

Early Stage & VC Investing

Sanjay Nath,
Co founder & Managing Partner
Blume Ventures

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Overview of PE and VC

Private equity (PE)

The provision of equity capital by financial investors – over the medium or long term – to non-quoted companies with high growth potential

Venture capital (VC)

Is a subset of private equity and refers to equity investments made for the launch, early development, or expansion of a business.

It has a particular emphasis on entrepreneurial undertakings rather than on mature businesses.

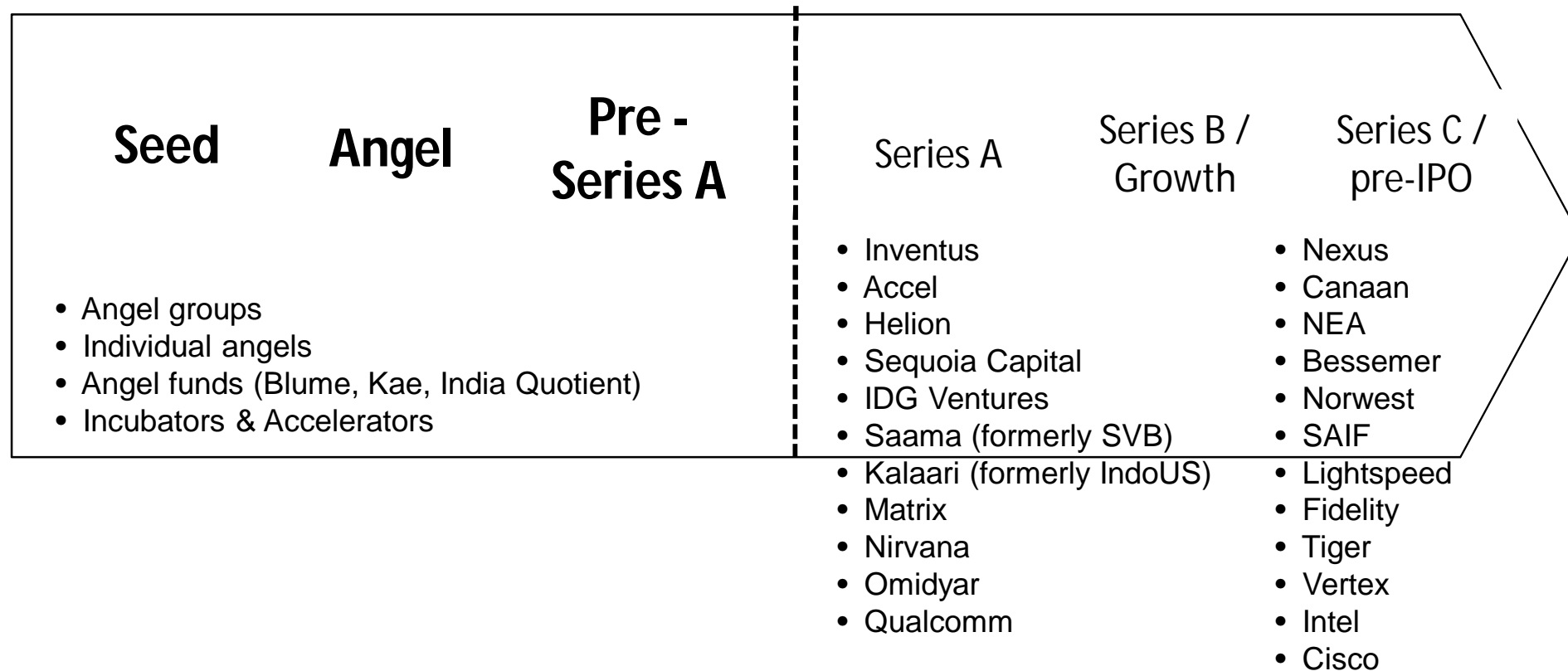
Often and especially in Silicon Valley, and now in India, many VC investments are into ***technology & technology-enabled*** businesses

India – VC Landscape & Evolution

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Many VCs in India have moved upstream, into the realm of Growth VC and PE. Compared to the US which has several angel groups (with Silicon Valley alone having close to a dozen) -- India has only 2 large groups and a few angel funds

