

"Entrepreneurs and Opportunities in India:

The Ecosystem for Startup Growth“

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April 16, 2012

US-Asia Technology Management Center
2013 Spring seminar Series
EE 402T Entrepreneurship in Asian High Tech Industries

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Outline

- Evolution of the Ecosystem
 - A brief history
- Changing Landscape
 - 2000 - 2013
- Nurturing the Early Stage Ecosystem
 - Seedfund philosophy
- Opportunities and Challenges
 - How do we address and overcome
- What lies ahead?

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“Israel can produce an ICQ,
Singapore a Creative Labs,
Even Estonia a Kazaa and Skype” (2005)



With a billion people,
a huge, **English-speaking** trained labor force
and thousands of **bright ideas**,



Can India produce

World-class, impact-making startups?



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INDIA 2013

Is it this the right landscape for entrepreneurship?

800m Mobile Users



TOP 20 INTERNET COUNTRIES - 2012 Q1
With Highest Number of Users



Source: Internet World Stats
www.internetworldstats.com/top20.htm
Copyright © 2012, Miniwatts Marketing Group



120m Internet Users



Key elements of an entrepreneurial ecosystem

PEOPLE

- Highly educated,
- Technically aware population
- English the lingua franca
- Low People costs
- Large untapped market
- Large untapped talent
- High illiteracy
- Skills gap
- Divide between “Haves” and
- “Have-nots”

ENVIRONMENT:

- Growing youth population
- Economy growing at > 8%
- Internet users : 120m++
- Mobile : 800m++
- Cultural resistance to failure
- No Early Adoption

MARKETS/ EXITS

- Well regulated financial markets
- Highly liquid market
- Easy for unique firms to stand out
- Market caps approaching global norms
- Few M&A opportunities
- Not many “new economy” heroes

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Timeline of a Developing Economy



- 1947 - 70 Post independence nation building
- 1970 - 90 Growth stage
- 1985 Telecom Revolution, Birth of Software Industry
- **1991** Liberalization, Growth of Software industry
- **1995** INTERNET, MOBILE TELEPHONY arrives
- 1996-1999 ITES is the next big wave
India is answering the world's telephone calls
Meanwhile, still no products, few innovations.
- **1998-2000** ".com" changes it all
New dreams of own products and solutions
Away from services, new business models

VC funding arrives!! Silicon Valley Style Dreams

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Evolution of the Ecosystem

1999-2002

- Startup mania of 1999-2002 :
 - Sowed the seed for a new ecosystem
- Over \$1 billion invested in startups
 - Over 1,000 startups funded
- Money flowed in from US, Europe, Asia
 - Over 100 VCs started up
- Roadblock
 - Market crash halted new investments
 - Existing investments halted by



- Lack of revenue model
- Overfunding
- Under-expertise
- No local market
- Difficult US exit

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Evolution of the Ecosystem 2000-05

- Post .com blues
- No early stage funding
- No exits
- .com and start ups are bad words
- “Failure” and “Startups” reinforced as “bad words”
- Ecosystem dismantles



But the seed was sown.....

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2005 - Seed of the start up ecosystem

SEED:
Support, Expertise for Entrepreneur
Development



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Indian venture ecosystem 2006

Entrepreneurs

Angel / Seed stage
(\$100k - \$800k)

Venture funds
(\$1m - \$10m)

Private Equity funds
(\$3m - \$20m+)

Public Markets



**SIDBI
VENTURE**

MENTOR PARTNERS

MUMBAI ANGELS

Nadathur
Holdings & Investments

erasmic

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NEXUS
INDIA CAPITAL

WALDEN **sherpalo**

KP
CB **SIERRA
VENTURES**

MAYFIELD FUND

NVP **Mobius**

NEA **MATRIX**

CLEARSTONE

USVP **BESSEMER
VENTURE PARTNERS**

Battery Ventures

DRAPER FISHER JURVETSON

intel **CISCO SYSTEMS**

UTI VENTURE FUNDS

SEQUOIA CAPITAL

WESTBRIDGE

THE CARLYLE GROUP

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kotak

ICICI Venture

TEMASEK
HOLDINGS

WARBURG PINCUS

General Atlantic

citi

Actis

CHRYSCAPITAL

The Blackstone Group

**NEW BRIDGE
CAPITAL**



Seedfund : What we set out to do

- Make a visible difference in backing early-stage companies
Do so with “a little money and a lot of time”
- Plug the ecosystem gap
 - No other presence in the \$0 to \$2m funding space
- Work with LPs who can strategically help investees
 - And for whom we are a strategic help
- Re-invent VC economics
 - To make sense at tiny investment levels
 - For GPs, LPs and investees
 - Prove that seed-stage funding is a viable business
- Demonstrate success, inspire others. (Perhaps!)



