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India Venture Investing

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Background

- Stanford CS PhD (88-94), IBM, Oracle, Kauffman fellow, cofounded Junglee (AMZN) and Tavant
- 20 years in India as investor and entrepreneur
- Areas of dabbling – services (Daksh, MuSigma), consumer internet (MMTY, RedBus, Naukri.com), enterprise (UPWK, Pubmatic, Workspot, Whatfix)

Helion Ventures

- Started 2006 - India Focus
- $600MM across 3 funds
- 60 investments - MakeMyTrip (MMYT), Azure Power (AZRE), BigBasket, RedBus, Ola cabs, Workspot

India venture

- 1996 – first wave of VCs (Walden, ICICI)
- 2000 – second set of VCs. Most gone, some moved to late stage – Chrys, Westbridge
- 2006 – lots of funds created; current ecosystem strong and stable after some churn (series A+)
  - Foreign / Global
    - Fly in – Battery, Columbia, Foundation, KP. Have stopped.
    - Establish local teams - Accel, Lightspeed, Matrix, Mayfield, Sequoia. Well established
  - Corporate – ANT, Google, Intel, Infoedge, Qualcomm, Tencent
  - Domestic - Helion, Kalaari, Nexus, SAIF
- 2009-2010 – smart phones spur internet user growth; several family offices start domestic venture
- 2012 – domestic LPs start investing
- 2018 – internet users grow due to cheap broadband

Some characteristics

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- Open market, English speaking, connected to US
  - FANG dominates
  - Cloud infra dominated by US companies
  - Capital and tech transcend boundaries
  - Enterprises are early in buying IT – buy safe (IBM, SAP)
- Local Co's in categories with physical touch or regulations – mostly full stack / O2O plays
- Vernacular growing quickly
- Cost of building a tech company is lower than US – enterprise software companies

India companies target two markets

		India market	Foreign market (US)
Consumer/full Stack	Consumer Media	*YouTube, FB, GOOG, Whatsapp, Netflix*	Hard to Serve from India
	Food	Swiggy, Zomato	
	Retail	Flipkart, *AMZN*	
	Fintech	PayTM, EzeTap, PayU, PhonePe, Perfios	
	Logistics	Rivigo, Blackbuck	
	Transportation	Ola, *UBER*	
Enterprise	Enterprise software	small domestic Market. *SAP, AWS, MSFT, ORCL*	FreshWorks, Whatfix, Seclore, Druva, Mindtickle
	Enterprise services		MuSigma, Unitedlex, Globallogic, Axtria, Fractal

Foreign Company Domestic Company

Some implications

- Government refining regulations –
  - Data protection – like GDPR
  - Data protection – move data to
  - local payment network – visa/mastercard
  - etailer cant do private label, etc.
  - Lots of open APIs to govt data
  - Efiling of taxes
- Immigration policies helping retain talent
- Growth bet - not present market size
- Ecosystem dynamics – Bangalore is dominant, Delhi next, Mumbai, Chennai, Pune, Hyderabad