A majority of VCs have moved upstream

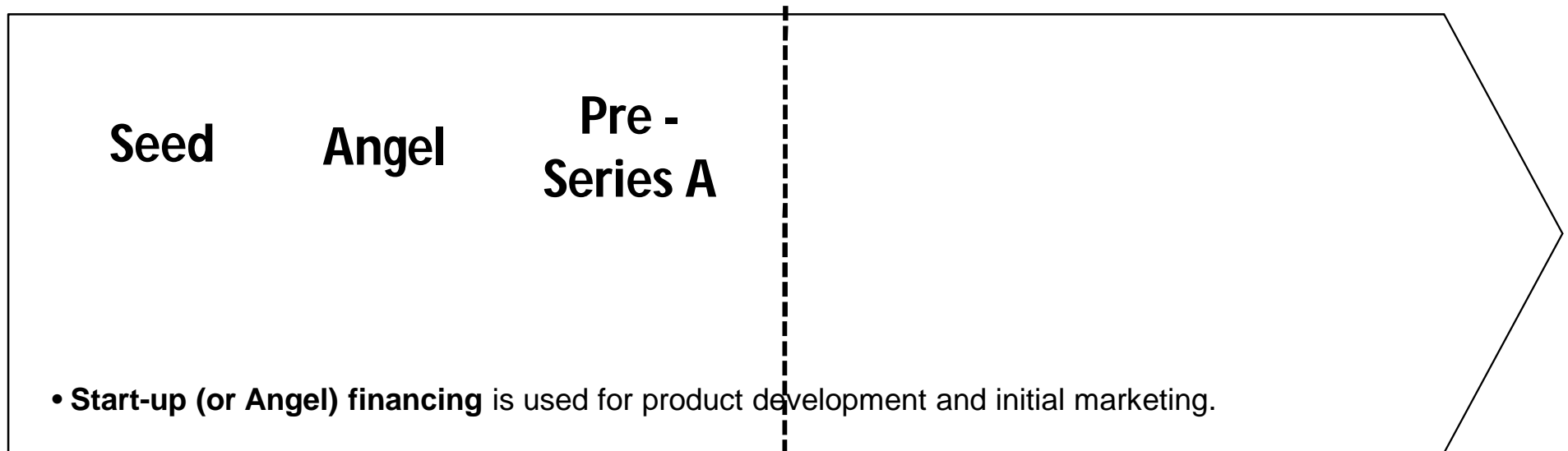


Phase I: Seed & Angel Investing

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• **Seed financing** is designed to research, assess and develop an idea or initial concept before a company has reached the start-up phase.

At this stage, investors are mainly business angels. They often have **operating experience i.e.** entrepreneurs or former directors who join a project to help get it off the ground and also contribute some of their personal funds (act like individual **angels**).



Businesses may still be in the creation phase or have just started operations and have not yet sold their product commercially.

When the product has taken shape, forming the basis of a real “business plan”, a certain number of venture capital professionals will join the entrepreneur and assist him with setting up the business.

Phase II: Growth / Expansion Investing

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Series A Series B /
Growth Series C /
pre-IPO

Expansion/Development (or Growth Stage)

In the case of expansion, the business has reached or is approaching breakeven.

This is a period of high growth and capital is used to increase production capacity and sales power, to develop new products, finance acquisitions and/or increase the working capital of the business.

Getting through this period often requires many rounds of financing, during which the company has to ensure that its growth is balanced.

Professional investors are most attracted if a significant amount has already been invested in a company, if the company already has a history of development and if it is already operating with a robust structure in place.

Private and Confidential

The Holy Grail – the Exit

The EXIT is the end goal of every VC firm

How is exit value maximized?

- Revenue growth
- EBITDA / Operating margins
- IP (Intellectual Property)
- Quality of Customers
- Quality of Management Team
- Competitive Advantage

Most successful Exits are either thru Trade Sales (eg M&A) or IPOs. Sometimes also happen outside India, e.g. on the NYSE / Nasdaq but equally on the BSE or sales to Indian MNCs.

More importantly, the exit results from the “total package” of how the company is valued, not just a single part eg only revenues

Is VC right for your company?

- Are you prepared to take on the responsibility of being an entrepreneur, i.e. to run a business with a method and structures, to delegate responsibilities to a team and know how to motivate them, to develop your knowledge outside the business and bring this knowledge into your company, to take on the legal responsibilities – in a word, to take the plunge?
- Are you prepared to give up part of your company's capital to a private investor?
- Does your business operate in a growth market? •
- Are your company's development prospects sufficiently ambitious?
- Is your team prepared to follow you? Does it have the necessary experience?

It is a personal, case-by-case decision. It is NOT a formula, or a one size-fits-all

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When is VC right for you?

