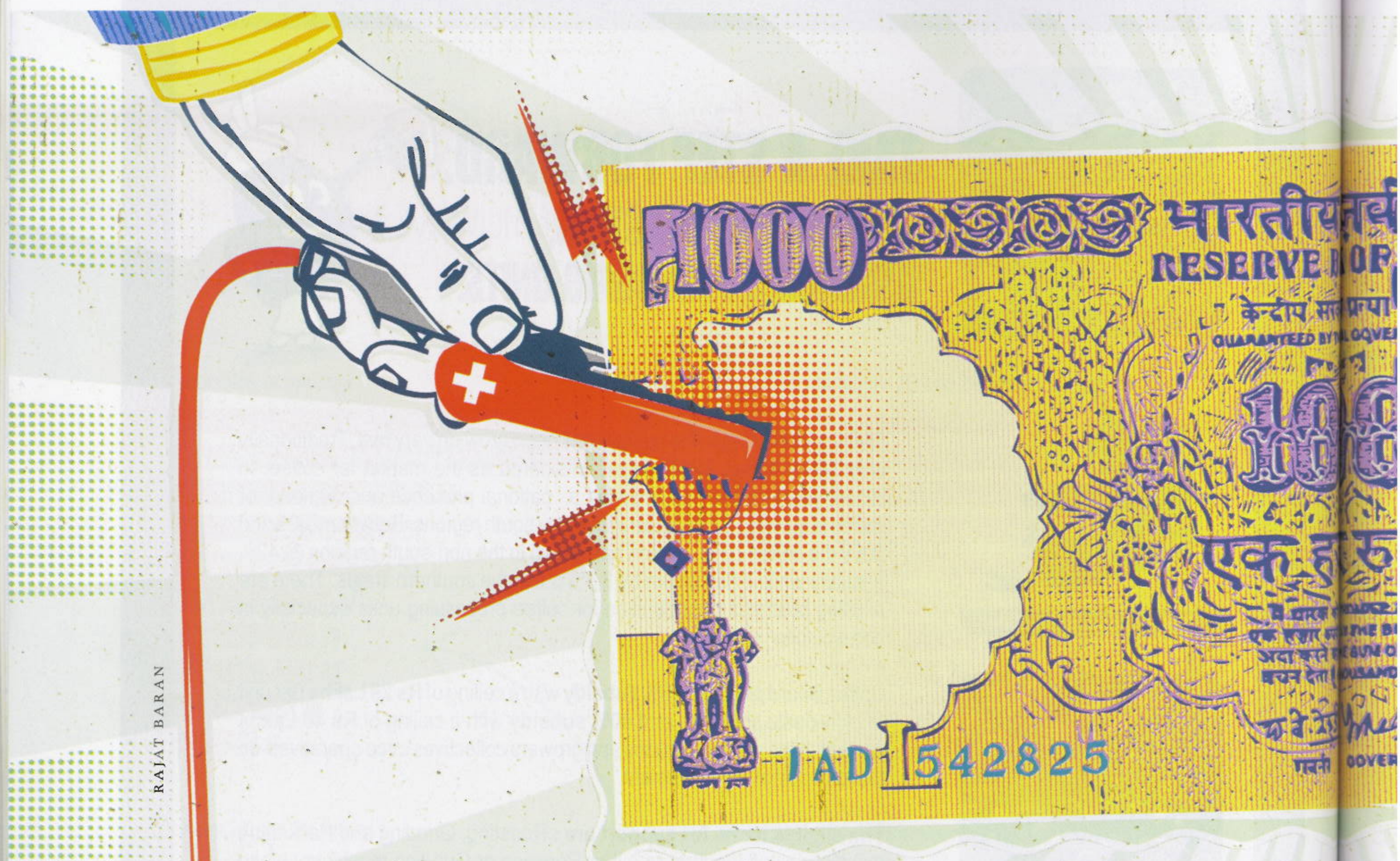


RAJAT BARAN

Capital

Business Today's maiden listing of India's PE and VC

By SHALINI S. DAGAR

The year 2012 did not begin on an optimistic note for Indian business. For the private equity (PE) and venture capital (VC) industry too, it started on a sober note with some reminders about its overall performance. Some funds that were planning to raise fresh money have either scrapped their plans or postponed them.