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Mistakes set right

- The *right* level of funding
 - Over 2 years with milestone based disbursements
- The *right* advisory expertise
 - From entrepreneurs, with overseas and Indian experience
- The *right* focus
 - “Invented here”
 - Funding true innovation through links with IITs, TiE, Indian networks
 - Looking at high-return, high-impact projects
- The *right* markets
 - Local markets first
 - Then Asia, US
- The *right* team
 - Young, Passionate, Hands-on entrepreneurs
 - Execution driven



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Evolving Landscape : 2010

- Recovering from “The Financial Meltdown”
- Ecosystem more mature now
- More diverse sectors and business models
- New breed of entrepreneurs
 - “Fresh off the boat”
 - Serial Entrepreneurs, Experienced professionals
- One suit doesn’t fit both
 - Different products needed for different segments

SEED2 – Larger fund

Incubator and Full Investment with larger bite size

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The Seedfund story so far...



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The Seedfund story so far....

- Funded 25 companies since 2006

All the companies are

- India focused, feeding consumer demand
- Have a great team- experience, knowledge, passion, commitment
- Thought leaders and innovators
- Leveraging technology for scale
- Leaders in their industry or select niches
- Creating Impact

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VC/PE landscape 2012

Entrepreneurs

Angel / Seed stage
(\$100k - \$2m)

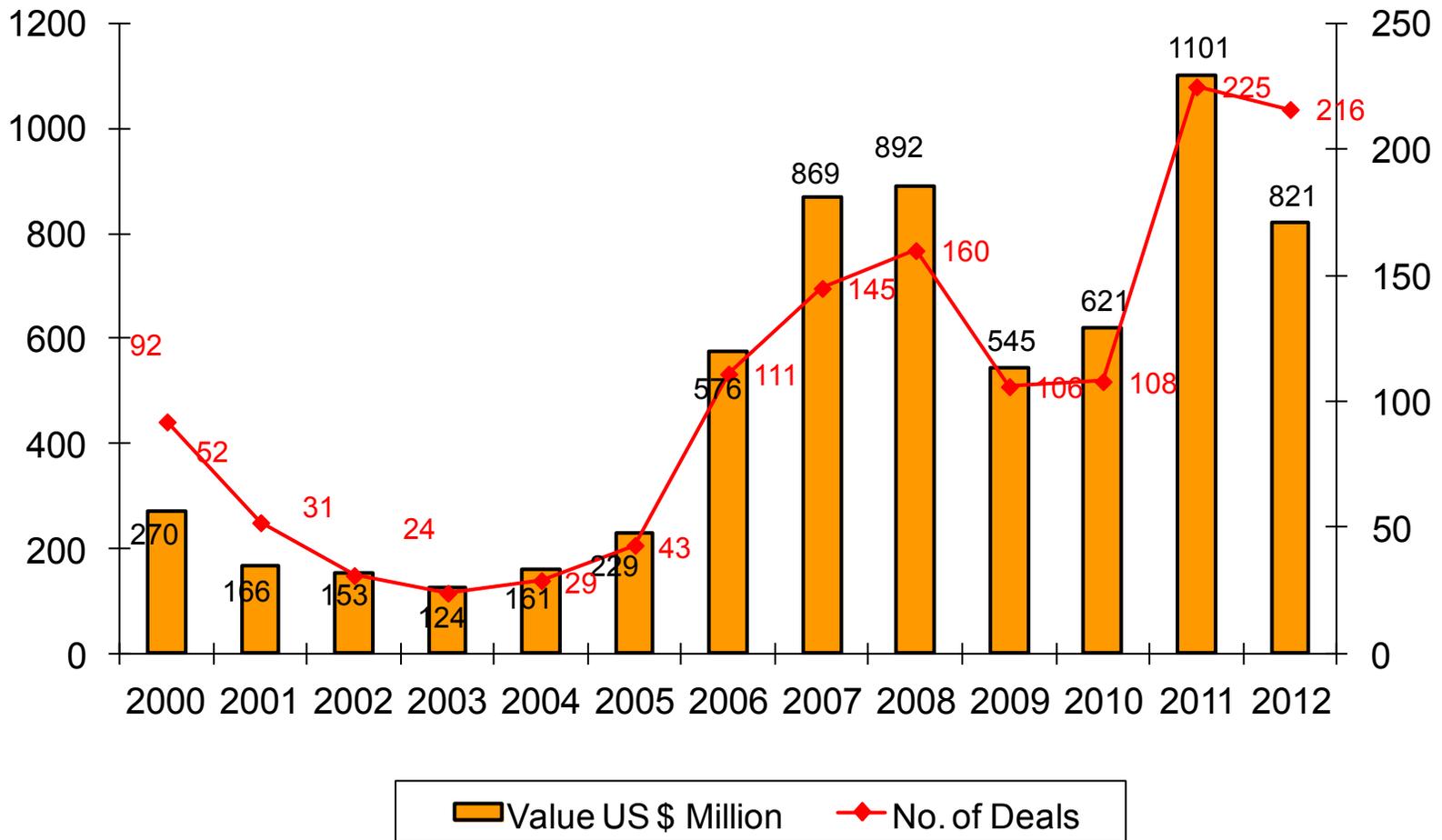
Venture funds
(\$2m - \$20m)