Breakdown of the components

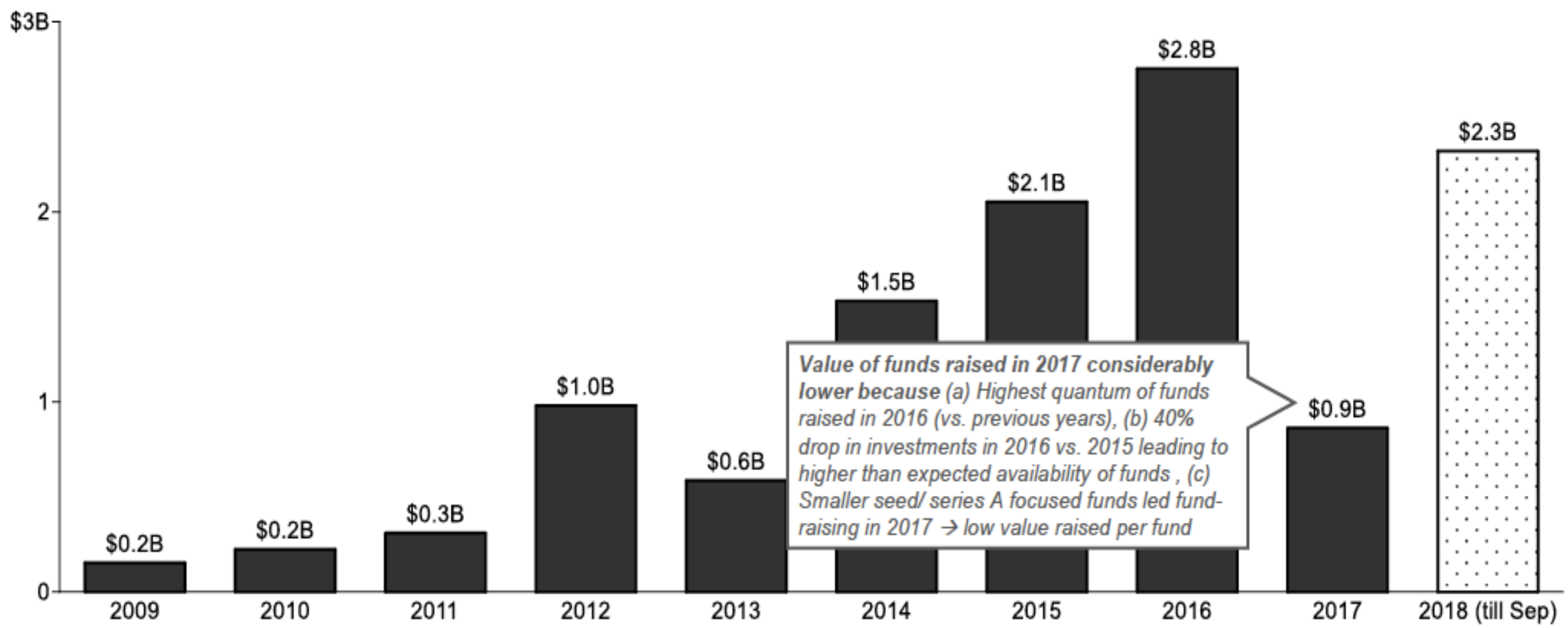
Talent	Market	Capital
• 1.5M new engg/year • Hungry • Social norms favor entrepreneur • Cost of talent lower than US (1/3 to 1/10)	• India is a growth market - every sector • Conventional players ripe for leapfrogging (full stack) • Stable democracy	• World has lots of liquidity • Domestic investors opening up
• Attitude and skilling needs improvement in grads. • Not enough architects & managers	• Regulatorily complex • Small in absolute numbers • Exit environment unproven	• Fund sizes are ahead of exit sizes (changing quickly)

Quantum of fund-raising for focused Indian VC investments has increased significantly since 2014

1. FUNDING

FUNDS EARMARKED FOR INDIA

Total funds raised by VCs for investment in India* ($B)



	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018 (till Sep)
Number of funds raised	5	4	2	14	15	10	14	26	19	22

Note: (*) Only includes funds that are earmarked for India – whether raised by Indian or global VCs
Source: Venture Intelligence