It is not smooth sailing for the PE and VC fraternity. But it is still a good time to take a close look at those doing well in the business. Perfect timing, in other words, for *Business Today*'s maiden listing of India's best PE and VC funds. One that was finalised with help from the best minds in the business (see *Parameters and Process*, page 114).

The Best PE and VC Funds listing also coincides with fund managers being forced to return to the basics of sound investing, without being swayed by what the larger

Charge

funds coincides with a change imperative in the industry.

herd thinks. The focus is now on low-entry valuations, significant and tangible value additions to portfolio companies, and most importantly, exits. Anubha Shrivastava, MD for Asia, CDC Group, one of the larger investors in India, is concerned over the "limited exits from our Indian portfolio over the last five years". She says: "There is a great deal of unrealised value and investors need to see this being addressed."

Arpan Sheth, the partner leading the private equity practice at consultancy firm Bain & Co., estimates that of the $68 billion invested in India in the last 10 years – much of it in the last four – just $22 billion has been returned so far.

Much of the PE and VC industry in India is funded by overseas endowment funds, sovereign funds and other such investors. For an industry whose unique selling proposition is high returns to compensate for the relative low liquidity of its investments over long periods, it has not been able to deliver on this crucial promise. Research by audit and consultancy firm KPMG highlights that PE returns for India lag those of China both on an overall and realised basis. (See *Room for Growth*.)

Low returns typically stem from high entry valuations and unrealised exits. Many funds invested rashly in the go-go year of 2007 when valuations were near all-time highs. Add to this, competitive bidding – two-thirds of deals are intermediated and therefore intensely shopped around – and pressure ratchets up, often taking PE deals at a premium to public markets. "We lost six deals in 2010 and three in 2011 to competitive bidding," says Sudheer Kuppam, MD, Asia Pacific at Intel Capital.

There is a surge of exits likely in the next few years as funds raised after 2005, typically with seven or 10 year horizons, wind down. KPMG estimates nearly $85 billion of exits will need to be realised by 2014. "This creates enormous pressure in the next 12 to 36 months for some sort of exits for this invested capital, if investors are to maintain or increase their allocations to India," says Sheth of Bain. The volatile capital markets – they lost nearly a quarter of their value in 2011 – offer no visibility on exits.

Given the track record of the industry at an aggregate level, it is no surprise that raising fresh funds is a tough ask. Several funds are finding it tough to raise follow-on funds, while some others are folding up, says Rishi Sahai of Delhi-based boutique advisory firm, Cogence Advisors. "Where is the performance," he asks. "Almost all the funds follow the usual pattern of investing in intermediated deals. Most do not even go beyond the metros looking for deals."

All of it calls for serious introspection by fund managers. There needs to be a change in the business model of the funds if they are to survive for the long term. Brian Lim, Partner, Pantheon, which has $24 billion of assets under management in private equity across the world, says: "For us India is a promising market. As it stands today, however, it will take more than just the India story."

Rajesh Srivastava of Rabo Equity Advisors – who is keen to raise a second fund in 2012 focused on the relatively resilient food and agri-sector – is nevertheless waiting for sentiment to improve. "The India story is certainly more difficult to sell, but it is not completely unsaleable." Most observers agree it will be an excellent vintage year for funds raised, not just because of a weaker rupee but also given the low valuations here.