Private Equity funds
(\$10m - \$50m+)

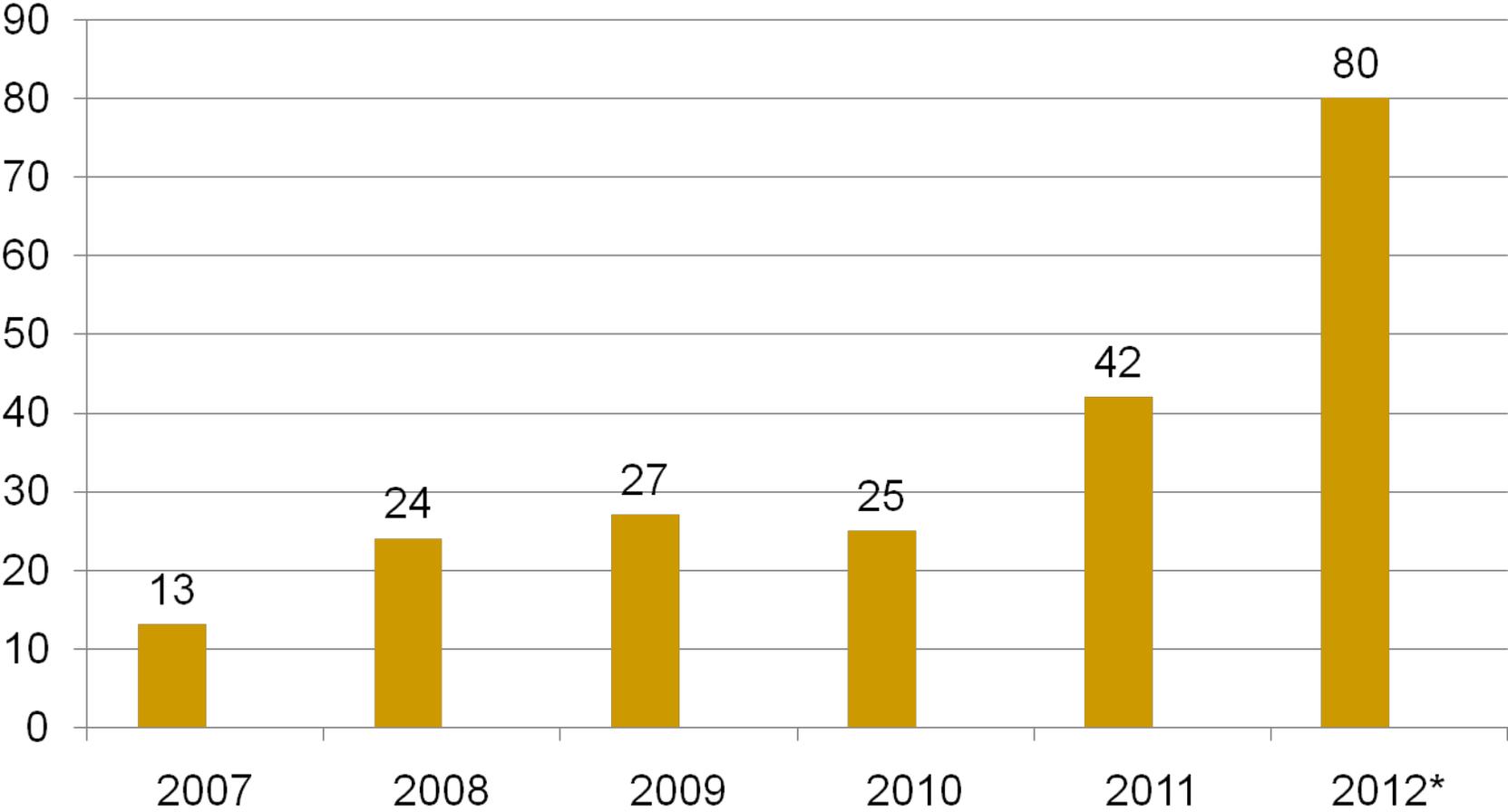
Public Markets



