosystems. This worldwide trend is reflected in the emerging startup culture in India, which has seen an incredible rise in the country in recent years. Notably, startups like Khan Academy, and BYJU have reached multi-billion revenues in the previous years. The ventures are not just profitable but they offer many opportunities and encourage creativity through the use of advanced apps and technology. This has helped the country to become the third largest global home to unicorns after China and America.

Using the data collected between 2020 and 2021, this study seeks to explain why these start-ups were so successful. Moreover, this paper analyzes the latest funding, valuations, and comparison of profit and losses for various unicorn companies in different sectors by utilizing several chart visualizations and showing multiple factors contributing to their success. Furthermore, with this comprehensive analysis of unicorns’ financial characteristics and performance measures, this paper will offer insightful information on their sustainability and obstacles to maintaining their unicorn status and for the new startups to rise in this changing and dynamic industry.

Keywords: Unicorns; Startups; Visualization; Valuation; Business; Innovation

1. Introduction

A unicorn, a startup, a privately owned company, or a corporation becomes one if it’s valued at over one billion dollars. Although the concept of unicorn companies was first introduced in the United States, later other parts of the world such as Europe, Asia, and Latin America have adopted this practice. The term was first created by venture capitalist Aileen Lee in 2013 when there had been a rapid increase of start-ups especially in innovation and technology-driven industries crossing this valuation threshold. Among entrepreneurs, investors, and the public alike, unicorn start-ups are the most exciting prospects one can think of in the world of startups. This is because they exemplify the success story of a start-up.

India has taken significant note of unicorns as it is a pointer to its emerging image as an innovative and entrepreneurial destination. Ease in the availability of funds, the availability of numerous tech-savvy persons with skills, and friendly regulations have seen the Indian startup ecosystem grow enormously within the last few years. These factors combined with India’s economy which is quickly digitizing and has a huge market potential have allowed unicorn businesses to emerge in different sectors such as e-commerce, fintech, health tech, and edtech.

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India saw its first unicorn in 2011, when a Bangalore-based mobile ad network group, InMobi, achieved its one-billion-dollar valuation. It was founded in 2007 and took four years to become a unicorn after which India became the land of Unicorns with more and more startups achieving billion-dollar valuations. The startup culture in India boomed after 2016 due to nationwide digitization. [1]Till FY 2016-17, approximately one unicorn was being added every year. Between FYs 2017-18 and 2020-21 alone, this figure has surged 'exponentially', experiencing a staggering 66% YoY growth in the number of new unicorns added each year. Yet, the largest number of unicorns emerged during the COVID period specifically from 2019 to 2021. However, even though there was a lot of economic turmoil that was caused by COVID-19 around the world at the time, Indian businessmen were still in the process of assisting the sufferers of COVID-19 and also healing their economy. By 3 October 2023, India had one hundred eleven unicorns with a total valuation of \$349.67 billion.

From being considered an incongruous term in India's entrepreneurial domain "unicorns" have become exceedingly popular leading to significant changes in start-up culture in India with implications for the rest of its economy. Many investors from within and outside the country have put their monies into these ventures leading to innovation across sectors while creating many jobs. Apart from this, the Indian government is also making efforts by being a helping hand to entrepreneurs encouraging them to step up into Industries like E-Commerce and Finance which have enormous effects on the people in their day-to-day lives. However, these unicorns can encounter significant challenges as they try to sustain their growth and navigate a more intricate business environment thereby making their success uncertain. Thus, Policymakers, investors, and entrepreneurs earning profits from India's booming start-ups must determine what has worked for them and what is against them.

2. Literature Survey

2.1. An analysis of the factors that contribute to entrepreneurial success and the rise of unicorns

There have been conducted numerous studies to comprehend the rise of unicorns and what leads to their success. For example, S. Vadera [2], talks about the reasons behind the advancements of entrepreneurs in India. The main reasons the author cites are the startup incubators and educational institutions. She concluded that material and immaterial are resources that startup incubators have. These include workspace, office supplies, and legal and accounting assistance among others. In addition, they support networking events and raising startup financing. With a view to training experts in entrepreneurship as well as supporting research and development for university spin-off companies, educational institutions establish centers of excellence. This helps to create sustainable company environments by incubators thereby benefiting the bigger corporate communities.