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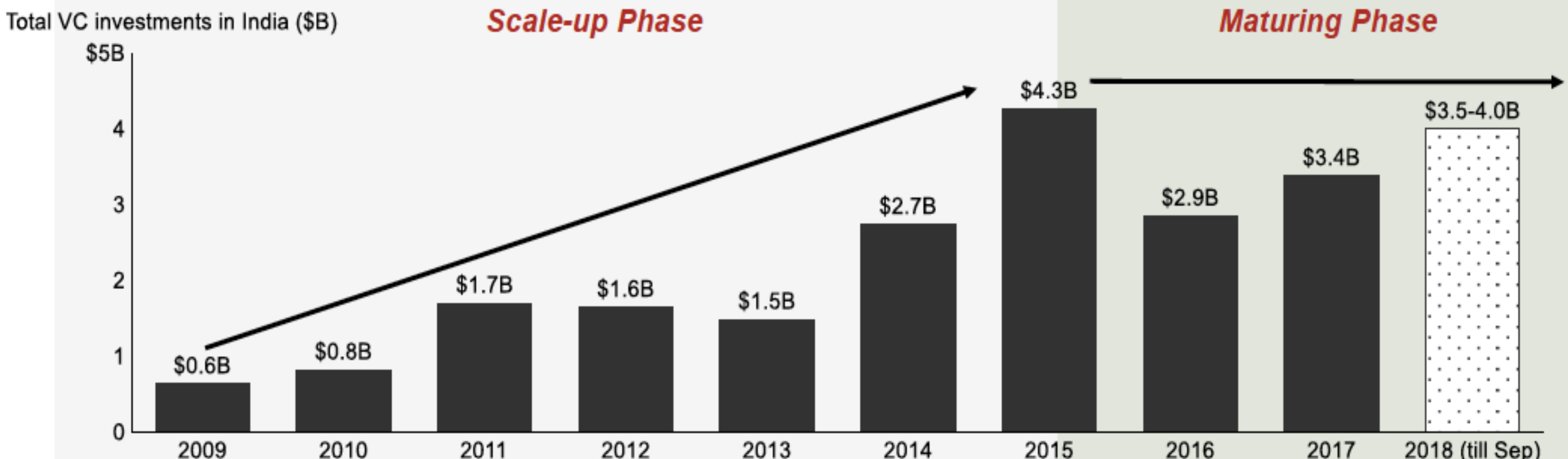
VC industry in India has evolved to a more “mature” phase in the last couple of years

2. INVESTMENTS



	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018 (till Sep)
Number of VC investments	102	123	234	320	404	548	855	746	515	~400

- **Scale-up Phase** for VCs in India with **multiple new VCs setting up funds** to benefit from a **booming start-up environment**
- **Focus on doing more deals** given high number of start-ups seeking investment and aggressive competition among VCs
- **Maturing Phase** for VCs in India as VCs now more focused on placing **select bets on fewer investments** - given their initial portfolios are already in place

Source: Venture Intelligence; AVCJ; VCCEdge; Bain Analysis

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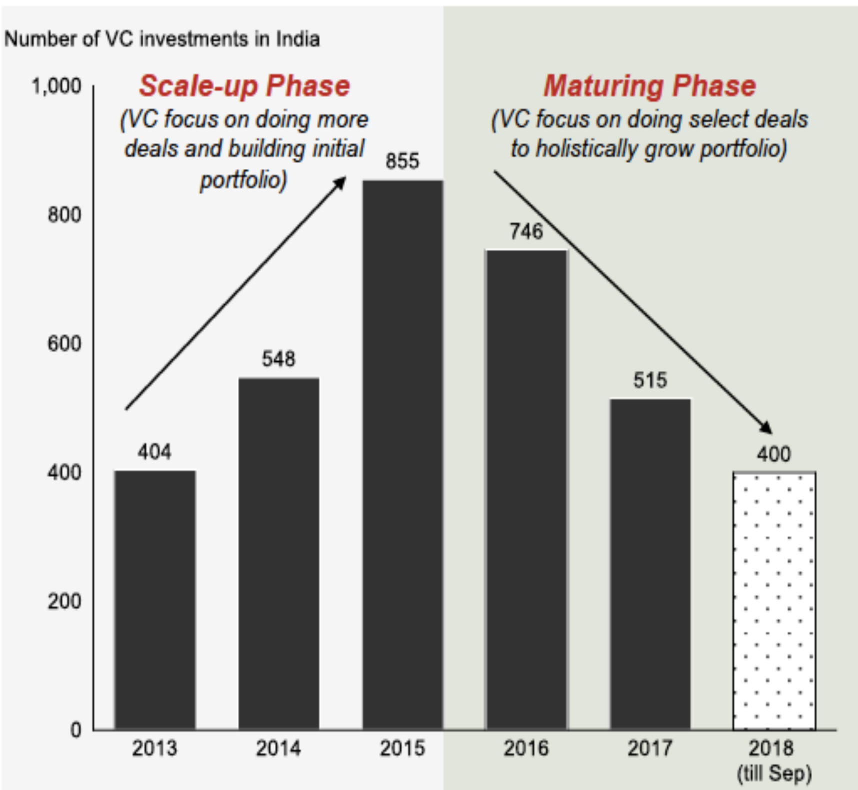
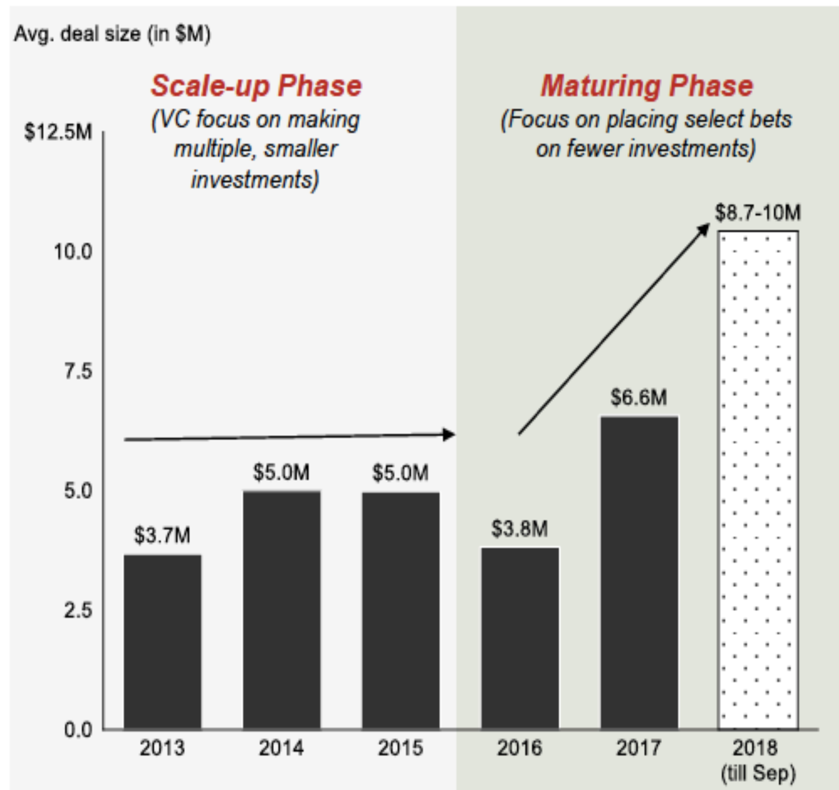
Focus has shifted to fewer, higher quality deals