When you want to:

- create a business;
- improve and develop your export performance;
- exploit the creativity and innovation of your team;
- recruit highly qualified personnel;
- change the size of your business and take over one of your competitors;
- launch a new product or range of solutions

VCs like to invest in businesses that are rapidly scalable, have an exponential growth curve, and have somewhat of a clear exit path (even if longer term)

Angel investing

- Art or science?
- Gut or rigorous due diligence?
- What are the key investment criteria?
- How does the investment process really work?
- How does it differ from VC and also PE?

Early stage (seed and angel) investing is an art AND a science, it's the yin with the yang

What makes a good VC

- Smart money
- Operating experience
- Bringing the Network / Ecosystem Effect
- Acting as advisor, mentor, guide
- Ability to connect to partners, customers, eventual acquirers

Good VCs as strategic partners and advisors – NOT just sources of pure capital

India – Shift from 2009 to 2013

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Seed	Angel	Pre - Series A	Series A	Series B / Growth	Series C / pre-IPO
<ul style="list-style-type: none">• Burst of accelerators, seed funds, super angels (& their quasi-funds)			<ul style="list-style-type: none">• Almost NO change in the set of Series A / B / C players		
<ul style="list-style-type: none">• <i>Blume was first of its size in this cycle – at least a dozen more emerged in last 24 months</i>• Reduced attractiveness of the 2006-08 vintage angel groups• <i>Fragmented angel networks don't work well as yet (close-knit networks only)</i>• Lack of a network / marketplace of mentors, advisors, domain experts, service providers (we may build it like FRC / @500)			<ul style="list-style-type: none">• Some wind-downs, some rebranding, some splits amongst larger VCs• Most of them on new funds + limited exits => large active portfolios• IPO market as dormant as ever in tech, focussed only on exceptionally large cash-flow or gross rev biz models• Trickle of M&A; we need a flood		

Lack of transparency around VC performance

Some Localized Startup Ideas

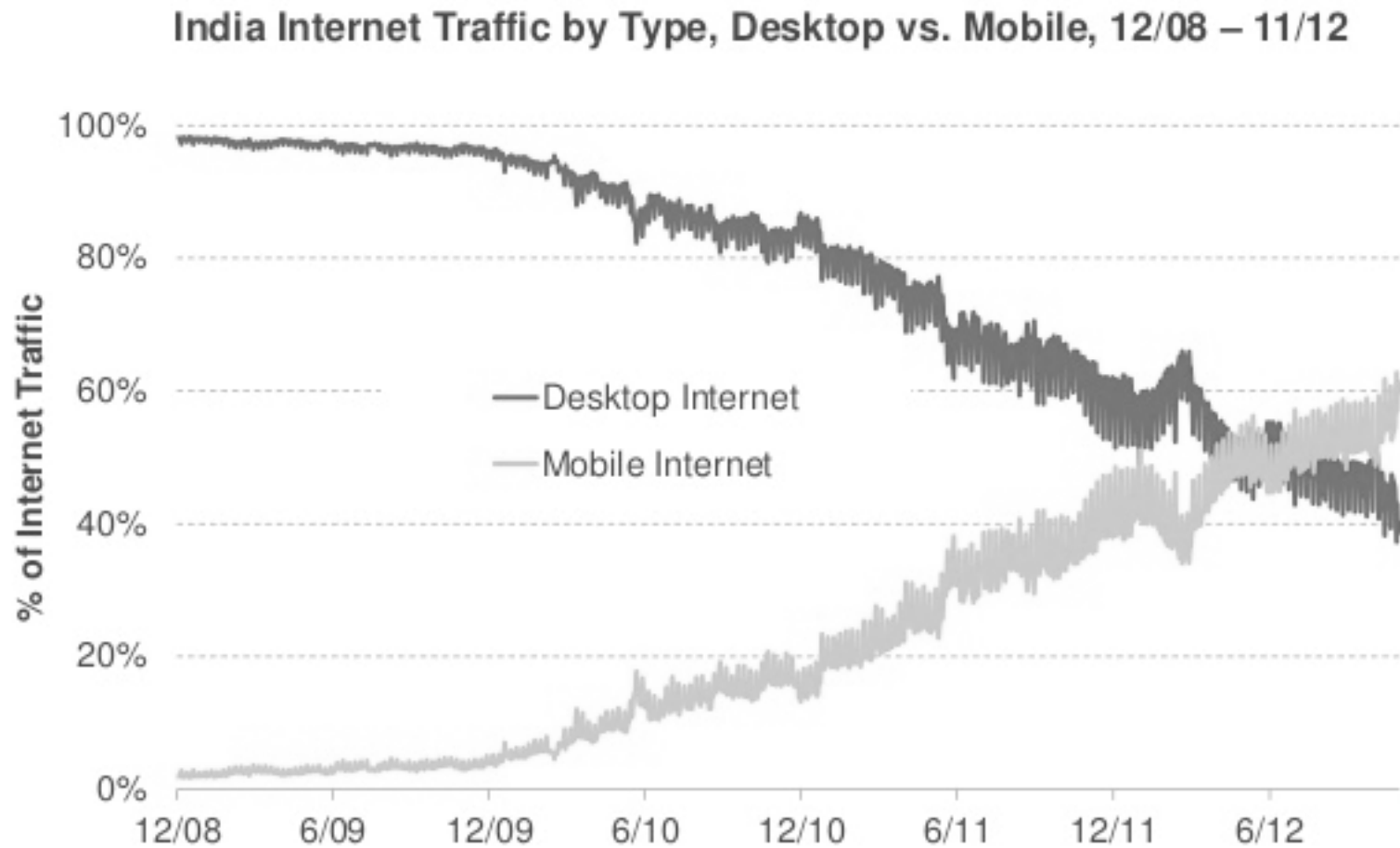
- RedBus (Bus Ticketing)
- *Tally (Accounting Software on CD)*
- AppsDaily (offline App Store)
- *Gharpay, Delhivery (e-comm Only Logistics and Payments)*
- JustDial (yellow pages on Voice)
- MadRat Games (Indic language, local character design – board games)