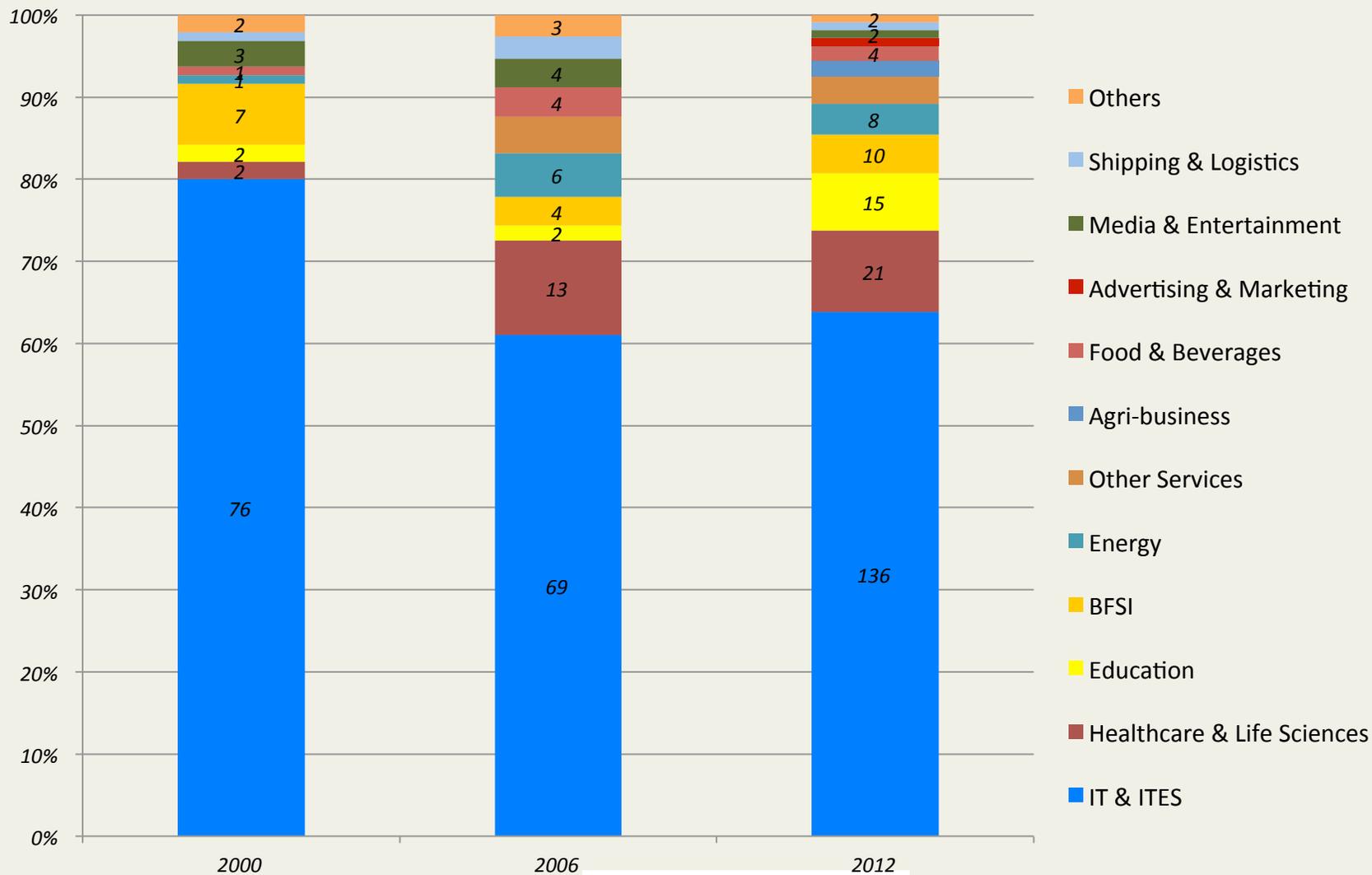
Venture Capital Investments in India



Angel Investments (Volume)