2. INVESTMENTS

Number of Deals



Average Deal Size



Source: Venture Intelligence; Bain Analysis

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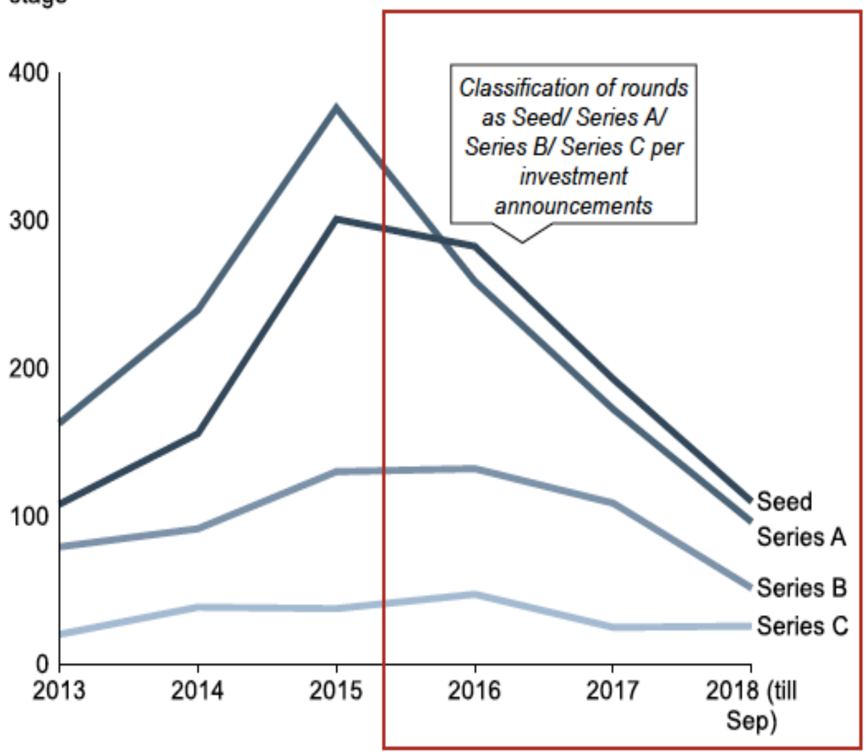
With increasing focus on quality – number of deals has declined and deal size has increased across all investment stages