For India as a destination to regain its sheen, however, fund managers need to take a hard look at the way they do business. For one, the cost structures of some of the larger funds have been under the lens. They will also need to refocus on the way they do business. The Indian PE and VC industry is at the crossroads. It is still far from becoming a mature industry. A change in direction is badly needed. Perfect timing for a listing by India's most-read business magazine. ◆

PE Returns Snapshot

PE INVESTMENTS	TOTAL SAMPLE*
Investment amount ($mn)	5,120
Exit amount ($mn)	12,193
Weighted IRR	17.9%
Median IRR	7.7%
Cash multiple	2.4x
Average holding period (in years)	3.4
Sensex IRR	14.4%

*Total sample refers to $5,120 million of PE investments over the period 1999-2010

Room for Growth

Compared to India, China has generated better returns for PE companies

	OVERALL		REALISED	
COUNTRY	IRR	CASH MULTIPLE	IRR	CASH MULTIPLE
INDIA	17.9%	2.4x	29.1%	3.1x
CHINA	20.4%	2.2x	35.1%	3.8x

IRR: Internal rate of return
Note: All IRR and cash multiples are presented on a gross basis

Source: KPMG study on returns from Indian PE industry

Send your comments to editor.bt@intoday.com

In SAIF Hands

The low-key fund has delivered steady returns and spawned new market leaders

It is difficult for an interviewer to get more than monosyllables out of Ravi Adusumalli at any time. Prod him some and all he comes out with is: "We let our returns speak for themselves."

And speak they do. SAIF Partners, of which Adusumalli is Managing Partner and Head of India Operations, is likely to deliver 4x on its investments in India over the past decade. Its multi-bagger has been an investment in travel portal MakeMyTrip, which listed on the Nasdaq at a valuation close to $1 billion in 2010 and will generate returns between 15x and 20x on an investment of $25 million. "We have exited 20 per cent of our position. Given the strength of the team and increasing Internet penetration, we will be long-term shareholders," says Adusumalli. SAIF stands out for what one investor calls "discerning deals".

SAIF's portfolio companies are as effusive as Adusumalli is reticent. "If Ravi is offering you money, then it is a blind pick. He is more fun than any investor could be," says Vijay Shekhar Sharma, founder of One97, a mobile Internet company. Travel search firm iXiGO's Aloke Bajpai was introduced to SAIF by Deep Kalra, Chairman and CEO of MakeMyTrip, and was surprised when an $18.5-million deal was signed in double-quick time. "We completed all the formalities very quickly – within weeks," he says. MakeMyTrip too invested in the deal.

Adusumalli sees no point in overanalysing the financial numbers for a start-up. "If it fits in with our investment thesis and we like the entrepreneur and his team, we do not take too much time," he says. SAIF is short for Softbank Asia Infrastructure Fund, a name it held in an earlier avatar.

The speed and flexibility is highly valued by start-ups. Sharma of One97 remembers that just when he was considering a second round of funding, SAIF offered a bridge loan that could be converted into equity at a minor discount when the next round finally happened. "We were in expansion mode and getting that $2.5 million six months ahead of time was good." In 2010, when One97 started generating positive free cash flows, Sharma considered investing in early stage, new technology companies. While he had $5 million in mind for a seed fund, SAIF helped him scale up the idea into a $100-million One97 Mobility Fund.

For all its speed, the team does not take short cuts and goes through a seven page-long check list. Partner Vishal Sood says the big check boxes fall under four heads: management team, a business fit, room for growth and the right price. "We look for a good management team on whose honesty and competence we can depend. We do not invest for three to six months and flip our transactions," says Sood. Like others in the private equity business in India, SAIF is not averse to investing in the public markets during times of market disruption. In the aftermath of the 2008 crisis, the team invested in Thermax, and when it exited in 2009, SAIF made returns of over 200 per cent.

At its Gurgaon office, the SAIF business is divided into early stage and Internet-e-commerce investments in one bucket and growth investments in the other. Adusumalli and his team work on the first, while Sood and another partner Deepak Gaur focus on the second. One recent addition is CFO Vivek Mathur. If one team member has led a transaction and closed the deal, he holds the primary responsibility till the day the last share is sold.