Localized problems that Investors need to be aware of

- Large Cash Economy, cards underpenetrated, payment infra highly regulated
- Do-it-for-me > DIY
- Transport Infrastructure creaking – overburdened as its being built
- Every City's Tech culture is quite different
- Broadband Infra well below optimal
- Mobile Service Providers have too much control over app economy

India → The “Mobile First” Digital Economy will kick in (very) soon

In India, Mobile Internet Traffic Surpassed Desktop Internet Usage in May, 2012 - Other Countries to Follow...

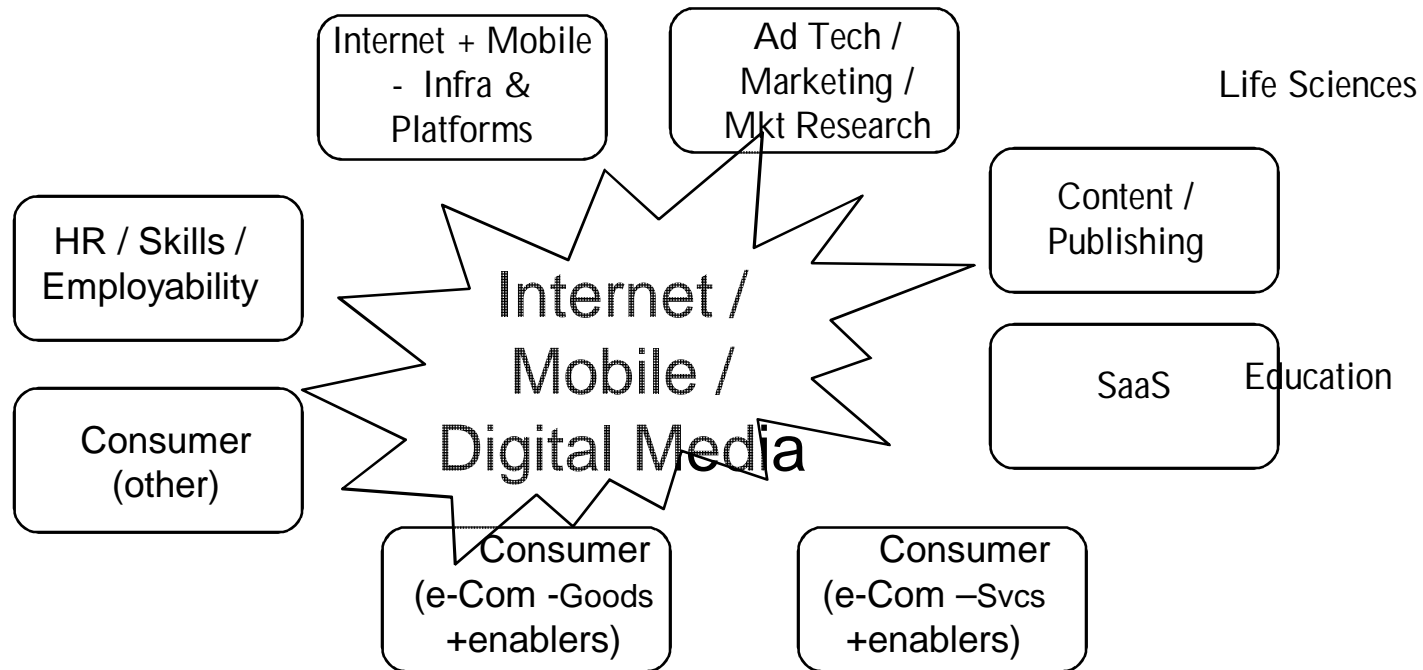


Source: Qualcomm, KPCB Report

Representative Investments & Sectors

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The “core” of many technology focused VC firms is around Mobile, Internet, New Media and related sectors – that are **capital efficient, have a strong ecosystem already built in, and can scale rapidly**