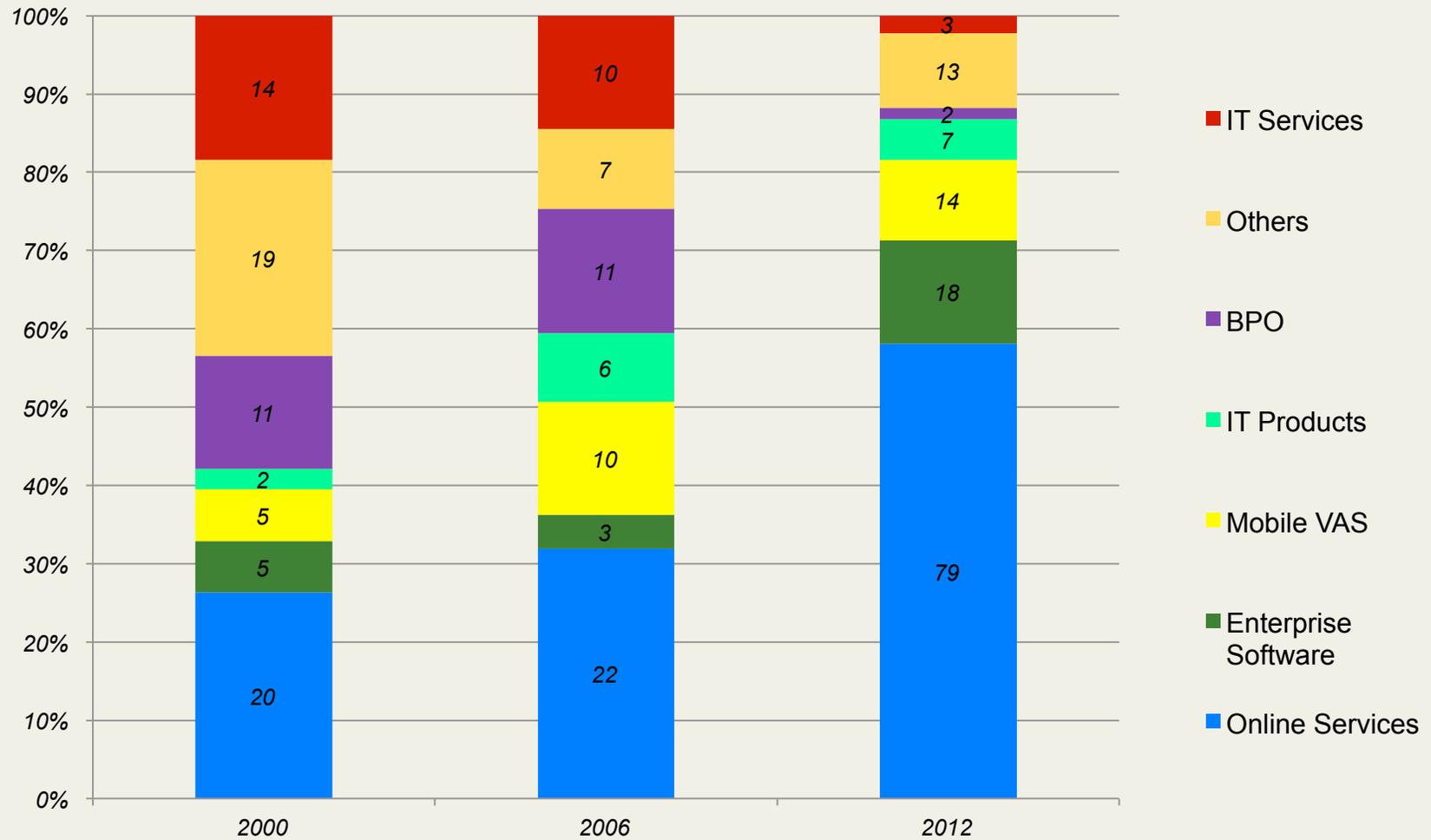


VC Investments by Industry



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VC Investments By Sectors within IT

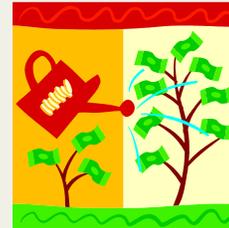


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Our Guide for Survival

Mantra

- Survive first, grow next
- Break even quickly

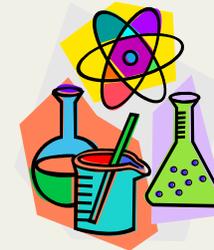


Formula

- It's the Chemistry and not just the math that adds up to SUCCESS
- Choose the right team

Strategy

- Look for revolution, not just evolution.
- Impactful ideas



GOAL : Make a Difference

- Don't follow the herd
- Be the leader, lead the change



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Gaps in the ecosystem



- Limited funding options
- Early stage investing still far from “mainstream”
- Lack of early adopters of products and services
- Access to technology and talent
- Few M&A opportunities
- Lack of support system : Risk averse culture
- Few success stories and role models
- An Education system which doesn't promote non-linear thinking!



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Gaps in the ecosystem



- Education system
 - Engineering colleges as well as Business schools are stand alone
 - Limited synergy and exchange of thoughts at academic level
 - Curriculum rigidness and inability to evolve
 - Very poor industry academia relationship across sectors
 - Lacuna in skill development

How can we replicate Silicon Valley in India?

We need to fix the education system!

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Hot Sectors

-  Tech enabled consumer products and services
 - Web Apps and services
 - Mobile VAS products and platforms 
- “Enterprise Solutions” for SME
