

An in depth analysis on the importance of personal credit scores, social media presence in investment decisions by fintech platforms, Venture Capital, producer/consumer dynamics and Angel Investors: case study of Byjus and Unacademy

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ABSTRACT

Fintech companies factor in various financial details, before investing. Social media content on the company and credit rating scores are additional factors that are looked into. The importance of social media and credit rating companies are important in portraying the image of the company, especially if it is in the consumer space. The appreciation as well as the brickbats that are written with regard to these companies, impact the mindset of other social media users as well as it acts as an indicator of the public's sentiments with regard to the services and the products that are being provided. These two platforms social media and credit rating scores may not be the ultimate decisive factors but they definitely play an important role. This was clearly seen in the two case studies that have been considered namely Byju's and Unacademy. The initial response to the idea, concept as well as the practicality was praised across social platforms; reaching it's peak during the pandemic, as is corroborated in the timeline for funding given in the paper. But as the services provide by Byju's declined, the funding also stopped. Unacademy following a different business model and is still doing well and flourishing. The paper analyses these various aspects and it's impact on funding decisions.

Keywords: Fintech, social media, credit rating, Unacademy, Byju's

Introduction

Besides just Financial reports and data, new age Fin tech companies, like Angel Investors and even Family Offices especially in developing countries are an important source of funding for small, nascent manufacturing and service firms. At times in addition to the regular due diligence that is done before an investment decision is made, transmission channels are also taken into account. The entry of these transmission channels have resulted in highlighting the power of

alternative digital credit. This is being now adopted globally. Traditional Finance through banks have been the dominant source of financing, but studies conducted from 2013-2019 have indicated that the alternative credit market has grown phenomenally. This is primarily due to this sector providing credit for businesses that traditional financial institutions tend to ignore.(Frost et al., 2019, Stulz, 2019, Tang, 2019).

The advent of social media has entered the world of finance. Aspects like financial analyses, market data, and economic news are in a position to reach audiences in a fraction of a second through social media. But this has brought in it's wake a new type of challenge which is the quality of information and it's accuracy. This has led to the emergence of herd behaviour, sentiment analysis, and investor psychology. The use of social media in the financial sector of an economy has led to the democratisation of information, but it has also brought with it problems with respect to spread of misinformation.

The growth of these platforms have led to greater observation about the product as well as the company in the region in which it is planning to operate. There is a possibility that investors are attracted to companies and areas which have a stronger ties with Social Media.VC (Venture Capitalist) firms have a lot of data to sift through before they decide on their investment decision, social media helps them to be aware of factors that are different from that available for 'due diligence'. These platforms helps small firms in bringing greater visibility for their products and services through different mediums. It could act as a possible stepping stone for them to be recognised by an investing fin tech company, or an Angel Investor.

Besides the social media, there has been a growing dependence on 'credit rating' by companies, in channelising their investment decisions. For all economies and especially developing ones there is an urgent need for credit. Investment is important not only for the company but also to aid in the overall growth of the country. Governments, companies, financial institutions, and individuals all depend on borrowed funds. As the markets become more complex it becomes essential for both borrowers and lenders to have some definitive information on the ability of borrowers to repay the loan. Investors need to depend on certain factors that would help them make judicious decision on their investment choice. Credit rating are one of the ways that this could be achieved and so are social media reports. This paper analyses the role of these two major factors as important area to research especially for developing countries. What are the impact of these factors? How relevant are they in the decision making process? How do these factors impact small firms that have no collateral ? Is it possible to manipulate them to meet one's needs?

Background

The growth of both social media as well as the importance of credit rating agencies, have increasingly led to the openness and visibility of firms. Researchers have indicated that since the growth of this field, investors have used it as a measure of “default risk”(Beatty et al., 2019; Becker & Milbourn, 2011; Roychowdhury & Srinivasan, 2019). These are used in both developing and developed nations. They have been used besides other factors as an index to measure the efficiency of the Bond Market. This is the basis for establishing future interest rates as well as indicating the well being of the economy. It is also supposed to reduce information asymmetry in the system. But there are tendencies for it to function inefficiently in developing economies (Allen et al., 2005;). *One of the reasons stated is that these agencies run efficiently only when the formal institutions run in an efficient manner.* These are corporate governance, payment models and regulatory scrutiny. (Ashbaugh-Skaife et al., 2006; Xia, 2014; Toscano, 2020).

Social media along with credit ratings have brought a new spectre in the Fintech space. Social media makes it possible for a large number of individuals to aggregate information and voice their opinion at no cost. Besides the above stated reasons in developing economies there are additional factors like the “reputation of the credit rating agencies”. What has been observed is that behaviour of rating agencies are quickly captured by individuals and they appear in all forms of social media. This increases the reputation pressure on the rating agencies. Research has gravitated towards the view that the *impact of negative sentiment on social media spreads at a faster rate than the positive one.* The negative one results in a large amount of dissemination than any positive sentiment.

Both these factors namely Credit rating and the social media presence has effectively impacted information environment and investors trading pattern. There are possibilities that the firms themselves use the social media platform to increase their reputation, visibility and liquidity.(Chahine and Malhotra, 2018).