"Though we are from diverse backgrounds, we have similar values," says Adusumalli as an explanation for the low public presence of the team. "We typically avoid the papers and we have no PR agency." Flying below the radar has worked well for the team so far, but that may be tougher with success. ◆

"Given the strength of our management team and increasing Internet penetration, we will be long-term shareholders"

Ravi Adusumalli, Managing Partner

SHEKHAR GHOSH\www.indiatodayimages.com

INVESTED CAPITAL
$500 mn

CLAIM TO FAME
Made 4x on India investments

OBVIOUS WINS
MakeMyTrip, JustDial & One97

INVESTMENT PHILOSOPHY
$2 mn to $100 mn with equity stake of 15 to 40%

Working well together: (From left) Partners Vishal Sood, Deepak Gaur, and CFO Vivek Mathur

The Sequoia Twist

Backing spunky entrepreneurs is once again the mantra

"For any entrepreneur, the word Sequoia is holy. They are the Gods of Silicon Valley venture funding. Their office in Menlo Park is where history is created again and again," says Dhiraj C. Rajaram, Founder Chairman and CEO of data and analytics company Mu Sigma.

It is common to hear a CEO sing praises about the venture or private equity firm that has backed him but Sequoia manages to evoke more – a near reverence for its iconic status. It is the firm which has a history of funding Apple, Google, YouTube and LinkedIn.

Rajaram's reaction is even more surprising because at his first brush with Sequoia three years ago, he was disappointed. "They were not sure that the Mu Sigma model would scale up," he says. He still kept in touch with Shailendra Singh, now Managing Director at Sequoia Capital India. "Each time there was a scale up data point, we would share it with them," Rajaram says. Sure enough Sequoia invested in the analytics company in June 2011.

Famous Five The partners at Sequoia Capital India, all of whom are managing directors

UMESH GOSWAMI

INVESTED CAPITAL	CLAIM TO FAME	OBVIOUS WINS	INVESTMENT PHILOSOPHY
$1 bn	Has delivered five exits with more than 5x returns	Paras Pharma, Cafe Coffee Day, Vasan Healthcare	$500,000 to $40 million investment with a minority stake

Sequoia's hands-on engagement with its portfolio companies makes it a crowd-puller of sorts in India. The firm has in-house specialists in marketing, legal and recruiting areas, pitching in with detailed advice on branding to hiring the next CEO. "The professionals in the portfolio services team come with 10 to 15 years experience in their respective verticals and they support our companies in their areas of expertise," says Abhay Pandey, Managing Director of Sequoia Capital India.

The company has also retained two law firms. One helps portfolio companies clean up their documents – something that most early-stage entrepreneurs find difficult, while the other helps them with compliance-related work.

Plus, help with business strategy, ever-important client introductions and 'go to market' plans are always at hand. Sequoia introduced Rajaram to online retailer Zappos even before investing in his company; Zappos is a customer today. "If you want the highest price, then perhaps we are not the right partner for you. Many of our portfolio companies have come to us at 10 to 20 per cent lower valuations," says G.V. Ravishankar, MD and one of Sequoia Capital India's five partners.

Some in the venture industry say Sequoia's prolific investment record – it has over 50 portfolio companies – is driven by a "spray and pray" approach. In fact, there is more method than such cynicism warrants.

However, there have been a few learnings along the way. "We have made mistakes in the past and hopefully learnt from them," says Pandey. That means the fund now avoids investing in companies that are part of large businesses or family groups, which ends up with low involvement from the parent entity or in teams that have other distractions. SKS Microfinance seems to be one such contentious call made by the team.

Sequoia is also changing course, moving away from a rush it made into public markets in late 2008 and early 2009. Returns were boosted as a result of this change in investing approach but it is back to basics now. (Four of the firm's senior-most partners, led by former MD Sumir Chadha, quit in February 2011 to set up a fund focusing on so-called PIPE – short for private investments in public equity – opportunities.)

