

How diluting minority stakes reap millions for startup founders

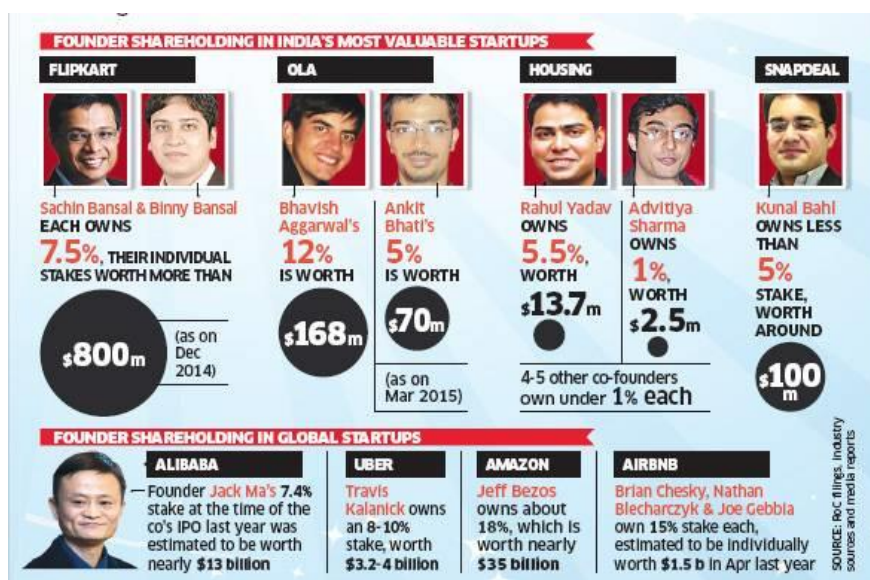
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http://articles.economictimes.indiatimes.com/2015-03-24/news/60439410_1_matrix-partners-india-saif-partners-binny-bansal

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For founders of high-growth Indian startups, less is more rewarding. A number of founders who diluted their stakes to a minority as a tradeoff for boosting valuations are now worth millions of dollars.

Sachin Bansal and Binny Bansal each hold a 7.5% stake in Flipkart, pegging their individual holdings at more than \$800 million (nearly Rs 5,000 crore) based on the \$11-billion valuation for India's largest electronic marketplace.



Bhavish Aggarwal's 12% stake in the country's largest taxi booking company Ola, which is valued at \$1.4 billion, is worth \$168 million.

"Ultimately it is not the percentage ownership but absolute value of founder stake that matters," said Avnish Bajaj, managing director at Matrix Partners India, an investor in Ola and online classifieds Quikr. "Beyond a point, the best founders are missionaries focused on creating large lasting businesses in addition to just wealth creation."

Often, the founders have little choice. In startups that have to raise equity capital frequently to fuel growth, founders typically find their stakes diluted to a minority by the third round of fundraising.

"In a high-growth environment where growth cycles have compressed, companies end up burning more capital and have to raise more capital. That implies more dilution," said Mukul Singhal, who leads early-stage investments for SAIF Partners, which has backed Paytm and Bookmyshow.

Fundraising cycles have shrunk significantly in the past 12 months as Indian startups race for market dominance.

This is particularly true in sectors such as ecommerce and consumer Internet businesses like cab-hailing services and classifieds.

Globally, it is not unusual for founders to own minority stakes in their startups. Travis Kalanick, founder of San Francisco-based Uber, owns an 8-10% stake in the cab aggregator valued at \$40 billion.

Alibaba founder Jack Ma's 7.4% stake in the Chinese ecommerce marketplace was valued at around \$13 billion at the time of its public market debut in the United States. Some investors fear that Indian founders may be diluting their stakes at a faster rate than their global peers.

"Large ownerships are sustainable when valuations run up quickly in the early stages. In India, that growth is still gradual," said Ashish Gupta, managing partner at Helion Venture Partners, an investor in Housing.com, whose chief executive Rahul Yadav owns about 5.5% in the online property search firm that's valued at \$250 million.