Besides the availability of symmetric information, there is the possibility of firms and important brokers to wield their influence by the provision of false information, as well as trends fueled by excessive hype. Personality traits, attributes and perceived performance of the firm are all significantly correlated.(Akhtar et al. 2018). Social media gains extensive importance during crisis situations. This was and are clearly seen during the Covid pandemic 2019, and recently during the American- Iran conflict. There is an immediate transference and dissemination of information on all social media platforms the moment there is news both positive and negative that concerns either the firm or the country or the impact of any geopolitical crisis on specific commodities, for example the Iran- US conflict have impacted nations that import and export oil

from the Middle East, which in turn has impacted all companies and firms that are connected to this disruption. There is a wider impact on economies that depend on the middle east for their oil. These are countries like India who are deficient in fossil fuels and whose import bill in this area is enormous. Any Tweet by The American President has had a cascading impact on the world, the stock market and eventually policy decisions.

Research Gap and Methodology

The paper attempts to analyse the recent development and growth of the social media and the importance of credit rating agencies in investment decisions that are being made by venture capitalists, fintech companies and family offices. Case study of BYJU's and UNACADEMY would be researched to understand the impact of these factors.

The methodology adopted would be the mixed method type both quantitative and qualitative. All data collected would be from authentic secondary sources. The explanation of the quantitative analysis would be qualitative in nature.

Analysis

Social media is an extremely important factor in determining retail investor sentiments. These are directly and indirectly related to the image of the firm, the projections and the possible growth model that has been envisaged. The reputation of the firm has a direct bearing on the content that has been written about it in various social media platforms be they Reddit, Twitter, Instagram or Face book to name a few.

The ever increasing role of these platforms have even entered into the securities market space, as they are prone to impact the stock market. The Securities and Exchange Board of India (SEBI), are battling the impact of this influence, while trying at the same time to maintain the integrity of the stock market in the face of information that is spread by unregulated platforms in the social media space.

A very famous example of this impact is when Elon Musk (founder and Chief Executive Officer) stated in a series of Tweets that he wanted to take 'Tesla', a public limited company to the status of a 'private' company. His tweets indicated that the price at which this transaction was going to take place was at a much higher one that was being currently listed on the stock exchange. He said " Am considering taking Tesla private at \$42. Funding secured."(Elon Musk, supra note 1,2). This led to an upsurge in the Tesla stock (August 7, 2018), so much so that the Nasdaq had to halt the trading in this share for some time. Investors had started taking Elon Musk's tweets very seriously. But the buy out did not take place. The share price resulted in a swing of \$14 billion over a ten day period based on tweets posted by Elon Musk on social media. This clearly

indicates the immense influence that Social Media has on stock markets and investor decisions. This trend is clearly noticed when statements are made either by the American President and/or the Iranian president with regard to the status of the conflict. There is an immediate impact on the world's oil prices and subsequently on individual country's stock markets.

Social media impacts risk tolerance, stock selection, and trading frequency among investors.

Venture capitalists too at times are partly influenced by information that is being posted on social media. Financiers use this platform to understand the popularity of the brand in terms of visibility and popularity as a basis for investment evaluation and decision. Besides this the platform can also facilitate financing through networking which is possible due to the networking skills that have evolved as they grow.

Credit Ratings are ways in which both a retail investor as well as an angel investor are in a position to judge the health of the start-up. Agencies like Moody, Standard & Poor, and Fitch are a few examples that use standardized accounting to rate companies, firms and even economies. AA is an indicator of least risk and BB indicates high risk. These indicators are used by various investing agencies to help them decide their portfolio decisions. Most of them adopt a mix of high and low risk to decide on a portfolio choice.

Given the above factors that are important in making investment decisions this paper would analyse the factors that are responsible for investment in companies like BYJU's and Unacademy. Both these companies deal with the education sector but the trajectory that they followed led to completely different results.

BYJU'S

This was one of the earliest start-up in the education to enter the Indian education sector. So phenomenal was its growth that it soon became a unicorn in the Indian Start-Up space. This company was launched in 2015, at a time when on-line education was a novelty. Parents and students were quite exhausted with the current set up of the so called 'tuition centers', that required students to travel long distances to reach. It was a mirror image of a school classroom where there were large number of children and one teacher. The freedom and liberty of students sitting at home and attending classes was a huge boon and advantage. This not only penetrated in Tier 1 cities but also entered Tier 2, and Tier 3 cities. This helped students get access to good teachers at a reasonable rate and in the comfort of their home. This was made possible due to the vigour and dedicated intent in which the government decided to launch and widely spread the network of internet facilities throughout the country. This was achieved at the earliest along with the launching of cheap smart phones by Jio, lead to the phenomenal rise in a number of on line services. Byjus entered this space at the right time when most of the basic factors were in place.

