

Kripa Mahalingam

It was a balmy day in November last year when Lakshmanan Narayan, CEO of Unmetric, flew down from Chennai to Mumbai to make his presentation to the formidable team at Nexus Venture Partners. Present at the meeting were its three founders, Suvir Sujan, Sandeep Singhal and Naren Gupta — while their combined business acumen would have made any entrepreneur nervous, Narayan was both anxious and hopeful. A few hours of grilling, and a sleepless night later, Narayan had a term sheet for \$3 million from Nexus. “I could have fished around for a better bargain with other funds but I felt that the team at Nexus understood our business really well, and would also be the ideal partners to help us scale the business,” says Narayan. He was right. Not only did Nexus help shape Unmetric’s business strategy, it also assisted in building the company’s senior management team as well as the advisory board. Unmetric is a benchmarking company that tells brands how they stack up against their competitors based on their social media strategy.

That Nexus is helping companies scale up in every possible way — and that in futuristic businesses like Unmetric, which are still their infancy — is only part of the story. What’s amazing is how the VC firm is building something of a formidable reputation for, hold your horses, exits. Here’s how.

Ask any venture capitalist and they’ll tell you exits are not easy in India. Actually, it’s mostly not even in their hands. Unlike the US, India is yet to see a slew of big-bang IPO exits for VCs — MakeMy-Trip and Naukri are exceptions. M&As, almost the only exit route

AS YOU SOW...

Nexus has been prominently able to manage smart exits, thanks to its early-bird strategy for making investments

available for VCs, aren’t easy either because there are too many variables involved. But Nexus is making exits look like a walk in the park — it has made six exits over the past two years and, except one, all of them have raked in good profits (*see: On a roll*). Sure, it partnered with other VCs in most deals but its track record stands out in an industry where you are only as good as your last exit.

It’s a combination of skills that’s working for Nexus. Sujan, Singhal and Gupta, who founded Nexus in 2006, believe in consensus — all of them have to agree before making an investment and “a good partner prevents the other from making a bad investment,” says Suvir Sujan, co-founder, Nexus Venture Partners. They also tend to invest in themes ahead of the market, and which are yet to be proven.

They started investing in enterprise solutions and cloud companies in 2008, much before it became fashionable to do so. “We look at somewhat futuristic mar-

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—SANDEEP SINGHAL (B)
Co-founder, Nexus Venture Partners

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—SUVIR SUJAN (M)
Co-founder, Nexus Venture Partners

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—ANUP GUPTA (T)
Managing director, Nexus Venture Partners



ON A ROLL

Nexus has seen maximum exits in the enterprise and cloud space

| FIRM | ACQUIRED BY | CO-INVESTORS | EXIT DATE | INVESTMENT | SOLD FOR* |
|------------|-------------|--|-----------|------------|-----------|
| OLX | Naspers | General Catalyst, Bessemer Venture Partners Founders Fund and DN Capital | Aug 2010 | 28.5 | NA |
| DIMDIM | Salesforce | Index Ventures and Draper Richards | Jan 2011 | 8.6 | 31 |
| MAGICROOMS | Yatra | — | Aug 2011 | 1.5 | NA |
| CLOUD.COM | Citrix | Index Ventures and Redpoint Ventures | July 2011 | 17.6 | 200-250 |
| GLUSTER | Red Hat | Index Ventures | Oct 2011 | 12.5 | 136 |
| NET MAGIC | NTT Docomo | Fidelity International, Nokia Growth Partners, Cisco Systems | Jan 2012 | 34 | 180 |

All figures in \$ million; *Sum from company sale, not investors' exit realisation

Source: Industry reports

kets that may not exist today but will be a natural progression sometime soon," says co-founder Naren Gupta, who leads investments in Silicon Valley with Jishnu Bhattacharjee, principal. "In 2008, the need for storage was exploding and the costs were very high. We felt people would need flexibility in capacity and cloud is the only solution that can give them that." Their conviction has paid off and Nexus is seeing some of its biggest exits in this space — Citrix Systems took over the portfolio company, Cloud.com, for over \$200 million in July 2011. Storage management company Gluster was taken over by Red Hat for \$136 million in an all-cash deal in October 2011. "Nexus is one of the few funds in India that invested in enterprise application and cloud companies," says Parag Dhol, managing director, Inventus (India) Advisors. "They have leveraged their expertise in this area to identify some winners early on and it has paid off very well for them."