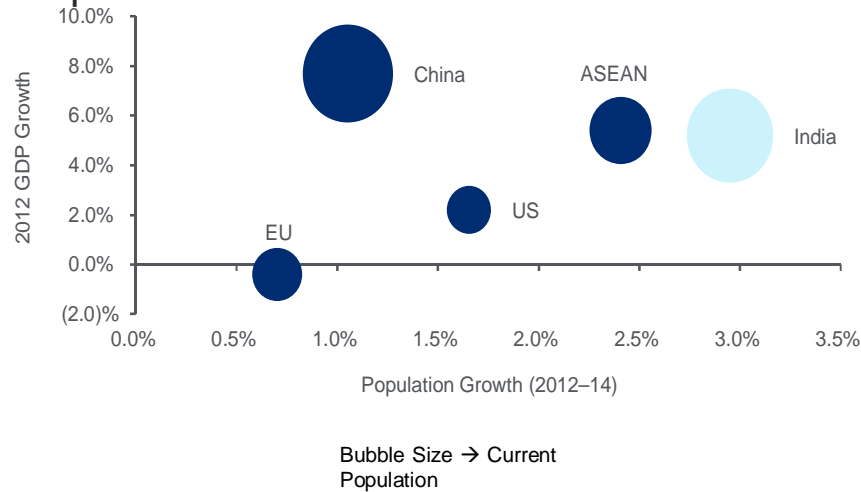
India – some big ideas & themes

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- Mobile First (device and access penetration much higher)
- Fix the SMB problems (35-40 million small businesses)
- Location tracking and services
- Fixing e-commerce backends – B2B commerce, payments
- Video bigger than text?
- Audio / Video Indic languages content bigger than English
- Gaming – will leapfrog consoles to Mobile and Tablets
- Crowdsourcing – Surveys, Information, Tasks, Capital
- Reimagine traditional plays – travel, jobs, housing, dating/marriage

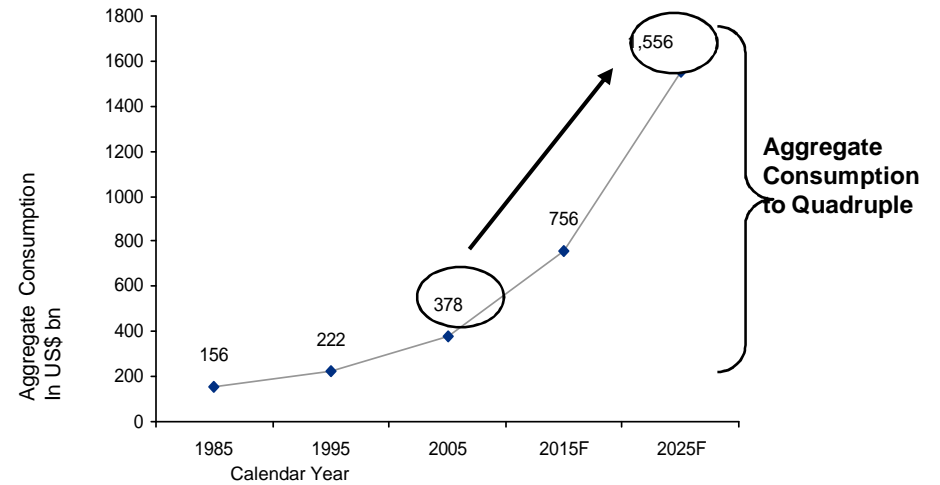
India Continues to Have a Favourable Macro-Economic Profile

High GDP Growth, With a 1.1 billion & Growing Population...