2.2. The Function of the Indian Government in Promoting Entrepreneurship and the Growth of Unicorn Startups

Another paper written by N Tripathi [3] has conducted a study to explore Indian government efforts in creating an entrepreneurial atmosphere and reinforcing the nation's start-up framework, including the expansion potential and prospect of Indian unicorn start-ups. The author concludes that due to its strong digital infrastructure, software development capacities, and Digital India initiative, India is on the verge of surpassing other nations. According to reports, new unicorns are coming up in India almost daily making it a startup powerhouse. After the US and China, in 2011 India became globally third largest start-up ecosystem. Covid-19 appears to have sped up the process of unicornizing entrepreneurs. Technologists and economists who have researched this, envisage that 150 companies from India will become unicorns by 2025.

2.3. Impact of business incubators

The next one is Sakthivel's [4] study on the last decade, examining how India's unicorn ecosystem came about, and what the potential impact of business incubators may be on their growth and development. In a bid to determine how business incubators act during the growth phases of such firms, it does an analysis using statistics for thirty-six Indian unicorns between 2011 and 2020.

2.4. Contribution of Indian startups to GRP growth

Moreover, P Basu [5] in his study found that digital transformation and GDP growth in India have been majorly contributed to by startups, both unicorns, and soonicorns. This is beyond value creation; their contribution to inclusive growth and shared values across all societal strata also comprises minimizing value destruction. He is positive that start-ups are going global and changing millions of lives positively.

2.5. Challenges faced by Indian startups

Additionally, TKA Kothai [6] wrote a paper intending to examine the causes of unicorns' rise, their effects on the financial world, the difficulties they encounter, and potential remedies. According to the results, for Indian start-ups, the biggest challenge is to get reasonable investors with decent expectations of growth and exit. Market value credibility issues frequently trouble unicorns, making it difficult to raise later-stage funding and diluting employee stock. Moreover, a unicorn's success lies in a realistic growth rate, reliable valuations, proper investor fit, innovation culture, and comprehensive business knowledge.

3. Research Methodology

To examine the success factors of unicorn businesses in India during 2020 and 2021, this study uses a quantitative research methodology. The main source of data is a Kaggle dataset that contains comprehensive details about unicorn firms, such as names, founders, segments, values, total investment, founding dates, age as a unicorn, current status, headquarters, and important investors. To guarantee data accuracy and dependability, the dataset is cleaned and made ready for analysis.

Tableau software is used to analyze the data and produce a variety of charts and representations. Pie charts, line graphs, and bar charts are some of the visualizations used to efficiently show trends and patterns in the data. The financial features and performance indicators of unicorn businesses across many industries, including e-commerce, fintech, healthcare, and ed-tech, can be compared with the aid of these visualizations. In addition, the visual aids facilitate comprehension of unicorn distribution of formation dates, valuation ranges, and headquarters locations.

The report focuses on several important areas, such as unicorn businesses' funding trends, valuation growth, profitability, and sustainability. The report also looks at how unicorn businesses affect technological innovation, employment creation, and economic growth in India. The study intends to offer important insights into the success characteristics of unicorn firms and these insights can be taken into account by new startups to boost their growth and achieve a unicorn status early.