The company was very well known in Southern India, as the owner Byju Raveendran himself was a popular Mathematics Tutor. He started by introducing in 2017 two applications; namely Byju's mathematics application for kids and simultaneously a Parent Connect, that helped parents to monitor their children progress, and they were aware of what was being taught to their children. In 2018 it was declared a unicorn and had reached a milestone of 1.5 million users, out of these 9 lakh users were people who had paid to use the application. He had employed a large staff of over 10,000 employees, and had a research and development team of 2500 employees.

Table 1: Byjus Growth Path

Year	Investment
2015	\$ 30 million (Sequoia Capital)
2016	\$475 million (Sequoia Capital)
2017	\$25.2 million (Chan Zuckerberg initiative and others)
2018	\$100M + \$400M
2019	\$35M + \$150M
2020	\$1.35 billion). [tracxn.com]
2021	\$ \$3.3 billion
2022	\$250 million
2023	\$250 million(debt financing)
2024	\$300 million
2025	- No known funding

Source: Traxn, Inc42 Datalabs

Byju's model of education was a "one of it's kind", it opened up a whole plethora of opportunities in education. It touched upon the weak spots in the education system in India, like in sufficient teachers, lack of excellence in subject teachers, expensive personal tuition and tutors to name a few. This lacuna was plugged by online content that was provided by the Application. With the Pandemic in 2019, the Unicorn got an additional boost. This is clearly seen in the extent of funding that it received in 2019,2020, and 2021. The success of this educator app was being applauded on Social Media. The endorsement by celebrities enhanced its appeal and added to its success.

But the main factor that was noticed with regard to this Unicorn was that in the expansion stage Social Media enhanced it's awareness, trust and enthusiasm, while in the downward phase it intensified the negative news, customer complaints and concerns.

The real causes for the decline were business and financial issues and not primarily Social Media, but this platform magnified the issues both when the company was growing and during it's downfall.

Social media did have an impact on investors decisions, though not completely, as they started evaluating for themselves concerns that were being voiced publicly on social platforms. These include reports on widespread layoffs, not following government norms, delay in financial disclosures, etc.

Unacademy

This company grew from a simple U Tube channel into being what it is today 'a multi billion online learning empire'. It was started by Gaurav Munjal to share educational content and various types of tutorials . He joined up with three other people and started Unacademy in 2015 from Bangalore. This was about the same time that Byju's had also started on it's journey. It is in the year 2015 that they decided to impart quality education in a number of fields. They started employing quality educators in the areas for which online tutoring was being provided.. There main target areas were competitive exams like UPSC, IIT-JEE, NEET etc. They provided the umbrella under which freelance tutors could launch their own content under a revenue sharing model The Pandemic brought an unprecedented demand for online content, leading to a phenomenal growth of the company.

Table 2; Analysis of the funding received by Unacademy since 2015.

Year	Amount	Investor
2015	\$0.568 million	Primarily Blume ventures
2016	\$1.0 million	Blume ventures
2017	\$4.5 million	Nexus Ventures
2018	\$21.57 million	Mainly Nexus Ventures
2019	\$50.7 million	Mainly Kalyan Krishnamurthy
2020	\$349.3 million	Mainly Sequoia Capital
2021	\$440 million	Temasek, Mirae Asset
2022	-	-

Source: The Times of India, TechCrunch-referenced report, Tracxn

In company's like BYJU's and Unacademy, social media played an important role in emphasizing the positives as well as the negatives, as these platforms indicate the emotions of students and parents. Negative publicity can have an extremely detrimental impact, but to say that this medium impacts investors decision is completely incorrect. The deciding factors are neither social media nor credit ratings but other factors like market size, Revenue Growth, User acquisition, competitive position, management team and future profitability potential. Financial investors and firms undertake an extremely rigorous financial and strategic exercise before they take a decision.

Comparison of the trajectory followed by both Byju's and Unacademy

Unacademy focused on competitive exams while Byju's primarily focused on teaching school children. Unacademy encouraged independent star tutors and gave them the platform to showcase their skills, while Byju's developed everything in house. Both of them surged in terms of profits, sales and reach during the pandemic. But there was a downfall of the unicorn Byju's but Unacademy is still going strong. Neither of them have received any new funding in the past four years,

Limitations

The analysis was based on authentic secondary data. It would have been ideal if primary interviews could have been undertaken of all stake holders, namely the experience of students, parents, tutors, and other professionals that re involved. This would have given an wholesome impact of the social media as well as credit ratings on various decisions of the company. Lack of time and finance did not allow this area to be researched.

Conclusion

Investment decisions by angel investors are not wholly dependent on the social media and credit ratings of the company, but both these factors play an important role in depicting satisfaction of the users as well as the providers along with all associated with them. Credit ratings are also additional tools that are examined while investing. Fintech companies carry out a stringent due diligence before investing, looking at among other things the work already achieved as well as the work that is possible for the company to achieve with adequate financing. Case studies of education related firms clearly indicate that they were there at the right time, to take advantage of the world situation, and flourished in the changed scenario. Though both started in 2015, the surge occurred during the Pandemic when the world had to shut down and the only alternative was 'on line education'. Social media added to their popularity which was clearly depicted in the high credit ratings that they received. But these were additional tools that led to extensive funding, over and above the basic ones that financial agencies look into.

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