

## Private Equity Analyst

### VC FOCUS: VCs Invest Record Amount in India, Driven by E-Commerce and a New Government

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A new business-friendly government in India is helping to bolster the outlook of venture capitalists, who already this year have invested record amounts in the country, driven by growth in the e-commerce sector.

The amount of venture investment in India-based companies has increased steadily since 2009, according to data from industry tracker Dow Jones Venture Source. The increase is largely driven by U.S.-based firms with an India focus such as Sequoia Capital, which in 2008 closed a new India growth fund at \$725 million.

In 2013, the amount invested hit \$1.9 billion, the highest amount since 2008, when venture capitalists invested \$1.74 billion in companies there.

This year has taken off even more. Venture capital investment in the first half of the year hit around \$1.26 billion, and recent fundings have pushed the total past \$2.5 billion as the close of the third quarter nears.

The strong investment in venture-backed companies is likely to continue, investors say, as the pro-business government of Prime Minister Narendra Modi works to bring stability to the market. In recent years, India, the world's second-most-populous country behind China, has faced rising inflation and tepid growth.

Mr. Modi, who was elected in the country's general election in May, has announced several economic reforms and plans to kickstart the Indian economy and lower inflation rates.

Bejul Somaia of **Lightspeed** Venture Partners, which has been investing directly in India since 2008, said the decisive election in May, in which Mr. Modi's Bharatiya Janata Party won a majority of the seats in India's lower house, has set up a macro environment for business-friendly reform that should last for at least five years – the term of the new government.

This summer, the Indian government said it was planning to set up a 100 billion Indian rupee (\$1.66 billion) fund to give its startup industry a boost and entice more private capital to find its way into the country's small to midsize businesses. As part of its 2014-2015 budget, Minister of Finance Arun Jaitley said India "needs to create a conducive ecosystem for venture capital."

Mr. Somaia, who is based in New Dehli, said the increased sense of stability has come as a growing portion of the Indian population is going online with smartphones. There are more than 900 million mobile users in India, and about 10% use smartphones.

The market that exists with mobile users, and the one that is coming as less-expensive smartphones hit the market, is driving investment in mobile-based companies in India, especially e-commerce companies.

The largest investments of the year have been in e-commerce companies **Flipkart** Internet Pvt. Ltd. and Jasper Infotech Pvt. Ltd., which does business as Snapdeal.

**Flipkart** raised a \$1 billion round in July that included **Tiger Global Management**, **Morgan Stanley Investment Management** and **Accel Partners**, which followed a \$210 million round in May that included Accel Partners, Helion Venture Partners, IDG Ventures India, **New Enterprise Associates** and Tiger Global.

Snapdeal raised a \$134 million round in February and a \$100 million round in May. Investors in Snapdeal include **Bessemer Venture Partners**, BlackRock Private Equity Partners, **Intel Capital** and **Nexus Venture Partners**.

Other mobile-based businesses also are drawing in large funding rounds. ANI Technologies Pvt. Ltd., which operates as Olacabs, raised a \$42 million round for its cab-hailing services, and Hike Technologies Pvt. Ltd. raised a \$65 million round in August for its mobile-based messaging system.

The number of mobile users accessing many businesses' services is boosting venture investors' confidence in them. "Once you cross a certain threshold," Manik Arora of IDG Ventures India said of people connecting to the Internet, "a lot of these business models become a lot more successful."

Mr. Somaia of **Lightspeed** said investors in the India-based companies see the local startups as having an advantage since they understand the business atmosphere. "What we have seen is that the India companies are the winners," Mr. Somaia said of direct competition thus far between India-based companies and others attempting to move into the market.

Mr. Arora said the local advantage is especially true in e-commerce companies like **Flipkart** and Snapdeal, which are facing competition from larger companies, including **Amazon.com Inc.** E-commerce, he said, requires labor intensive distribution systems, and local companies have those systems in place.

Despite the large funding rounds for e-commerce companies, challenges lie ahead for venture investment in India. Mr. Arora said there has yet to be a \$1 billion exit of a venture-backed company in India, which is going to be needed to circle money back to the limited partners backing venture firms.

Venture investment also has been an outlier among overall private equity investment in India. Private financing – which also includes private investment in public equity, growth funding and buyout – has decreased in India.

In 2011, \$6 billion in private investment was made in India, according to the **Emerging Markets Private Equity Association**. Of that, 8% was venture funding. That decreased to \$3.6 billion in 2012 before increasing slightly to \$3.7 billion in 2013, according to EMPEA. Venture funding through these years grew to a larger percentage of private investment, accounting for 16% of the total private investment in 2013.

In the first half of 2014, venture accounted for 24% of the private investment in the country, according to EMPEA.

Nonetheless, venture investors see growth ahead for India. **OrbiMed Advisors** recently secured \$325 million to fund health-care companies in Asian nations including India, partly because investment

activity still doesn't match the level of opportunity there, according to OrbiMed, which has offices in Mumbai. In 2012, health care accounted for 4% of GDP in India, according to the **World Bank**. By contrast, health care took up 17.9% of U.S. GDP in 2012.

Mr. Somaia said the growing venture investment points toward a strong future. "I think there is a growing recognition that the next big market is India," he said.