Startups can expect more money, higher valuations and major exits in 2015

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Venture capital firms that made 2014 the biggest year for technology investing in India expect to pay more for good companies this year, as competition separates the winners from laggards. Some of the world's most sophisticated investors put money into Indian startups last year, with most of the capital going to consumer internet startups.

Those who came in include hedge funds like Tybourne Capital and FalconEdge to Japan's SoftBank which invested nearly $1 billion making the Asian firm one of the largest investors in Indian startups.

"2014 will be looked at as an inflection point, the year the world discovered the true potential of the Indian startup," said Mohit Bhatnagar of Sequoia Capital which closed over 40 deals in the year including in mobile gaming firm Octro, ride sharing Zoomcar and customer feedback platform Akosha.

"The India startup opportunity is being discussed in global boardrooms," said Bhatnagar. There is good reason for this rising interest from global investors. The valuations of Indian internet companies have soared with increased net access boosting the topline. The valuation of Flipkart, the country's largest online retailer, has grown nearly ten-fold to $11 billion in just over a year. The Bengaluru company aims to sells merchandise worth over $3 billion this fiscal.

The sharp spike in valuation has also raised the profile of other firms like cab hailing app Ola, restaurant guide Zomato, payments company Paytm and realty portal Housing.com.

"Our LPs are upbeat, they did not expect any of the Indian venture funds to return more than two times the capital committed but now, even 3-5 times is possible and they are quite thrilled about India," said Rajesh Raju, a managing director at Kalaari Capital, an early investor in Snapdeal, which was valued at about $1.8 billion in its last round of funding in October.

Such promise has attracted nearly two dozen new investors to the Indian internet space in 2014 and established venture capital as one of the most attractive asset classes.

The positive sentiment is helping funds raise fresh capital. A number of them including Kalaari and Accel Partners are on the road, with industry members expecting at least $2 billion of venture capital to be earmarked for India this year. Venture investors are of the view that a new crop of entrepreneurs are emerging in India who are keen to replicate the success of role models like Flipkart's Sachin Bansal, Ola's Bhavish Aggarwal and Housing.com's Rahul Yadav.

"We are now seeing really smart entrepreneurs coming out in critical mass and building all kinds of businesses. That did not exist even three years ago," said Suvir Sujan, a partner at Nexus Venture Partners which has backed both Snapdeal and Housing.

However, despite the unprecedented boom, venture capitalists say there is need for caution. "With so much capital floating around, valuations tend to increase, so we will have to ensure that we carefully select new investments," said Sudhir Sethi, the founder-chairman of IDG Ventures, which closed a new fund of about $250 million in November.

"Good companies will become more expensive, but the mortality rate on the companies which are not able to raise funding will shoot up," he said. Fund managers will also have to work hard to improve the industry's record on exits. Data from research platform VCCEdge show Indian ecommerce and online businesses have seen 722 investments totalling $6.5 billion since 2011. But there have only been 49 exits worth $334 million in that time. Last year, SAIF Partners, IDG Ventures, Kalaari Capital, Accel Partners and Sequoia were among those that notched up decent exits.

Also, an overdose of capital for certain sectors for instance ecommerce soaking up over $3 billion of the capital invested in 2014,as well as a shortage of talent to manage high-growth ventures are aspects that will worry investors.

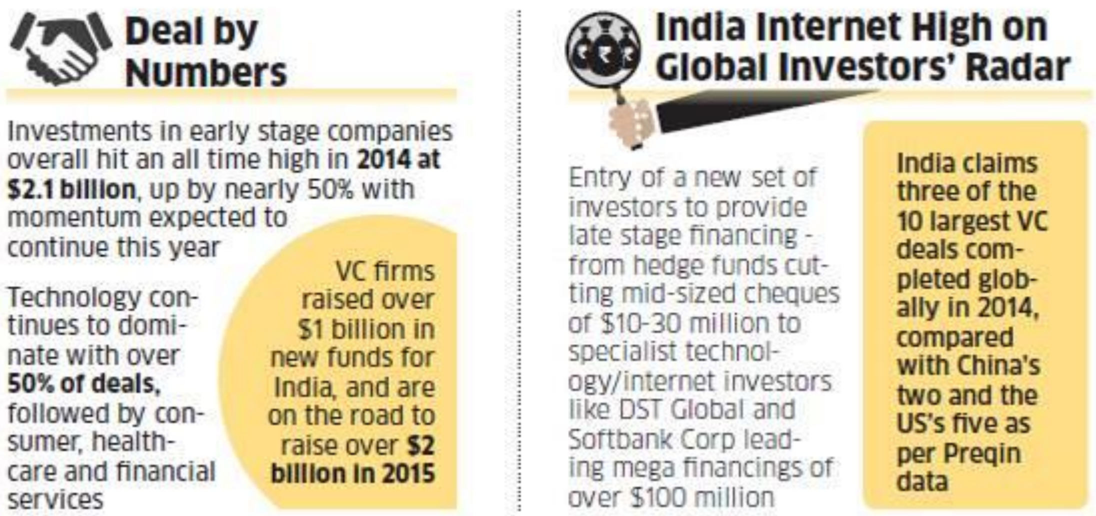
Another issue that the industry faces is a paucity of follow-on capital for angel or seed-funded companies. "I think series-A (first round of venture capital) is still the biggest choke-point in the country right now," said Karthik Reddy of Blume Ventures, an early-stage fund that is raising $60 million to plug this gap.