"Investments in public companies will be in exceptional cases of opportunities provided by market dislocation"

Abhay Pandey, Managing Director

"It is not a new fund, but yes there is a renewed focus," says partner Ravishankar of the remaining team. There has been what the partners call a "tweak" in the strategy with a focus on venture, early stage and growth investments in a smaller band of sectors. "The intention is not to spread oneself too thin. The key is to keep the list short and build expectations," adds Ravishankar. MD Pandey says investments in public companies will be in exceptional cases of "opportunities provided by market dislocation".

As entrepreneurship in India bursts out of the charts, ideas are not as much at a premium as execution. That is where Sequoia wants to make a difference. "We want to be beyond mere providers of capital. We want to invest in high quality entrepreneurs, good businesses which are capital light and which have good cash flows and the ability to sustain," says Ravishankar.

The weight of its history is egging the Sequoia Capital partners in India to craft a similar India track record. But it is not fazing anyone. "No question we wish to replicate that success, perhaps to a different order of magnitude," says partner and MD Mohit Bhatnagar. It is a tough track record that the India fund has to live up to. ◆

For more go to businesstoday.in/pe-vc-ventureast

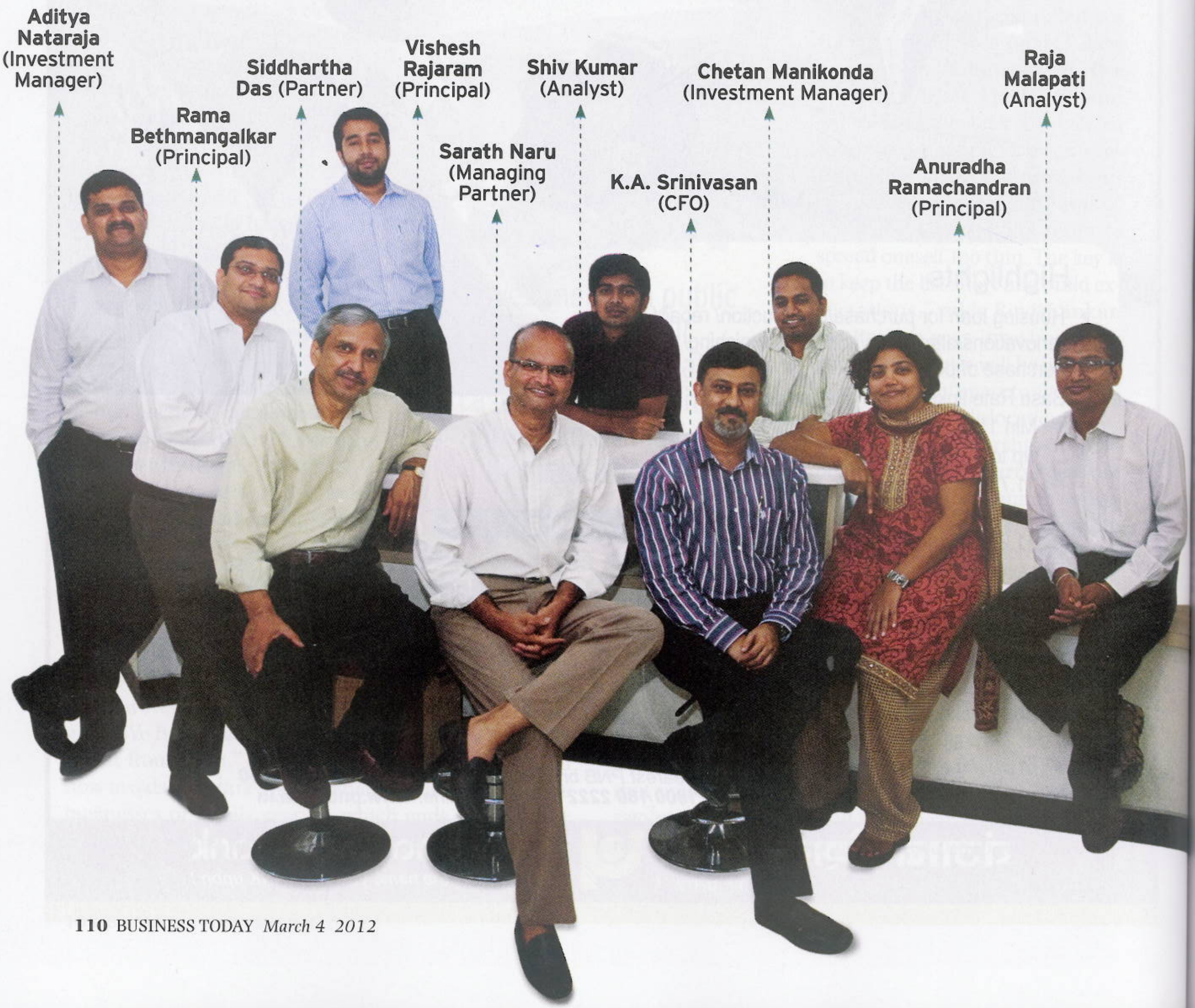
AdVentures in the East

For the Chennai-based venture capital firm, it is all about being different

Unlike the swank offices of its venture fund peers, VenturEast's is in a quaint building in an eastern suburb of Chennai, complete with a sun deck in the garden. The building's previous occupant was film director Mani Ratnam. In Hyderabad, where a VenturEast biotech fund is based, the office is in a sprawling ancient house. "We are trying to be different in everything we do," says Sarath Naru, the genial Managing Partner of VenturEast.