Nexus operates out of a combined corpus of \$320 million. It has already raised money twice, the first time in 2007, when Nexus India Capital I raised \$100 million; its second fund, Nexus India Capital II, raised \$220 million in 2008. Although the partners refuse to disclose their fundraising plans citing regulatory constraints, industry sources say Nexus is likely to

raise \$300 million as part of a third fund, and the announcement can be expected in the next couple of months. Nexus has already invested almost 75% of its funds across 40-odd firms. The team at Nexus sifts through upto 1,000 proposals a year to pick out six to eight ventures for investment.

The bet is always on the entrepreneur. "The business plan he presents in the beginning is always different from what the business finally evolves into," says Sujan. "The entrepreneur has to have the ability to listen to what the market is saying, adapt and make changes." He must also have the ability to hire and keep good personnel, especially when he has neither



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Co-founder, Nexus Venture Partners

products nor customers to show for when he starts off.

As with Unmetric, "We mostly help in team building and attracting people," says managing director Anup Gupta. "When we approach people, it validates the team and also the idea."

It doesn't come as a surprise that Sujan, Naren Gupta and Singhal have a strong history of entrepreneurship. Sujan co-founded Baazee, which merged with eBay in 2004 to form eBay India. Gupta co-founded the embedded software company Integrated Systems Inc, which he took public before merging with Wind River Systems, in turn acquired by Intel. Singhal co-founded the Rupert Murdoch-backed eVentures, one of the earliest VCs set up in India in 1999 — it shut in 2003 and Nexus took over its remaining investee portfolio in 2007. Between eVentures and Nexus, Singhal also co-founded a healthcare outsourcing firm, Medusind Solutions. The three know enterprise is a roller coaster ride. "Since most of them at Nexus have experience in building businesses, they know what it takes and the ups and downs that come with it," says Amar Goel, founder and chairman, Komli Media, a firm in which Nexus invested in 2007.

THE FUTURE IS NOW

Nexus primarily looks to invest in companies focused on huge op-



NILOTPAL BARUAH

portunities, be they domestic or global. Market opportunity is important because it is impossible to build scale without it. "When we set out in 2006, we believed there would be global companies coming out of India," says Sandeep Singhal. "We are now seeing more of it because entrepreneur confidence is high here and they [the entrepreneurs] can pick up international trends and work with them."

Another investment criterion for Nexus is capital efficiency. "We are typically an early stage VC fund so we look for businesses that are capital efficient," says Singhal.

One of the firms Nexus has done well with is Komli Media, which has developed an online advertising technology platform. Komli raised \$62 million and is growing rapidly, helped by six acquisitions in the past two years — it's target-

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ing revenues of \$100 million in 2013 and is valued at \$500 million.

There's also Pubmatic, which has developed a platform that allows large publishers to manage their ad inventory on a real time basis to optimise pricing and maximise revenues. Pubmatic has raised \$63 million so far. Nexus invested \$7 million in it in 2008 along with Helion Ventures and Draper. An IPO from the firm is said to be in the

then, another segment where Nexus has invested aggressively, cloud computing, is estimated to grow to \$130 billion by 2013, according to Gartner estimates.

That apart, Nexus has invested in Suminter Organics, which procures organic farm produce from local farmers and exports to international markets; Sohan Lal, an agri-logistics provider; and EyeQ, a chain of eye hospitals focused on northern and western India.

Right now, of course, the firm is betting big on social media. Gartner estimates put the revenues of social media firms at around \$10 billion in 2011, and expect it to grow to \$14.9 billion in 2012. "Till now, social media has been more about fun. In future, it will have a

NEXUS IS BETTING BIG ON SOCIAL MEDIA. GARTNER ESTIMATES SOCIAL MEDIA FIRMS WILL GROW FROM \$10 BILLION IN 2011 TO \$14.9 BILLION IN 2012

offing, alongside rumours of a \$300 million buyout offer from Amazon.