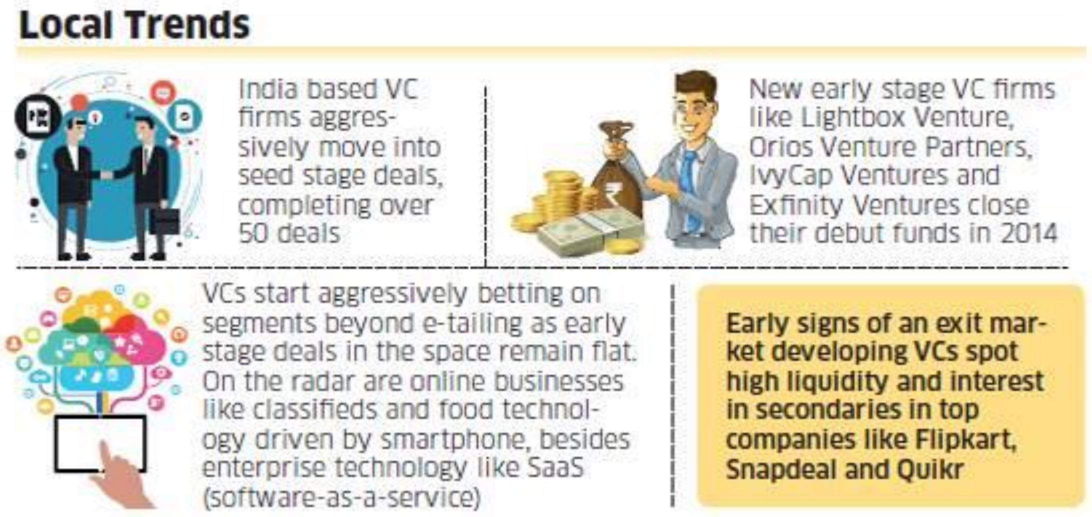
But even as VCs look to tackle these issues in 2015, there are early signs that M&A activity will pick up in India's technology industry. Snapdeal has bought gifting recommendation platform Wishpicker and is in talks for more deals.

While Facebook's acquisition of Little Eye Labs, Yahoo's purchase of Bookpad and Twitter's rumoured talks with mobile applications services provider ZipDial are seen as signs of greater acquisition activity. Investors are hopeful that companies like Flipkart and Snapdeal will use some of the war chest they have raised for acquisitions, even as the entry of global majors like Alibaba and Twitter have stoked anticipation.

"The concerns of limited partners a few years ago were (about) exits. But concerns now are on valuations and if (they) have access to the best deals," said Rajan Mehra of Nirvana Ventures, a fund sponsored by the family office of the Patni family.

Even as deep-pocketed global investors muscled in and led the deal-making in India's sizzling startup industry in 2014, venture funds forced to deal with aggressive competitors enjoyed their best year ever. **ET** spoke to a cross-section of 15 venture firms that manage corpus dedicated to India, to find out how they fared. We picked the most active VC firms based on the number of investments they made, including participation in follow-on rounds. Public market deals, if any, were not considered.





1. Sequoia Capital, Mohit Bhatnagar. Number of deals: 40

The year 2014 was one of the busiest for Sequoia Capital in India, as it deployed nearly $200 million (about Rs 1,200 crore) in over 40 investments. It topped that off with raising a new $530 million fund with a sharper focus on technology besides consumer internet and healthcare.

But as Sequoia has stepped up its early stage focus, the VC fi rm has been steadily expanding its team of executives who work with portfolio companies.

This includes functions like marketing, technology, fi nance and hiring where it now has a team of over 10. These executives help with issues like go-to-market strategy, for an enterprise technology company in the US, to team building.

One major problem for its portfolio companies in 2014 was hiring engineers and product managers. So, Sequoia "has doubled up efforts via portfolio meetups & hackathons to get the best engineers aware of the opportunities in the Indian venture ecosystem today", said Mohit Bhatnagar, MD at Sequoia Capital India.

The VC fi rm has been ploughing back more capital in its existing portfolio as well, leading fresh large rounds in companies like Druva, Capillary and Truecaller. "Every year, half of our total dollars invested goes into supporting our companies with additional capital," said Bhatnagar.

2. Helion Ventures, Ritesh Banglani Number of deals: 29

Helion Venture has been undergoing a silent transition since 2014, as the focus turns increasingly on technology investments in both consumer internet and enterprise software space.

The firm has seen aggressive mid-stage bets like Housing. com pay off, as valuation of the company has increased four-fold since it invested in June. Bigbasket. com is expected to be another case in point. The VC fi rm, which manages over $600 million, certainly sees more opportunity in the space.

