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# 7 FUNDS THAT COULD MAKE OR BREAK THE INDIAN VC INDUSTRY

Raised \$1.13 billion



Funded 158 companies

AND HOW THEY ARE SHAPING THE ENTREPRENEURIAL LANDSCAPE IN THE COUNTRY

Exited 7 plus companies

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## THE SEVEN FUNDS

Funds raised: \$1.13 billion
Funds invested: \$773 million
Companies funded: 158
Top 3 funded sectors: Internet, software, consumer services
Exits: 7
As on July 2011
Source: VC firms

A macro view of the performance of seven top VC funds in India



**SUDHIR SETHI**  
PARTNER, IDG  
Ventures India

**ALOK MITTAL**  
PARTNER,  
Canaan Partners



# VC'S NEXT PHASE

Riding on early gains, a new breed of VC funds plan to bet \$6 billion on Indian startups in the next five years

by Snigdha Sengupta



**KUMAR SHIRALAGI**  
PARTNER, IndoUS  
Venture Partners

**F**OR the past seven years, a small group of people has been working round-the-clock to shape a unique investment asset class in India — venture capital or money that is invested in early stage and high-risk companies. The group is an odd mix of former first generation entrepreneurs, career executives and investment professionals. They helm the country's most active venture capital (VC) firms and their goal is to entrench risk investing in the emerging world's second-largest startup economy.

The hard work seems to be paying off. During 2004-10, venture capitalists invested \$3.96 billion in Indian startups. Another \$621 million has been invested this year, according to Chennai-based research firm Venture Intelligence. There is an established line of VC firms who have consistently invested through this period. Some are local arms of Silicon Valley firms such as Norwest Venture Part-

ners and Draper Fisher Jurvetson. Others, such as Helion Venture Partners and Inventus Capital Partners, are independent startups themselves. By 2015, total investments will touch \$10 billion, projects Bangalore-based VC firm IDG Ventures India.

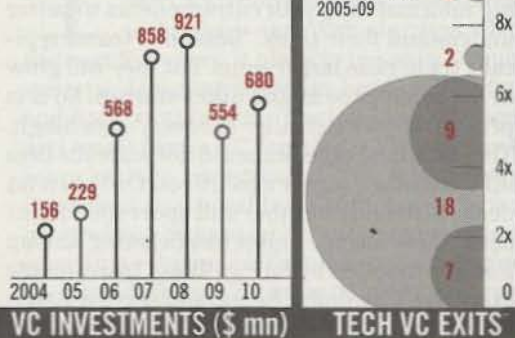
The numbers underline a few important facts about the Indian startup economy. First, there is enough innovation at the startup level to encourage risk capital to make bets over a sustained period. Second, if VC investments are advancing towards the \$10-billion mark, investors clearly see many more latent pockets of innovation. So far, the money has gone into myriad sectors including e-commerce, consumer services and clean tech. The net will be cast wider into areas such as cloud computing, mobile infrastructure services, healthcare, education and rural businesses.

The mood in the VC industry, as *BW* found speaking to 15-odd investors, is unmistakably upbeat. Confidence levels are up as several move close to completing a full investing cycle with their

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PARTNER, Inventus  
Capital Partners



**SUVIR SUJAN**  
PARTNER, Nexus  
Venture Partners



Source: Venture Intelligence & IDG Ventures

debut funds, an event that is itself a milestone. The last major VC outing in India ended in the dotcom bust of 2000-01 and investors retreated from the market nursing huge losses. Much of the renewed confidence has to do with the kind of entrepreneurs leading the current charge of startup activity. "The need to address the customer and the market, and not just focus on the technology or product has become internalised with entrepreneurs," says Samir Kumar, co-founder and managing director of Bangalore-based Inventus. Another big factor is that most VC firms that sprung up after 2004 have successfully raised second funds or are well on their way. This means the startups that have been funded so far have access to follow-on funding. The dotcom bust saw several startups die because their investors had run out of cash.

Also, several investors have shown a number of profitable exits. The first notable one came last August when Delhi-based travel portal Makemytrip listed on Nasdaq to raise \$70 million. SAIF Part-

ners, Sierra Ventures, Helion and Tiger Global had invested \$39 million in Makemytrip during 2005-07 for an 83.41 per cent stake. In November, when German media company Axel Springer bought online auto classifieds startup CarWale, Seedfund exited its 25 per cent stake. It had invested \$690,000 in 2006. This year, Nexus Venture Partners, Index Ventures and Draper Richards exited Dimdim, a Web conferencing startup in Hyderabad, on its \$31-million acquisition by Salesforce. Dimdim had raised \$8.4 million from the three investors.

The investment and exits have laid the foundation for the industry's next phase of growth. "This was a phase of discovery. Now investing strategies will become more specialised," says Kanwaljit Singh, co-founder and managing partner of Helion. The firm is part of a select group of seven investors who stand out from peers for their exclusive focus on early stage deals. Such deals form the bedrock of a stable VC industry. These seven funds will be the first generation of VC firms in India to raise successive funds and show exits as an industry. Their success or failure will define the future of VC in India.