2. INVESTMENTS

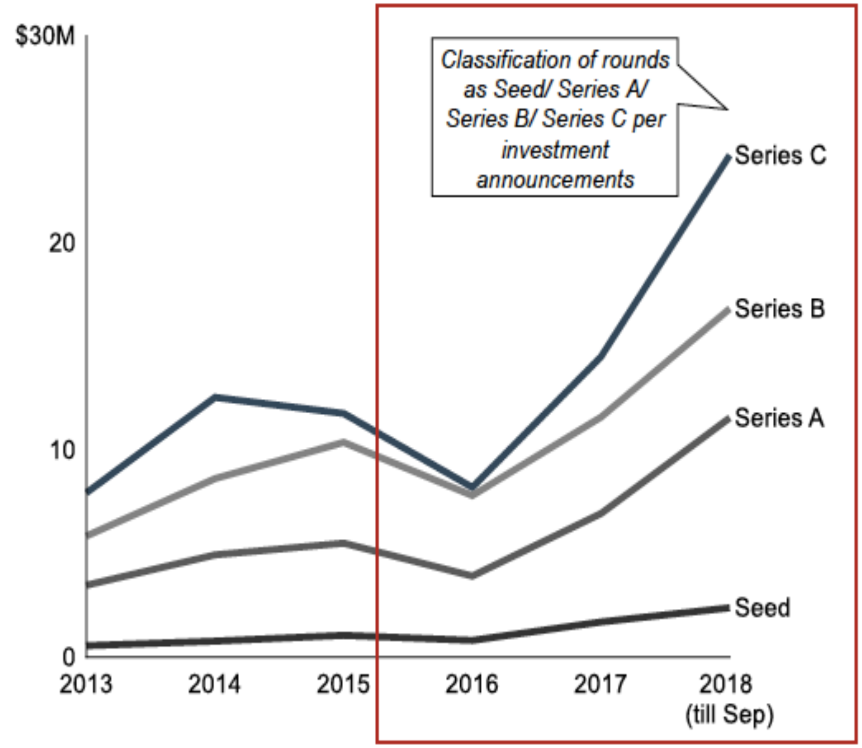
Number of Deals per Round

Number of deals, by investment stage



Round Size

Average deal size, by investment stage (in $M)



Source: Venture Intelligence; Bain Analysis

Exit environment

- Exits have been skewed in favor of secondaries by other investors
  - Few IPOs (small public market) – MMYT, Speciality foods, Just Dial
  - Few acquisitions – Flipkart, Amba, RedBus
- Many Unicorns coming into existence
  - Consumer: Flipkart, PayTM, MMYT, Infoedge, Ola, Oyo, Zomato, Byjus, BigBasket, Delhivery, Quikr, Snapdeal, PolicyBazaar
  - Enterprise: Freshworks, MuSigma