Nexus' bet on both Komli and Pubmatic stem from the strong future potential. According to eMarketer, a firm that specialises in publishing data and insights in the spheres of digital marketing, media and commerce, the online advertising market is expected to grow from \$68 billion in 2010 to \$132 billion in 2015, accounting for 22% of the ad dollars spent. And

big use in business as well. It is still early days — it may not happen in the next six months to a year," says Naren Gupta. He says Nexus is backing enterprises building tech platforms that allow companies to leverage social media — Unmetric is one of them. There's also Salorix, in which Nexus has invested \$3.5 million along with Inventus Partners, which works with global brands to simplify and scale their social media engagements. He is



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also looking out for companies like Genwi, which helps publishers deliver interactive content by creating apps on their cloud-based publishing platform for tablets and smartphones. "Tablets will be the most used technology platform after the mobile," says Gupta. Indeed, the tablet is expected to change the nature of content — books could be written differently, videos can be embedded, clicking on which will lead to an interactive experience with the reader, and the text itself will change because detailed explanations won't be needed. Nexus and Inventus invested \$4 million in Genwi in October 2011.

HIT OR MISS

But investing in futuristic markets is risky. "There is a lot of risk involved as one can never really be perfect when looking at the future," says Gupta. "That's where the adaptability of the team comes in." Like, there may be a big need for storage but the solution the team is suggesting or the market it is targeting may not be right — whereas a team that can adapt will make changes and come up with the right solutions. Take the case of the open source web-conferencing start-up Dimdim. It was initially focused on the Asia-Pacific market but soon realised its products were better for small and medium businesses in the US — so it established its presence in Boston, targeting the local market, and later got bought over by Salesforce for \$31 million in January 2011. Nexus, along with Index Venture and Draper Richards, invested \$8.6 million in Dimdim in 2007.

It did, however, miss not backing Naveen Tewari of inMobi, now the leading global mobile advertising firm, which raised \$200 million from Softbank and is said to be valued \$1 billion. "We didn't expect the team to go global so fast," concedes Sujan.

Not every theme has worked out well. Nexus' bet on mobile value-added services, and investment in companies like mobile2win in 2006, haven't paid off. "We thought that once number portability kicks in, value-added services would be the only differentiator that telecom firms would have," says Singhal. "Not only did number portability get delayed, telecom operators got to keep the maximum revenue share and there was not much money left on the table for



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mobile VAS companies." Nexus sold mobile2win to Altruist in 2009 and continues to remain a shareholder in Altruist. It also got out of MagicRooms, the hotel room aggregator, selling its stake to travel company Yatra in August 2011, just about recovering the \$1.5 million it invested in July 2010.

NO FORMULA FOR EXITS

So how does Nexus decide when to exit a company? It's much easier to decide on investments that aren't working out rather than fix on a formula for exits; and there

is no telling which companies will emerge as stars or come up a cropper, the Nexus team says. "There are times when you look at investments and think the company may not go anywhere, but a year later, they are the star in your portfolio," says Singhal. "Then there are some companies doing well but could run into rough weather a year later because of regulatory changes." The goal, he says, is to build companies that can go public because that is where Nexus can maximise returns. "Even in M&A, companies are willing to pay a premium when they don't want you to go public," says Singhal. "When they realise you can't go public and the only hope is to sell out, they get into competitive bidding and that's not a good thing." Inventus' Dhol feels exits are essential for the start-up ecosystem to thrive — they not only validate your belief in an investment but also the faith investors have in a fund, which helps attract new investors. "Nexus seems to have perfected the art of exiting," he says.

While it doesn't let exits dictate its investment strategy, the team is mindful of exit opportunities when it puts its money in companies. "It is the fund manager's responsibility to invest in assets knowing he can exit them within a certain time frame," says Sujan. "You can take a call to wait while investing in your personal capacity, but you can't take risks while managing someone else's capital."

One last irresistible question remains: where does Nexus see the next round of exits? "The whole online advertising space," says Gupta. "When we invested in companies like Komli, Vdopia and Pubmatic about four to five years ago, we didn't expect the business to scale up as quickly as it did. The exits are going to be bigger than the ones we saw in cloud." Watch this space. ■