The difference was visible right from day one. In 1997, Naru and his founding team acquired the erstwhile Andhra Pradesh Industrial Development Corporation's (APIDC) venture fund in a privatisation exercise, building a $10-million fund – apparently the only such instance in India. Since then, the company has evolved into two entities with separate funds, investors and teams: VenturEast in Chennai and VenturEast-APIDC at Hyderabad.

The Chennai office focuses on information technology, Internet, mobility, semiconductors and technology-driven services. It invests out of the $120-million Proactive Fund set up in 2007. VenturEast-APIDC looks at opportunities in health care, food and agriculture, and clean-tech investments. This is Naru's original fund vehicle housing a $40-million biotech fund and a $150-million



INVESTED CAPITAL*
$55 mn

CLAIM TO FAME*
Two portfolio companies have valuation of greater than 6x

OBVIOUS WINS
OceanSparkle, Dodla Dairy, Evolva, MosChip, Loyalty Rewards, Goli Vada Pav

INVESTMENT PHILOSOPHY
Early stage deals in IT, Internet, mobility, semi-conductors, tech services.

*Only for VenturEast Proactive Fund

life fund. (The performance of VenturEast-APIDC was not considered in this *Business Today* PE/VC Funds listing.)

The two teams are led by Naru share a chief financial officer besides human resources (HR), administrative and tech staff and stay close to their core competence of spotting promising early-stage companies. As co-founder Raghuveer Mendu says: "We like doing early-stage. That is our knitting. We enjoy it and we see good returns."

For portfolio companies such as Richcore Lifesciences, this focus matters. Founder Chairman and Managing Director Subramani Ramachandrappa, 36, an Indian School of Business graduate, had discussions until the last stage with a few funds before picking VenturEast. It turned out to be a good choice. Two months into setting up a factory in 2010, he realised he needed another $1 million. "Any other fund manager would have created a furore. The VenturEast team figured that my efforts were sincere and they were willing to risk more." A bridge loan prevented significant equity dilution.