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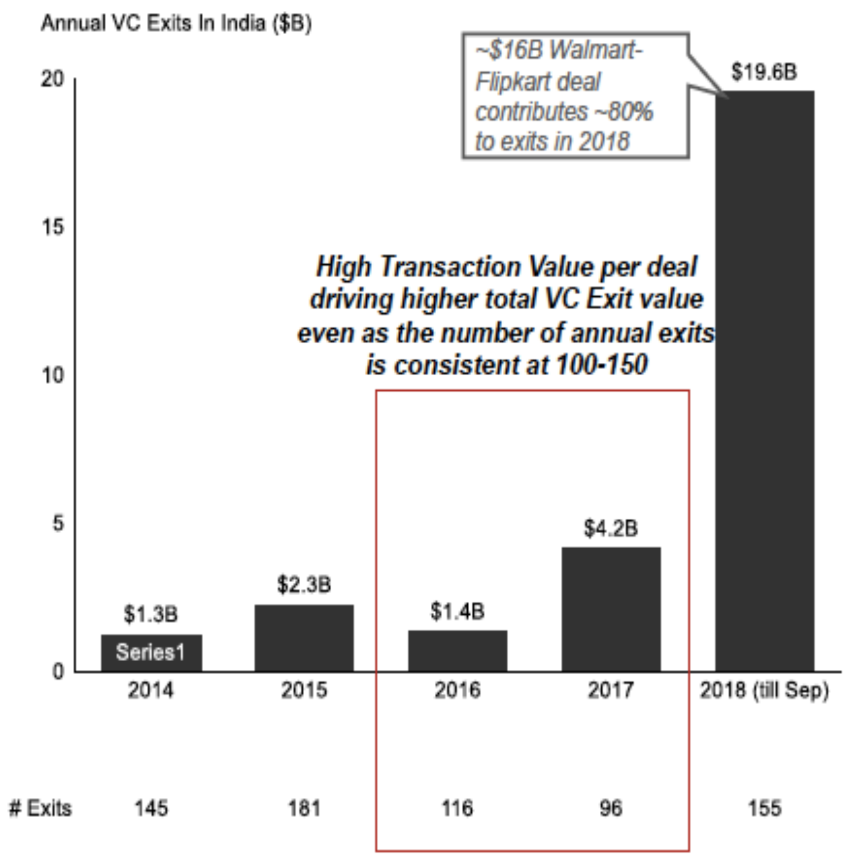
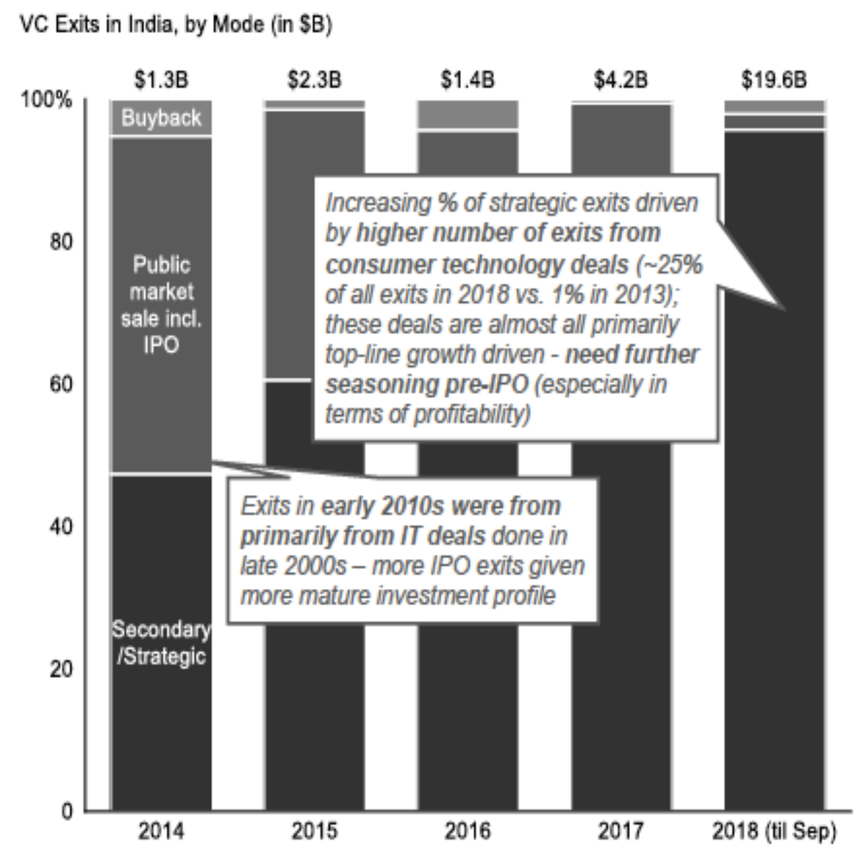
Exit momentum in India has been strong with increasing exit value per deal

8. EXITS





Source : Bain @ co

Summary

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- The whole country is a startup !
- Actual domestic $$ spent are still small
- Growth is the bet
- Venture industry well established
- Consumer adoption of tech exploding
- Strong domestic talent pool
- US players dominate several categories
- Lots of opportunity
  - Large market-cap needs serious fund raising plus bets on the future – unit economics are unimportant.
  - Many more smaller opportunities ($100M or less)