TC Meenakshisundaram: Startup space will consolidate
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IDG Ventures India is a leading India-focussed technology venture capital fund. The fund is part of IDG Ventures, a global network of technology venture funds with more than $4 billion under management. In India, the fund has been on the investment radar for about eight years. It is focussed more on seed stage and early stage funding opportunities among technology-based startups. The fund had spotted Myntra at an early stage and it has turned out to be a success story. IDG has many more such companies in its Indian kitty. ***TC Meenakshisundaram****, founder and managing director, IDG Ventures India Advisors, talks about the opportunities and the way forward. Excerpts:*

1. Aren't tech startups overvalued? What good does this do to the startup community?

As people say – beauty lies in the eyes of the beholder. The issue of valuation too is in the hands of the person who writes the cheque. That is the fundamental approach, when it comes to valuation.

The Indian mobile internet consumers are expected to grow to about 500 million in three years from 250 million users. Today's millennial generation is extremely comfortable in doing things online and this population is growing. This opportunity is what companies are fighting for and investors too are pricing this prospect and backing deserving companies that they feel will be the winners. That is how the eco-system operates. For those outside this eco-system, it looks like overvaluation.

There may be some that are overvalued and these are on a case-to-case basis and company-to-company basis, linked to the capital raised. There are 2-3 important points to be considered. The chances of these companies becoming winners go up, when more capital flows in. At the same time, when a large capital goes into one company, which is considered a market leader, then raising money for the No 2 and No 3 companies becomes next to impossible.

Also, today's entrepreneurs do not fear to fail and that makes them go for aggressive growth. At the same time, one of the fallouts of such an approach is that entrepreneurs with ventures that have little traction, with just about five-odd transactions a day, also believe that they can raise $5 million just like that. Eventually, market will find its own level.

2. Isn't the space growing at a maddening pace? Incubation, fund raising and sell outs are happening at a crazy pace. When will it hit a healthy normal ground?

Our belief is that the number of startups and their growth is very strong. That is because none existed earlier. Hence, this growth is welcome. By the end of this year, India will become the second largest internet market by users, overtaking the USA. With that type of internet userbase, the opportunity for mobile and net-based business model is high. Different entrepreneurs are trying to solve a problem in different ways. Having said that, we believe that most of these categories can have space for 2-3 players across different solutions.

Over the next 12-24 months, hopefully, potential winners in some categories will be identified. At present, for each category and the sub-category, about 6 – 10 companies are getting funded by different funds. Finally, space for only 2-3 will be available, thereby leading to consolidation or shutdown of some. There has been cases where — with city-strong hyper local — getting acquired by a larger player and more new ventures come up in newer cities and towns. At the end of the day, everyone is going after the same customers' wallet and through different solutions. Hence, consolidation will happen with some, while others will exit.

3. Is the environment conducive for startups to list on the stock exchanges? Are the recent Sebi guidelines attractive enough for companies to raise public funds and sustain in the market?

One has to see. I think what Sebi has done is interesting. Definitely, the opportunity to raise money is not for an absolute startup. We are talking about companies that are established, have scaled up but may not be profitable, which needs to raise capital to expand and become profitable. Restrictions are in place on who can participate in this market. It is not open to all. Hence, we are unlikely to see the type of runup and correction we have seen in China in the recent past.

As long as high quality companies get listed, it will be a positive development.

4. What is IDG's strategy in evaluating startups?

In the case of startups, there is seed funding and there is early stage funding. That is the focus of IDG and that is where the bulk of the funding will go. There are 2-3 key criteria that we look for, while considering funding opportunities. Large market opportunity for the venture and also the intensity of competition in that space, the founding team, its passion and focus, and the ability to build leadership to sustain the differentiation and also it being a capital efficient business model are important considerations. At the end of the day, we take decisions at early stage and hence judgment is a must on the investors part. Founding team and their passion, especially in solving the customer/market's pain points, becomes the key factor.

5. On what grounds do you reject startup pitches?

It is actually the corollary of all that we look for in a venture. No differentiation and 'me too' ventures will be the key reasons for rejection. We have invested in close to 45 companies. Some of these companies are internet-based, some are software products, a few others are mobile-based and also SaaS companies. While we have been investing over the past eight years, a bulk of them —about 25 companies — have been funded in the last three years.

6. Is attitude a big problem among young entrepreneurs?

There are a few factors —passion, aggressiveness and fearlessness – that we look for in promoters. If a company has to grow aggressively, the founding team should build the management team to take the company forward. Basically, a venture should have all 3Ms – money, market and management. In most of the times and situations, only 2Ms co-exist. In very few cases all 3Ms exist and work. There may be healthy debate on strategy and addressing customers' problems. At the end of the day, the entrepreneurs have to take the right decision and implement them.

7. IDG has also been active in the TiECON eco-system. Can you throw some light on the same? Also do you focus on specific cities?

TiE plays an active role in promoting and mentoring entrepreneurship and we work closely with it. It gives us an opportunity to interact and identify high potential entrepreneurs. There are also opportunities to provide guidance and mentoring. It is a great eco-system. In terms of cities that are high on the startup and entrepreneurship radar, Bangalore throws up the most number of opportunities, followed by the national capital region and Mumbai. These are followed by cities like Chennai, Pune and Hyderabad. While the last mentioned three cities are catching up fast, it will be difficult for them to replace the top three. For us, a city is not a barrier. It is the opportunity.

The availability of talent is sure to play a major role. It is a known fact that we backed Myntra (Bangalore) and how successful it has become now. We have also backed other winners like Lenskart (Delhi), which is the number one player in that segment, Firstcry (Pune), a leading player in babycare products, Zivame (Bangalore), the number one in the lingerie category and eShakthi (Chennai) that makes customised garments for women in the US. We have been fairly successful in backing the right ventures across cities.
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