4. Result

4.1. Relationship between EBITDA margin and unicorn age

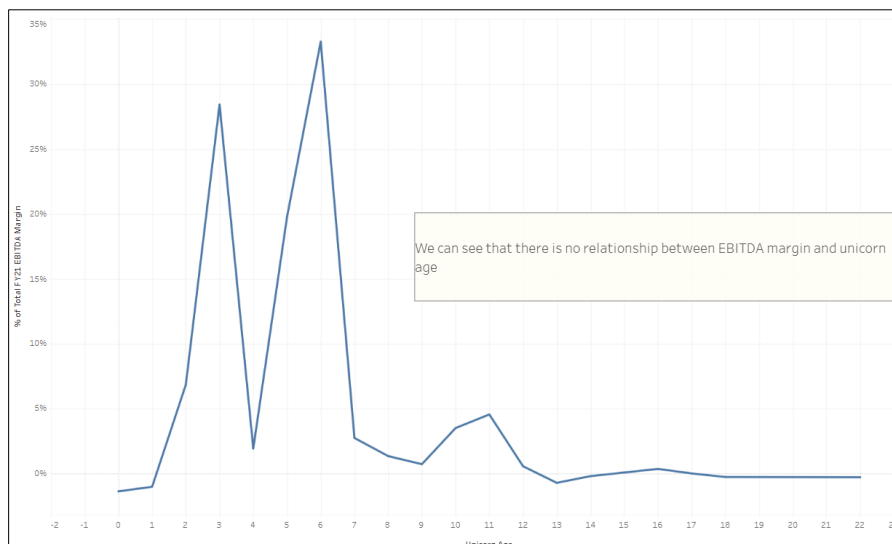


Figure 1 Relationship between EBITDA margin and unicorn age

It is quite evident to assume that as the unicorn age progresses, the company's EBITDA margin should also increase after all it is a profitability ratio which is the ratio of companies profits before taxes are implied as a percentage of its revenue. As the company year progresses, the profit should likely increase subsequently increasing EBITDA margin.

With this graph, we can see that, as unicorn age increases the percentage of EBITDA margin does not increase making it clear that the hypothesis of linear increase in EBITDA margin with unicorn age is not true.

4.2. Overall Profit and loss of each segment

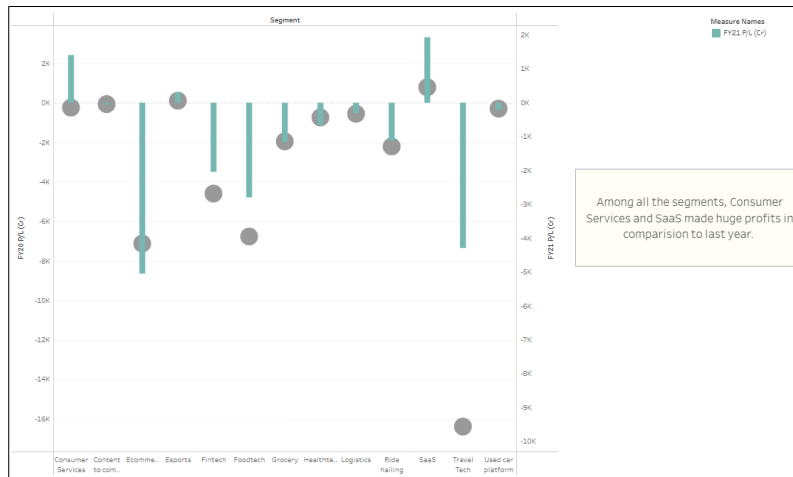


Figure 2 Huge profits made by Consumer Services and SaaS segments

The grey circle denotes P/L for 2020 whereas the blue rectangle denotes P/L for 2021.

From the above chart in Figure 2, we can see the segments that have performed well as compared to last year’s i.e. the segments for which Profit and loss for 2021 are more than the previous year 2020 are being shown with the extent by which they have outperformed themselves.

The list of segments includes Consumer Services, Content to commerce, Ecommerce, Esports, Fintech, FoodTech, Grocery, HealthTech, Logistics, Ride Hailing, SaaS, Travel Tech, and used car platforms.

Among these, Consumer Services, SaaS, and Travel Tech are the front runners in making huge profits in comparison to last year.

