

How the new Caste System Filters Funding Choices

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Nithin Kamath started online broking firm Zerodha in Bengaluru in 2010, most investors snubbed him. "Some gave me a little face time, but even they weren't interested beyond ten minutes. At one point I realized I wouldn't be able to raise capital and so bootstrapped my firm," says the telecommunications engineer from Bangalore Institute of Technology.

Kamath is convinced that if he had had a degree from an IIT, it would have been a very different experience. As it turned out, Zerodha has become one of the top three retail brokers and volume contributors on most of India's leading stock and commodity exchanges, with average daily turnovers of over Rs 7,000 crore.

Some call it the new caste system. An entrepreneur with a degree from one of India's premier technology or management institutions — read IITs, IIMs, BITS Pilani — has a much better chance of catching an investor's eye and being funded.

Investors admit as much, but argue helplessness. They are inundated with hundreds of mails everyday with requests for funding. And educational and professional pedigree is one of the first filters used. "We don't have the time to see everybody. And let us be clear, human beings are biased. IITs are a signal that some degree of filtering has already happened," says Shekhar Kirani, partner at Accel Partners, one of the most successful VC funds of the country.

Data bears this out. Startup research firm Tracxn finds that 37% of the 3,373 startups founded in 2015 has been founded by alumni of at least one of the following prestigious institutes — IIT, IIM, BITS, and NIT (National Institutes of Technology). But as much as 67% of the \$7 billion of funding raised this year has gone to these startups.

Similarly, only 13% of the registered startups on online deal-making platform LetsVenture is founded by what it calls Ivy League founders — those from IIT, IIM, BITS, Indian School of Business (ISB), Oxford, Cambridge, and US Ivy League colleges. But these ventures account for 27% of the funded ventures, and 34% of total funding. LetsVenture co-founder Shanti Mohan says many of her 'non-Ivy-League' startup founders are apprehensive about whether they would be able to raise funds.

Even in Silicon Valley, the absence of diversity in the startup ecosystem is a major discussion point. Some note the advantages enjoyed by graduates of universities like Stanford and Harvard. Others point to the difficulties faced by women and blacks. Tim Hwang, founder of legislative and legal data analytics firm FiscalNote, said in an latimes.com article recently that the problem was that the VC community was homogenous — 92% of senior investment teams are male, and 78% are white. "In general, VC people don't take blind applications. If you want to pitch them, you'll need a

`warm' introduction — a recommendation from a mutual friend. But given that a full three-quarters of white people have no minorities in their close social network, this is difficult... There's an old boys' club in Silicon Valley," he said.

Kirani too says that if somebody the VCs trust asks them to have a look at a startup, the startup gets a shoo-in. "These are credible people and won't stake their reputation by recommending bad companies," he says. But that goes back to the IIT-IIM issue. The graduates from these institutions tend to be highly connected and networked, with large and active alumni forums that help members.

Sanjay Vijayakumar, chairman of Kochi's Startup Village, says IITs are a good filtering tool in an environment where most founders are young and without any track record. "In an earlystage startup, the idea would be in a fluid state. As the startup moves forward, it will see new problems emerge. Those from IITs are analytically good, and VCs believe they will be able to manoeuvre through this more easily," he says.

But some worry that such notions are often carried to absurd levels. Sutanu Banerjee did a degree in Chinese language from the Jawaharlal Nehru University (JNU) and has been running the New Delhi-based travel organizer Prakriti Inbound profitably for the past 15 years. He recently decided to raise some private funds to expand.

One of those who did a due diligence was a tech billionaire's private investment firm. Banerjee says he was disgusted by the mentality of the 20-something executive who came: "She asked how I could think of doing something so big without an MBA degree. She was surprised I had managed to bring so much technology into the business. It was like, if you don't have a degree from a reputed B-school or tech institution, you don't have the capacity to think."