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Technology start-ups get VC fund fillip

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Venture capital (VC) firms in India are slowly warming up to start-ups in the technology and science space, eyeing early opportunity as incubators and institutions across the country strive to get business ideas to an investment-ready stage.

Indian start-ups typically face a gap in early-stage funding of up to R5 crore while venture capitalists mostly focus on large investments. Besides, some high technology start-ups may also be seen as lacking commercial viability or having risky business models. A recent study by IDG Ventures estimates that India will witness \$70-75 billion of private equity and VC investment between 2010 and 2015. Nearly \$10 billion of it is expected to come from VC players, largely in the technology space. This year, growth-stage companies are expected to attract \$295 million follow-on funding and late-stage players up to \$986 million funding, the study noted.

"There is a big void in early stage funding. At that stage, finance is very scarce in India," says Rajeev Mantri, executive director at Kolkata-based early-stage VC firm Navam Capital, which has invested in two start-up companies in the past year and is planning a third investment in the next few months.

He reckons that the outsourcing or real estate space is getting crowded and VC firms will soon have to start exploring new options in commercialising high technology. "That's slowly changing. Once people are convinced that this can be done, it will pick up," he says, adding that current investment statistics, however, may not reflect that. "To me, that (outsourcing) formula has run its course. Value creation opportunity does not exist."

Navam last year invested \$1 million in VYOME Biosciences, a Delhi-based biopharmaceutical company focused on dermatology, and the year before it invested up to R1 crore in EnNatura Technology Ventures, an IIT-Delhi start-up that develops specialty chemicals from renewable sources and which markets eco-friendly printing inks.

"The numbers are increasing, as higher quality firms are incubating at institutes. However, the absolute numbers are still small," says Ashwin Raghuraman, vice-president of India Innovation Fund, a R50-crore early-stage investor, which will soon complete an investment in a Mumbai-based automobile technology company started in an incubator. The fund is jointly promoted by Indian IT trade body Nasscom and IKP Knowledge Park, formerly known as ICICI Knowledge Park, and has previously made an investment of R2.5 crore in Mitra Biotech.

The rate of companies getting funded in incubators — there are some 60 incubators at institutes across the country supported by the National Science and Technology Entrepreneurship Development Board (NSTEDB) — has increased in the last couple of years, says Sunil Maheshwari, founder of Mango Technologies, a mobile phone software start-up that was incubated at the Indian Institute of Management, Bangalore.

That could be because of a maturity in the system where there has always been a mismatch between the kind of financing a start-up in India needs and the opportunity that VCs seek and also the inability of companies to represent ideas in business terms, he says. Various government schemes are still the only financing available to a typical start up in India today while angel investors are still very few, says V Premnath, founding director of Venture Centre, a technology business incubator at the Pune-based National Chemical Laboratories.

The NSTEDB, which began functioning in 1984, has an annual budget of around R80-100 crore, including funds from participating foreign companies, while the Technology Development Board, which gives out loans to companies to cover 50% of a project's cost, has spent around R1,000 crore in the 11 years since it was set up.

The New Millennium India Technology Leadership Initiative, one of India's biggest innovation funds started by the Council for Scientific and Industrial Research (CSIR) in 2000, has invested over R600 crore in soft loans to more than 50 projects, its focus being to support innovation by covering the risk factor both for small and large firms.

Among the projects it has supported are the affordable computing device Mobilis and the Bio-Suite, a software package used for accelerating drug discovery processes developed by Tata Consultancy Services.

According to RA Mashelkar, former director general of CSIR, the missing links in the innovation ecosystem are now getting filled, with positive policy changes aimed at helping institutions convert knowledge to wealth. "Early-stage financing is still a challenge and that is where we require great movement. It is something that made things happen in the rest of the world and we don't have predominance of that in India," he says, adding that instances of science-based start-ups getting VC funds were still an exception rather than the norm.

"The bigger problem in India today is that there are not too many deals at the stage of investing they (VCs) wish to do. Many of us are trying to create the deal flow," says NCL's Premnath. He reckons that there are very few science-based entrepreneurs at most incubators across the country as they are mostly focused on information technology.