4.3. Identifying segments with most valuation and Total Funding and largest number of unicorns

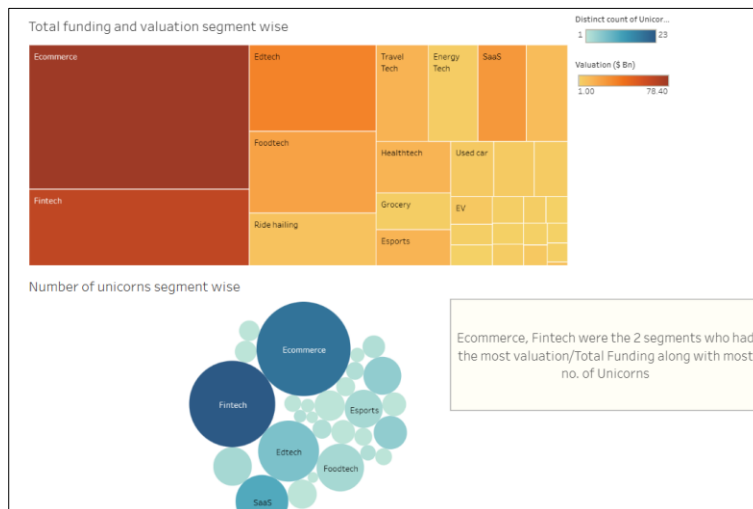


Figure 3 E-commerce and Fintech the leading segments

With the above heat map and a bubble chart in Figure 3, we can analyze the segments Ecommerce and Fintech followed by EdTech receiving enormous funding with total funding (\$ M) of 24k, 13k, and 8k respectively. Also, Ecommerce-

Fintech- SaaS are the 3 segments having the greatest number of unicorns under their belt making Ecommerce and Fintech the 2 segments “the sharks” in the world of startups.

4.4. Identifying segments with the most expense and city with highest number of unicorns

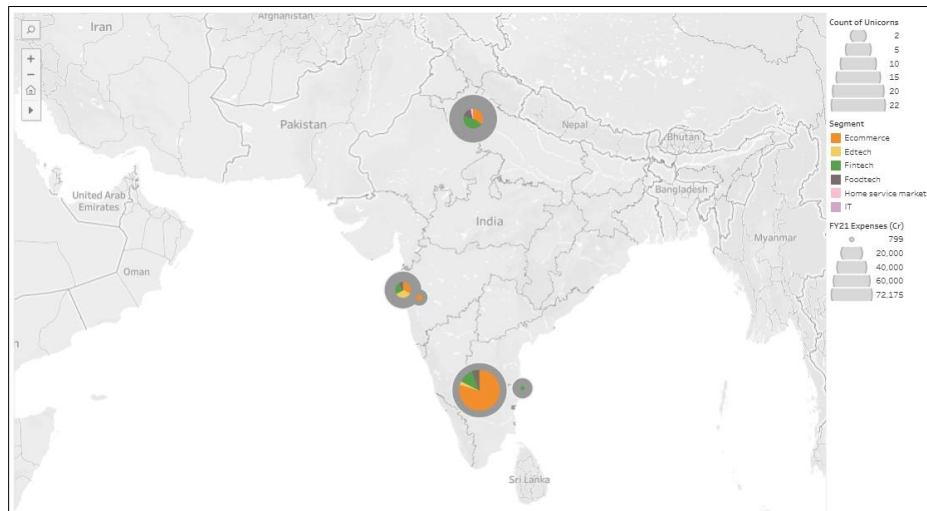


Figure 4 Bangalore, the city with highest number of unicorns

The above chart comes off as too strong in the first place. However, on digging deep into the chart we get quite useful analysis. The outer circle on the headquarter denotes the number of unicorns whereas the inner pie chart is a representation of the expenses for different segments for that particular headquarter for the year 2021.

Out of the 5 headquarters (Delhi, Bangalore, Pune, Chennai, Mumbai), the expenses incurred by Ecommerce in Bangalore are whopping high when compared to the same segment in other states. The difference in accounting is as large as 10 times. The expenses for Fintech in Bangalore are also the most when compared to other headquarters with Delhi NCR falling slightly behind in expenses for Fintech.