"The number of providers of late stage funding to tech companies are expected to go up as they will fi nd it an attractive business," said partner Ritesh Banglani. This also comes at a time when Helion is expected to raise a fourth fund, though Banglani declined to comment on the size or strategy for the fund.

Helion also saw a top level change when Kanwaljit Singh, one of the main founders, who set up the fi rm in 2006 along with Ashish Gupta, Sanjeev Aggarwal and Rahul Chandra, decided to move out. This came as the VC fi rm sharpened its focus on tech and moved away from consumer where it was striking a majority of its deals in 2009-10. The firm also elevated Banglani and Rahul Chowdhri to partners this year.

3. Nexus Venture Partners, Suvir Sujan Number of deals: 27

When you ask co-founder Suvir Sujan which will be some of the top segments in 2015, he doesn't have an answer. "We are bottoms up investors, and we don't have a thematic investment strategy. Our pace of investing and areas have not changed in the last eight years.

Technology and Internet has been a focus area for us," said Sujan of Nexus, where all the founding partners are former entrepreneurs. Nexus had been able to build a successful exit track record on its enterprise technology investments in the India-US corridor. This included strategic sales like Citrix and Gluster, besides a portfolio of successful firms like Pubmatic, Druva, Eka Software and Helpshift. But in 2014, it saw its internet portfolio break out, with early bets like Snapdeal and ousing raising capital at multiplying valuations.

"2014 was coming out of the internet era, as the world woke up to the potential of the Indian digital ecosystem," said Sujan. The fi rm is also betting big on the potential of young entrepreneurs after success of Housing, with bets like food delivery app TinyOwl and expanding its seed programme to IITs.

4. Blume Ventures, Karthik Reddy Number of deals: 22

Blume Ventures saw its focus shift to portfolio management in 2014, as it focused on getting follow-on rounds for its portfolio companies. This year will be signifi cant for the seed stagefocused investor, as it looks to raise a new $60 million fund.

More importantly, the fi rm will need to silence its critics who categorise its investment approach as "spray and pray". The VC fi rm, which started operations in 2010, now has a portfolio of 75 companies. Blume is aware of the challenge at hand. "At seed stage, there are very few investors, who have proven out the risk return model. So, critics can say what they want, we are practicing the theory," said said co-founder Karthik Reddy, who set up the fi rm with Sanjay Nath.

Till now, 14 companies in the portfolio have been able to raise series-A from VCs. "I will not rest till we get 25-30 series-A in the portfolio. That is our goal, this is our big year," said Reddy, whose portfolio companies like Covacsis, Purplle, WeAreHolidays, Instamojo and Zopper snagged follow-on rounds from larger VCs in 2014.

5. SAIF Partners, Deepak Gaur Number of deals: 21

What sets SAIF Partners apart from other VCs? It doesn't have a team of ex-entrepreneurs running the ship nor does it have a big operations team and its GP Ravi Adusumalli lives in Utah (and not in Silicon Valley!). But the fi rm has been able to consistently back billion-dollar internet firms— MakeMyTrip, Just Dial and now One97 (Paytm).

MD Deepak Gaur says entrepreneurs hear that SAIF Partners "has a great track record with good people, who demonstrate fairness and a fairly long-term view of situations". That may sound like something that every VC spouts, but take a look at its portfolio. The fi rm still holds 25% in MakeMyTrip, which it invested in 2005 and was listed five years back. In 2014, the VC firm returned over $200 million to its LPs as a result of its partial exits from MakeMyTrip and Just Dial.

There is more to come as SAIF Partners' remaining shares in the 2 firms are worth over $400m. In 2014, SAIF Partners has led the charge moving into seed investments with over 11 deals.

6. IDG Ventures, Sudhir Sethi Number of deas: 17

IDG Ventures is among the only fi rm among its peers to focus exclusively on technology deals, even as others diversifi ed into healthcare services and consumer plays.

The firm closed its second fund of $250 million besides a maiden growth capital investment in software fi rm Newgen and travel portal Yatra.

7. India Quotient, Anand Lunia Number of deals: 16

The seed stage firm has quietly closed a dozen deals in 2014, using entrepreneur friendly structures like convertibles. Well known deals include Frsh, Grabhouse and IIMJobs.

8. Matrix Partners, Avnish Bajaj Number of deals: 15

The firm had been doubling down on technology deals this year, beginning with an aggressive seed investment programme. Its portfolio firms like Quikr and Olacabs raised fi nancing at headline grabbing valuations this year.

9. Kalaari Capital, Rajesh Raju Number of deals: 15

By making some early calls on smart entrepreneurs like Kunal Bahl (Snapdeal) and Mukesh Bansal (Myntra), both of whom pivoted their business models, Kalaari has emerged as shareholder the two most valued e-tailers in India.

Three of its portfolio firms -Snapdeal, UrbanLadder and Bluestone- have got backing of Tata Group emeritus chairman Ratan Tata.

10. Accel Partners, Subrata Mitra Number of deals: 12

Best known for its investment in Flipkart, Accel also funded SaaS firms like WizRocket, MindTickle besides new consumer internet niches like tea e-tailer TeaBox and internet fi rst restaurant Frsh.