VenturEast's narrow focus on early stage deals means that the team size remains small – it runs its Chennai and Hyderabad operations with six partners. There is significant effort at keeping the work environment easy and effortless. As Mendu says, the team is "type A but collegial". As the founding team completes 15 years, there is an effort at grooming second rung leaders – five of whom have been shortlisted.

Not all bets go right even with the best fund managers and VenturEast has had its share of wrong calls. For instance, it bet on a company playing in wireless access protocol services, a technology that died an early death. In the case of a pharma retail company, "we let the management run too fast before the unit level model was proved", says Naru.

A shortcoming with the VenturEast model, says an expert who tracks the industry, is that "it is too regional". Naru deflects saying the business demands that VenturEast be close to its companies.

However, most other industry watchers are far more generous. "VenturEast has done well consistently over 15 years," says one of the limited partners who does diligence on the funds on a regular basis. ◆

Emotionally Involved

Nexus prefers to pick the right people rather than over-analyse business models

NISHIKANT GAMRE

(From left) Entrepreneurial leader Anup Gupta with co-founders Suvir Sujan and Sandeep Singhal

I would do this job even if I was not paid for it," says Naren Gupta, one of the founders of Nexus Venture Partners. "The best people in the world have quirks and entrepreneurs some more. Working with those quirks and seeing them build world-class businesses in front of you is a joy."

Gupta likens his role to sitting outside the boxing ring and watching a fighter develop his moves through the bout. He

"A team of self-starters and entrepreneurs makes it easy for Nexus to empathise with start-ups. Our firm brings value to the strategic thinking of a new business"

Sandeep Singhal, Co-founder

believes in picking the right people rather than over-analysing a business model. "Business plans of start-ups change but people do not."

Put an entrepreneur in the picture and you have Anand Babu Periasamy of Gluster as a good example. Periasamy, hailing from Tharamangalam, a small town about 22 km east of Salem, Tamil Nadu, is a 1999 computer sciences graduate from Annamalai University in Chidambaram, Tamil Nadu, who went on to co-found cloud storage venture Gluster in 2005. It raised $12.5 million from Nexus and Index Ventures in two rounds, and was sold for $136 million to Red Hat, an open source solutions vendor, in October 2011.

Though the Nexus team functions with a loose but dominant focus for each partner, one reason why it does well is also because "we take into account the partner interest and the chemistry with the founder of the start-up business", says co-founder Suvir Sujan.

He sums up Nexus's ability to help entrepreneurs into the 'ART' acronym with the alphabets standing for accessibility, relevance and trust.

Its team of self-starters and entrepreneurs makes it easy for Nexus to empathise with start-ups, says Sandeep Singhal, also a co-founder, adding his firm brings value to the strategic thinking of a new business. For instance, in Gluster's case, Nexus partners insisted on "simplifying the product to the extent that it can be deployed in an afternoon", he says. Deployments shot up almost overnight.

Says Periasamy: "Nexus as a team was far more valuable than the investment that they made." That included inputs on strategy, customer introductions and help with recruitment. He had had a frustrating time with another venture capital (VC) firm with a signed term-sheet for a period of three to four months prior to meeting Nexus. "Many VCs behave as money managers. With Nexus, they understood our idea on the first day and the decision was taken within a week," he says.

Greywater, a wastewater management company, is one of the few brick-and-mortar companies in the Nexus portfolio. Nexus partners act as sounding boards for Greywater's 52-year-old founder and Managing Director Harshad Bastikar. "They have helped me meet people that I either could not have met on my own or I knew I wanted to meet," he says. Whenever he calls the Nexus partners on any issue, Bastikar adds, he knows he will get a reply the same day.

It has not all been easy pickings for Nexus, though. The firm has gone through its own learning curve. For instance, the mobile value-added space proved challenging for the firm in the case of Mobile2win because the space just did not evolve as the fund had imagined. Yet, as Gupta says, "the intention is not to avoid mistakes but to make sure that we manage them and learn from them. We would rather fail in action than because of inaction".