 - Open Source, Storage, SAAS
 - Cloud, Security
- Healthcare – Services, Technology, Infrastructure
- Education – Content, Test Prep, Infra
- Energy, Distribution, Logistics, Rural Distribution
- “Impact” investment – BOP segment
- Off-line Consumer Retail - QSR, Hospitality, Travel

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Some Great Indian Start Ups?

- Makemytrip.com

- Naukri.com

- Indiagames 

- Tutorvista

- Indiabulls  netmagic

(Sale to NTT Com)

- Netmagic

- Flipkart 

- Carwale.com



- Redbus.in

- Inmobi



- Dimdim

- OLX



- Cloud.com

- Innoz



Plugging the Gaps in the ecosystem

A ROADMAP

- Angel clubs and incubators in all major cities

To feed into seed-funds

- More small-ticket mergers and acquisitions

For seed-funds, exits are critical. More exits for small companies through acquisitions would be a tremendous boost.

An entrepreneurship-education and mentoring

Aimed at existing SME and fresh entrepreneurs

More symbiotic the ecosystem

Between all stakeholders

- Initiative to support hiring into startups

There are few recruiters, search companies for this space



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Future Outlook



- Technologies like Cloud, Mobile telephony are key drivers
- New Angel investors and incubators, accelerators emerging
- The Indian early stage ecosystem is evolving fast and is at the tipping point. But by no stretch is it a perfect evolution.

It's a bumpy ride ahead.....



But there is forward momentum

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Can India produce world-class, impact-making startups?

Yes!!!

Introducing



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