4.5. Unicorns founded after 1996 and funding headquarter wise

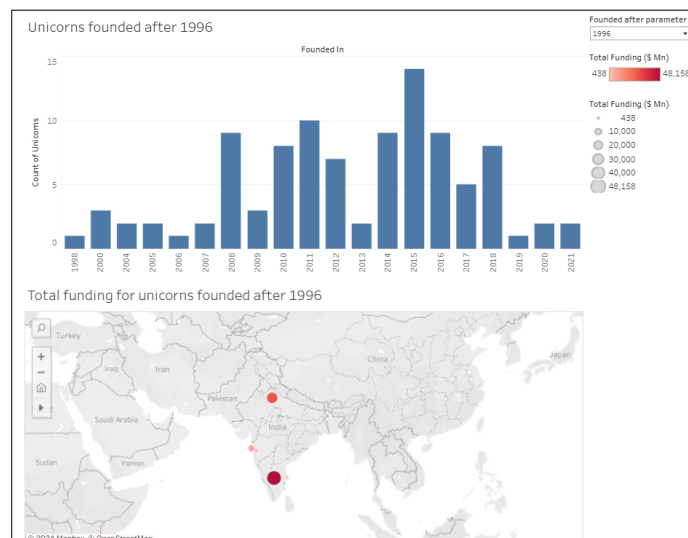


Figure 5 Count of unicorns and their funding in different headquarters

With the help of the above dashboard, we can easily see the count of unicorns after 1996 and how much funding they had headquarters-wise. The years here are being controlled by the year parameter. From the above bar chart, we can easily see that after the year 1996, 2015 was the year when most of the unicorns were founded and from the map, we can conclude that Bangalore had the highest funding, having all the unicorns founded after 1996 combined.

4.6. Number of Unicorns per segment current status wise

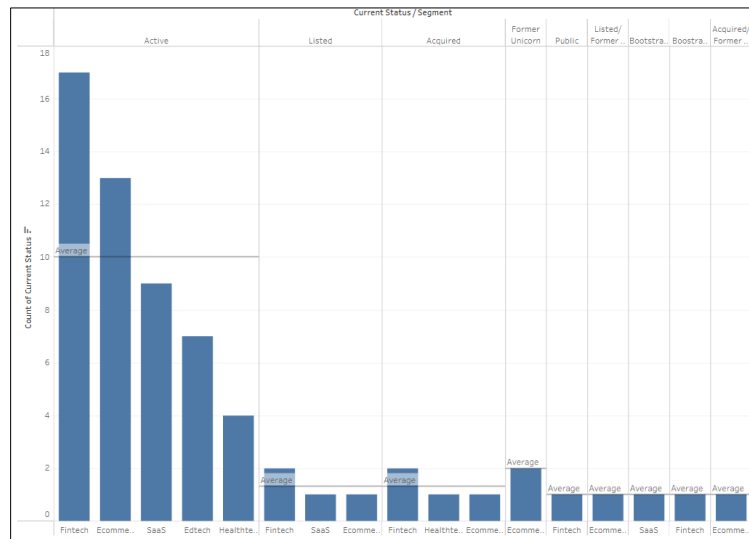


Figure 6 Fintech and E-commerce having the most active number of unicorns

With the help of the above bar chart, we examine the Current Status of different segments and the number of unicorns per segment status-wise. On further inspection, we find that Fintech has the most unicorns (17) in active status followed by Ecommerce with 13 startups making them the 2 startups having a higher number of unicorns than the average number of unicorns found in the active Status which is 10.