Gupta believes backing the right people is more important than getting fixated over a business model and finances of a company. "Business plans of start-ups change but people do not," he says. The toughest job, according to Sujan, is of trying to convince entrepreneurs not to sell too early.

"We are early stage investors. We are not dealing with spreadsheets. We are emotionally involved," says Gupta. If that emotional involvement leads to returns, it is a sure shot stab at success. ◆

INVESTED CAPITAL	CLAIM TO FAME	OBVIOUS WINS	INVESTMENT PHILOSOPHY
$250 mn	Delivered 4x on the four exits so far	Suminter India Organics, Netmagic	Sector agnostic, but largely technology and Internet

Parameters and Process

How *BT* crafted its PE/VC study and why it is an important first step

Some would liken the private equity and venture capital business to a monkey throwing darts at a dartboard and picking what could be a winner. But there is a lot more science – and art – to it as PE/VC practitioners will tell you.

Given that deep, comparable data is difficult to come by for the industry, it was clear we would need experts from the business to weigh in. So we got in a panel comprising:

- Stanford scholar Rafiq Dossani, who was an investment banker earlier
- Deep Kalra, whose company MakeMyTrip went from a VC-backed start-up to being Nasdaq-listed
- Luis Miranda, former chairman of IDFC PE
- Varun Sood, Managing Partner of CapVent, a fund of funds that has invested in 15 funds in India
- Vikram Utamsingh, head of the private equity practice at KPMG, and
- Ranu Vohra, founder and CEO of Avendus Capital, an investment bank

PE/VC tracker Venture Intelligence, which has a database on the industry from 1998, was our data partner for the exercise that ran over six months. In May, the panel and BT drew up a framework categorising funds with an average investment size of up to $10 million as VC funds, while those bigger formed the PE pool. To ensure that the funds on our listing were reasonably active, we decided to set a threshold of at least three investment deals for PE funds and five for VC firms in the three financial years ending March 2011. Using these filters, Venture Intelligence came up with a list of 50 PE funds and 15 VC funds.

Other criteria like stability of the team, ability of funds to spot emerging sectors, and conclude innovative deals were left for panel discussions.

At the first panel meeting in June, it was decided that PE funds that dealt with special situations, passive public investments or invested from their own books, or whose mandate was beyond the strictly risk-return game, would be excluded. A vigorous discussion yielded a shortlist of seven funds.

The panel, however, was wary of making any decision purely on the basis of perception and publicly available data. A further round of aggregate fund level data was sought from the shortlisted funds. With this, the panel zeroed in on two names. SAIF was the clear choice in the list on the basis of not just the level of information available, but also on the other subjective criteria that the panel members were keen to measure teams against. Sequoia was included as a 'jury's choice'. The panel also held a discussion on the treatment Sequoia deserved, because based on our objective filters it was slotted in the VC space, but from the discussions it was clear that this would not be an appropriate slot for it.

A similar process was followed on the VC side. An initial discussion trimmed the list of 15 funds to eight. But to have a more representative, wide-ranging sample, the jury included a couple of more funds. Additional data was sought from all 10. Eight responded. Based on the data and jury decision, VenturEast emerged as the unqualified topper. Nexus also drew positive response. Though Accel did not provide the data sought, the jury felt the fund deserved a special mention for the quality of its investments.

The BT listing of India's best PE/VC funds, we believe, is an important first step in setting benchmarks in an industry marked by low level of public information. Further, while this is a listing of funds we deem are good and active, it is by no means the last word on the sector. ◆

THE JURY


RAFIQ DOSSANI
Sen. Research Scholar
Stanford University


DEEP KALRA
Founder & CEO
MakeMyTrip


LUIS MIRANDA
Former Chairman,
IDFC Private Equity


VARUN SOOD
Managing Partner
CapVent


VIKRAM UTAMSINGH
Head, Private Equity
Practice, KPMG


RANU VOHRA
Founder & CEO
Avendus Capital