While most of these companies started with the intent to focus on early stage technology businesses, several have diversified into non-technology sectors. Nexus has an organic commodities producer, Suminter Organics, in its portfolio, while IndoUS Venture Partners has invested in e-waste recycling firm Attero Recycling. Helion has bet on serviced apartments with HummingBird, while Accel Partners India has invested in quick service restaurant chain Kaati Zone. Through such deals, Indian investors have carved a distinct identity for themselves. Technology, though, remains the highest funded sector, cornering 2.5 billion in VC dollars during 2004-09, according to IDG.

As more money flows in, valuations will get dearer. The e-commerce sector, which has attracted over \$200 million since January this year, is an example. Online books retailer Flipkart is reportedly in line for a \$150 million funding round at a valuation of \$1 billion. To sustain the current momentum, India's second generation of VC adventurers will need to find new white spaces. This means investing in younger firms and taking bigger risks. It also implies bigger returns in the long term. VC returns here have averaged between three to 10 times the original investment. The ideal is at least 50 times. If investors are able to move closer to those kinds of returns in the next five years, the VC industry can claim that this time it is here to stay.

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**PRASHANTH PRAKASH**  
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Accel Partners



**KANWALJIT SINGH**  
PARTNER, Helion  
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## NEXUS VENTURE PARTNERS

**Founders:** Suvir Sujan

(right), Naren Gupta and  
Sandeep Singhal

**Funds raised:** \$320 million

**Invested:** \$200 million

**Companies:** 35

**Top 3 funded sectors:**

Internet, software solutions,  
business services

**Exits:** 4

**Exit route:** M&A

SATHEESH NAIR



**\$250 MN**  
THIRD FUND  
NEXUS IS  
REPORTEDLY  
RAISING,  
ADDING TO ITS  
EXISTING \$320  
MILLION

**T**HIS January, Mumbai-based Nexus Venture Partners launched Nexus Seed, a platform to invest in seed stage technology and Web startups. Over the next five years, it plans to invest in 50 such startups, deploying anywhere between \$50,000 and \$500,000 in each. The initiative is unique as it comes from a VC firm that is identified with more mature investments. "We have always done seed deals and have launched a formal programme to expand on such investments," says Suvir Sujan, co-founder and managing partner of Nexus. Out of its 35 portfolio firms, eight were entered at the seed. In 2007, Nexus joined Acumen Fund and Draper Fisher Jurvetson to seed affordable solar lamps maker d.light Design. In 2008, it invested in video ad network Vdopia. This year, it joined Google Ventures and others to back apps developer Astrid.

Founded in 2006 by Sujan, Sandeep Singhal and Naren Gupta, Nexus seeks to invest in firms at their formative stages. "The first 2-3 years is when a VC investor can create the most impact," says Sujan, who earlier co-founded Baazee.com. The strategy is not unique. It helps investors ensure the best possible returns. At the seed stage, valuations are next to zero and businesses can be shaped in tune with investors' long-term profit goals. In India, however, VC investors prefer entering at later stages, choosing safety over risk. This has helped investors to reap steady returns, between three to 10 times the investment. But there is a problem. "Limited partners (institutions that invest in VC funds) expect supernormal returns. High rewards imply higher risk," says Sujan. As the market and valuations get more competitive, investors need to find

younger deals to meet those expectations.

So far, Nexus' limited partners seem content. The firm is reportedly raising a \$250-million third fund, adding to its existing \$320 million. It raised its first two funds within 19 months of each other. It has also booked a clutch of early exits. The first one was last August when South Africa's Naspers bought online startup OLX for an undisclosed sum. Nexus had invested \$5 million in 2009. This January, Web-conferencing startup Dimdim was bought by Salesforce for \$31 million. Nexus and others had invested \$8.4 million over two years. In July, Citrix bought cloud software startup Cloud.com for a reported \$200 million. Finally, in August, Yatra Online bought hotel rooms aggregator MagicRooms. Nexus had invested \$1.5 million a year ago.

In the next five years, Nexus will stick to its original investment mandate. It targets firms focused on India, and others building products or services that can go global. Roles of the three founding partners are aligned along sectors. Sujan leans towards Internet, media and technology firms. Gupta, in Silicon Valley, brings his experience as a serial technology entrepreneur. Singhal focuses on agriculture, rural and consumer businesses.

As it readies for the next phase, Nexus faces some challenges. It has to find enough promising young startups in its sectors of choice. Its portfolio is an even mix of early and mid-stage deals. Recently, it was part of a \$12 million Series B round, with IndoUS Venture Partners, in SnapDeal and led a \$12 million Series B investment in enterprise software startup Druva this week. The launch of Nexus Seed shows the firm is keen to balance that situation.