4.7. Total funding and valuation

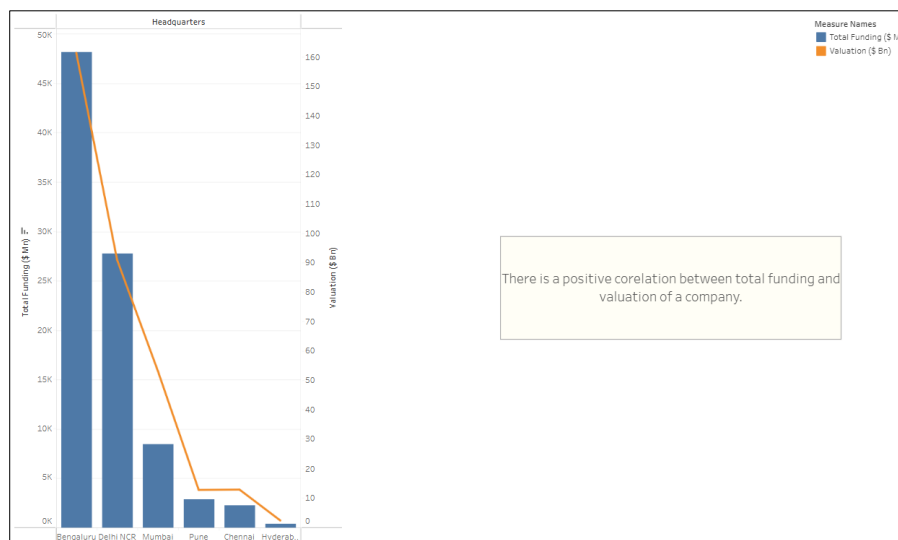


Figure 7 A positive relationship between total funding and valuation

The Pareto chart in Figure 7 is a depiction of the relationship between Total Funding and the Valuation attained by each company. We infer that as Total Funding increases, subsequently Valuation also increases proving that there is a trade-off between the two. Thus, we can conclude that there is a positive correlation between the two.

We can also make out that Bangalore has received the most funding compared to other headquarters which makes it plausible to say that the start-ups founded in Bangalore have an edge over the start-ups and are more likely to have high funding and high Valuation. The total funding itself is almost twice for Bangalore (~48 million US dollars) as compared to Delhi-NCR (~28 million US Dollars) which stands in the second place.

4.8. Years a start-up took to be a unicorn

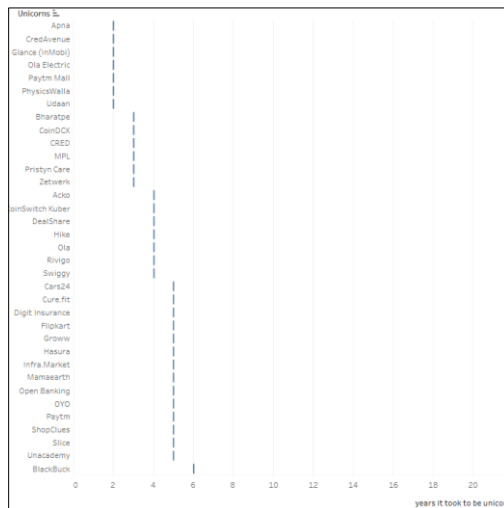


Figure 8 A large number of start-ups being a unicorn in very few years

From the Gantt chart provided in Figure 8, we deduce that startups like Paytm, PhysicsWalla, and Ola Electric took as little as 2 years to turn into unicorns.

ANI Technologies launched both OLA and OLA Electric, it took 4 years for OLA to turn into a unicorn whereas it took half the time to turn their new startup (OLA Electric) into a unicorn. The success behind it can be reasoned owing to the brand image and having over 200 million customers and a network of 2.5 million driver partners making it possess a colossal market share in India.

The Unicorn “Five Star” took 37 years to become a unicorn making it the startup that took maximum time to become a unicorn.

4.9. Founders with more than a single unicorn and their unicorns and segment they belonged to

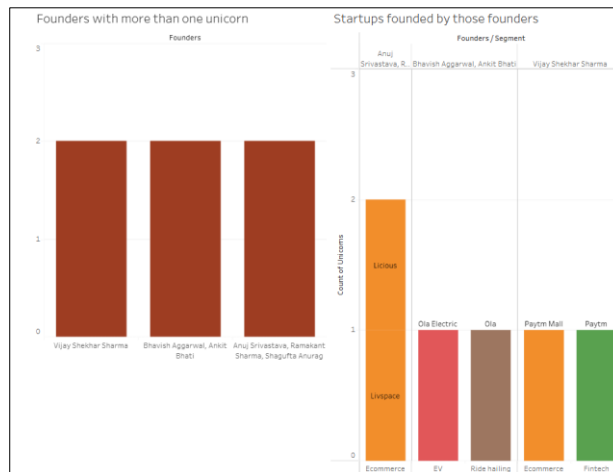


Figure 9 Founders having founded more than a single unicorn in different segments

From the above bar charts, we depict that there were founders who founded 2 unicorns. For instance, Vijay Shekhar Sharma, the founder of Livspace, also founded Licious in the same segment.

