



'In India, people want to sell out too quickly'

Nexus Venture Partners, with offices in Silicon Valley and India, is one of the country's best-known venture funds, having invested in names like Netmagic, Gluster, Snapdeal, Craftsvilla.com and several others.

The size of Nexus's holdings goes up to \$10 million in early to early-growth stage companies.

Nexus Co-Founder **Naren Gupta** speaks to **Sourav Majumdar** on the Indian economic scenario, the Indian entrepreneurship space and a whole lot more.



Q: How do you see the economic environment in India of late?

A: I think India is, to some extent, at a crossroads right now. The growth we have had in the last five years is clearly coming down in a major way. I hope the growth doesn't fall below something like 6 percent, because in my view, that is the breaking point. The reason is simple. The population is growing at something like 1-1.5 percent, and productivity at 4-5 percent. At 6 percent growth, you're talking about the unemployment or underemployment rate basically not changing. So, we are at a point where it can be very problematic. Once these things cross the line you don't know where it ends. We are a democracy, which is good, but it can also be a very big problem.

India is at a difficult point. The fall of the rupee is also a problem. We are also in a very difficult global environment. China's growth is going to clearly come down, possibly significantly, US growth isn't going up significantly, people are projecting about 2 percent. So something has to happen.

Q: Talking of India, you've had successes in your investee companies. What at this point are the sectors which you think are exciting stories from your point of view?

A: India is a very broad-based story. Where India is unique is in technology. Our belief is that some of the greatest technology companies of the future are going to come out of India. There is no reason for them not to. If you look at Silicon Valley, the number of startups with Indian founders, the number of companies like Intel where half the engineers are of Indian origin... so I think it's a very unique situation for India. No other country has really done that outside the US, except, maybe, for Israel to a certain extent. China hasn't done that. China hasn't built global companies. Apart from that, everything else is really open as well: e-commerce, communication and cleantech. Consumer-centric businesses as well. Opportunities are across the board.

Another area which is very interesting is the whole rural and agri area. The productivity in Indian farming

is about 70 percent lower than in the US. So there's a huge opportunity for improvement there. But the policies drive that to a great extent. Farm sizes are small and getting smaller. People can't create big, 1000-acre farms here. But every problem has an opportunity under it. So I'd think how do you make smaller farms more productive? How do you bring mechanization to those farms? You can cooperate and do a lot.

Q: So your radar is really scanning for investees across the board...

A: Yes, but there are areas where we are not investing, like real estate, which is very capital-intensive and involves too much dealing with the government.

Q: But real estate had seen a lot of private equity players and others coming in.

A: It will continue to see that, but it's really a different kind of investor who would do that. Infrastructure is another area like that. We try to avoid dealing with the government as far as possible.

Q: What is the kind of portfolio you have in India now?

A: The total number of investee companies is close to 40. Some of these are based in India but headquartered in the US for a variety of reasons. But most of our portfolio is based in India. About 10 are based in the US or elsewhere.

Q: Any broad plan to take this number to a certain target number of companies?

A: No, we are a very bottom-up investor. If we come across three good companies next month, we will invest in them next month. If we don't come across any, we won't make any investments. So we don't have a goal in terms of number of companies, but in terms of the quality of entrepreneurs.

Q: What are the challenges on the quality of entrepreneurs? Do you see a lot of activity in the tier II and tier III cities now?

A: The quality of entrepreneurs is definitely improving. A lot of it is understanding what it takes to create companies. The quality is improving not just in big cities, but in the smaller ones as well. But most entrepreneurs who we think can create big companies are from bigger cities. Infrastructure in the smaller cities is still quite poor. Ideas may emanate from there, but people move to the bigger cities. It happens that way even in the US. It is very hard to create a big company out of, say, Kansas or something.

Our view is that we want to work with the greatest entrepreneurs. And we are very fortunate. The entrepreneurs we are working with are not only great by Indian standards but by global standards as well. It's fun to work with people who are globally the best.

Q: You work very closely with them as partners. What are the four or five areas you see Indian entrepreneurs struggling with at this point?

A: The biggest struggle they have is in

the understanding of the markets and end-marketing. In India, traditionally we had an economy which was a seller's market. But things have changed in the last 20 years. So the understanding of what it takes to address specific markets, and to promote your product is the biggest weakness they have. Also, the Indian environment is one where every big company here is a conglomerate with 20 different businesses. The US is very narrowly focused. Here, you're a jack of all trades. It's worked to some extent. But it only works when you are

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larger. When you start off on day one, you don't want to become a conglomerate. If you look even at Bharti, they were very focused for more than 10 years and created a great company. Of course, they are diversifying now. But they are doing it with a lot of thought.

Q: So you tell investee companies to remain focused at least in the first few years?

A: We tell them to remain focused forever. It is too easy to go all over the place. The general feeling sometimes is if there are two markets then I'll be twice as big. Our thesis is you'll be half your size because you won't do either thing very well. And your costs will be twice as much because you have to cover both markets. It's not just India. Entrepreneurs in the US used to be that way 30 years ago. We are just a few years behind. The usual tendency is, if someone wants to buy my product why shouldn't I sell it? I used to tell people all the time when I was running the

companies that the bottom 10 percent of customers you shouldn't take orders from because they create 90 percent of the headaches. So it's not worth it. Concentrate on the sweet spot of the market. And that's something we've mastered in the US. It's unbelievable how good the understanding of the market there is...about how to focus a company and so on. There are billion dollar companies that are very narrowly focused. You may think it doesn't make any sense, but it does because the markets are so large.

The other thing is that people don't have the confidence here that they can build very large companies. People want to sell out too quickly. One can argue from a pragmatic point of view that that's not a very bad outcome, you get millions of dollars and it changes your life. But I think a lot of it is just confidence, the toughness.

Q: In the case of some of your companies, one has seen other companies coming in and take them over. Not PE firms or other investors. For instance, Gluster was sold to Red Hat. Is that a growing trend?

A: Our preferred route for exits is a strategic sale because it's good for the employees and for the founders. When we announced the Gluster sale in Bengaluru, we had a standing ovation, with people saying this is the kind of company I want to work for. We presumably could have got a higher price, but that's not what we want. We want to find really good homes for people. These are really hardworking and committed individuals.

You need intelligence, but most people have the intelligence to create a company. Intelligence, in my opinion, is highly overrated. I think it's grit that is needed when your car hits the bump on the road, so you won't fall off the car or say you'll give up. When times are really tough, you need to say I am twice as energized. It is, of course, very hard to do that. ■