

VCs seek dot-com success stories in India

March 24 2006

Manik Arora of Battery Ventures, the Silicon Valley-based VC that prefers to call itself a "lead institutional investor in its portfolio companies," spends a lot of time researching on Indian Internet ventures these days. Having tasted success in Battery Ventures' first investment in an Indian hi-tech venture in December 2004, Arora and his firm are "particularly attracted to the Internet side" and plan to make its next investment in an internet venture this year.

Battery that has been making the bulk of its investments in the United States in its 22 year existence and shifted focus to Europe in the last decade and of late is now starting to explore Asia and India.

"And India is particularly appealing for a number of reasons, such as being forecasted to be the world's largest economy by mid-century, GDP growth of 8 percent, world-class companies and talent in offshore technology services," Arora says.

"The Internet/enabled consumer services opportunity in India is particularly promising given the emergence of a middle-class with purchasing power and increased Internet connectivity," he added.

However, Battery is not the only one spending their efforts in researching India lately; digging a little deeper will reveal that at least a dozen Silicon Valley-based venture funds are currently hovering over India and has even started investing here in their bid to find the next Google or the Amazon.com in the country.

"India is a new hotbed of innovation and opportunity," said Ram Shriram of Shepalo, a Silicon Valley-based VC who, after working for Internet ventures like Amazon.com and Netscape, became the founding investment member of Google. "Many successful ventures will get built out of India serving the Indian market. We are always looking for great teams with a long term commitment to build durable businesses."

Ram, along with Kleiner Perkin, recently invested an undisclosed amount in Naukri.com, a "highly successful" Indian job portal and says that through his investments in 247customer.com, he is one of the earliest investors in Indian dot-com.

Indeed, Indian Internet ventures are hot amongst the valley-based VCs lately. Since 2005, about a dozen VCs have invested close to \$150 million in Indian dot-coms, "and more funds are about to follow," says Arun Natarajan of Venture Intelligence India which tracks PE & VC investments in India and Indian-founded companies worldwide.

"The re-entry of Silicon Valley VC firms into India has catalyzed the return of technology firms -- and especially Internet-based services firms -- on to the radar screen of VC firms in the country," he added.

Last year witnessed several interesting growth-stage investments by both Indian and foreign VC firms. The year saw several Silicon Valley VC firms - including top names like Sequoia Capital and Norwest Venture Partners -- make their first direct investments in India.

The famed "Sand Hill Road VCs", known best for their start-up investments at home, are (at least initially) seeking out growth-stage companies for their Indian investments. While Sequoia chose New Delhi-based Bharti Group's telecom software firm, Bharti Telesoft, for its first investment, Norwest went with a Pune-based software product development services firm Persistent Systems.

The trend of Silicon Valley venture firms investing into growth-stage companies in India was triggered off by the Battery Ventures led \$17 million second round investment in Bangalore-based communications technology firm Tejas Networks.

Thus far, 2006 witnessed a continuation of this trend with the investment by Sherpalo and KPCB into Naukri.com and the \$8 million investment by West Bridge Capital into Shaadi.com.

Besides these, the other high profile dot-com investments according to Venture Intelligence were Makemytrip.com (\$10 million from Softbank in Q2 2005), TravelGuru (\$10 million from West Bridge) and Yatra Online (\$5 million from Norwest Venture Partners, Reliance Capital and TV 18 -- two local firms).

So what's driving them to focus on Indian dot-com again? After all, memories of the infamous dot-com bust of 2000 that forced many VCs to give up their dot-com dreams are yet to get wiped out.

"But this time its different says," Sandeep Singhal of West Bridge Capital Partners India. "The numbers were still not very large but now things are picking up. You will notice that most of the dot-com that are attracting funds are the ones that survived the storm last time, are focused on market, and are now finding themselves in a market when the market is going to take off."

And according to Arora, as IT penetration -- like computers and broadband -- starts getting increasingly deeper in the country, "Indian consumers will increasingly go online for information access, entertainment, community building and purchasing products and services."

What's also driving them added Natarajan, is the fact that, thanks to the

booming stock market and awareness of mergers and acquisitions, "exits have become easier in India."

The VCs expect that many of the leading U.S. Internet players will aggressively go after India in the next couple of years resulting in a strong M&A environment. Moreover, given the strong revenue/earnings of Indian dot-com companies like Rediff -- Nasdaq-listed -- are enjoying, there is also a hope that the U.S. public markets will richly reward Indian Internet leaders; just like they have done for Chinese Internet leaders.

Nevertheless, Singhal of West Bridge has a word of caution. "Too many funds are chasing too few internet ventures now," he said. "And if this inflow continues and newer promising dot-com ventures do not come up soon, there is no guarantee that another dot-com bust will not happen again in India."

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