4.10. Determine whether the startups that were profitable in 2020 maintained their profitability in 2021

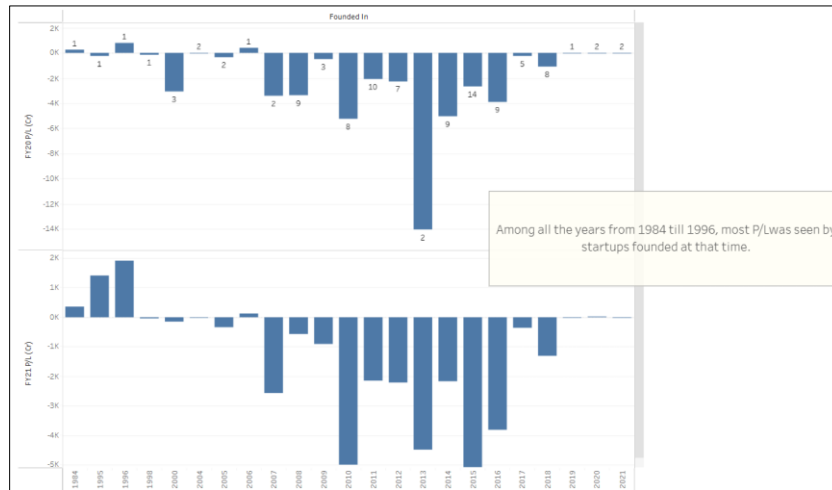


Figure 10 Years 1984 to 1996 having the greatest P/L ratio

The two charts in Figure 10 depict the comparison between profit and loss for the unicorns for the financial years 2020 and 2021. We can see that among all years till 2021, all unicorns combined, from the years 1984 to 1996 showed a strong positive P/L ratio.

4.11. Identifying the unicorns with highest EBITDA margin segment wise and relationship between EBITDA and valuation and funding



Figure 11 ReNew Power- a unicorn with highest EBITDA margin

The text chart presented in Figure 11 depicts all the startups having a positive EBITDA margin and we can conclude from it that ReNew Power in the Energy Fintech segment showed the highest margin followed by Five Star and CredAvenue in the Fintech segment. However, in the line chart below, we can see that there is no relation between EBITDA and valuation and funding as we can see that the startup having an EBITDA margin near 0.8 had a significantly low valuation even though their total funding was pretty high. On the other hand, we can also see that the startup having an EBITDA margin of nearly 0.4 had a pretty high valuation of more than 3000 billion dollars.

5. Conclusion

Firstly, we can conclude that E-commerce and Fintech are the sharks in terms of segment in the world of startups having the greatest number of active unicorns along with the highest total funding and valuation.

Secondly, since an EBITDA margin is not increasing linearly with age, a person should not invest in a company thinking that since company X has been there around for more years than company Y, it is likely to have more EBITDA and thus is a better investment.

Thirdly, any entrepreneur starting his startup journey will have better chances to attract investors and investment groups and his/her demand for High Valuation is likely to be met in Bangalore as compared to other Cities. However, the expenses for most segments in the headquarters in Bangalore are more as compared to their expenses for the same segments in other headquarters.

At last, since consumer services, SaaS were the front runners in making huge profits in 2021 as compared to 2020, they should likely try to anticipate and maintain their profit-making for the following years as well and other segments need to analyze their work plan and cost factors which are reducing their net profit. Moreover, the travel and tech segment suffered a huge loss in the year 2020, most probably due to COVID-19, but it significantly recovered its loss in the year 2020 and if it continues to make profits like this, then, it can be at the top of all the segments in the upcoming years.

Overall, the data highlights the significance of industry selection, location, and meticulous financial planning for the success of unicorn businesses in India, offering insightful information to investors, entrepreneurs, and policymakers alike.

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