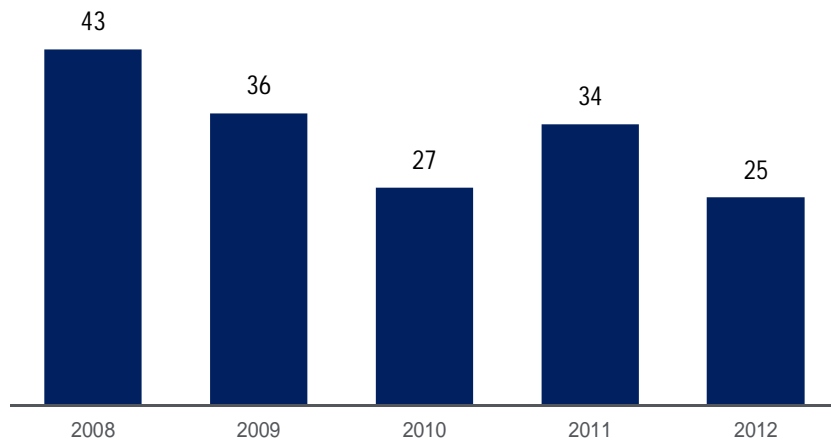
Source: The World Factbook and Economist Intelligence Unit.

...is Expected to Propel Consumption to New Heights



Source: McKinsey Global Institute Consumer Demand

FDI flows in India continue to remain strong (US\$ bn)



Source: Economist Intelligence Unit.
Note: Figures in US\$ bn

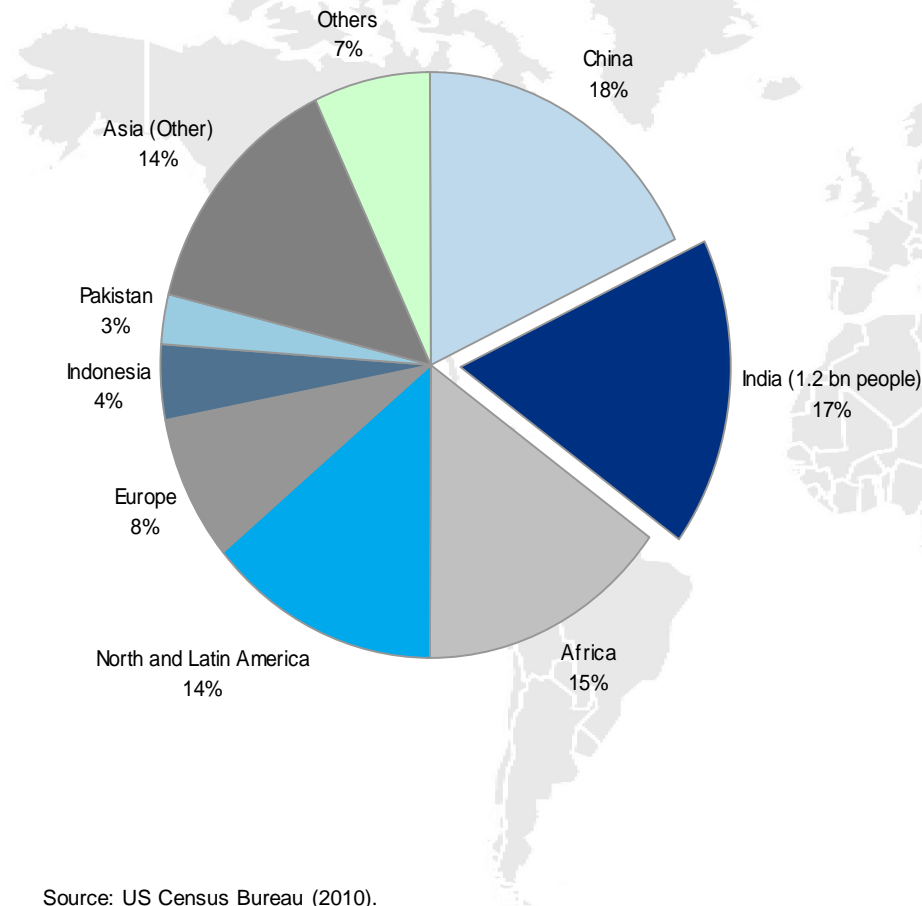
There are Concerns – but also Confidence

- Currency devaluation
- Political uncertainty given general elections in 2014
- Lack of political consensus
- Uncertain tax environment
- That said, Growth projected to be 5-6%+, and if the above concerns are alleviated and a more investor-friendly Govt is in Power, this could be higher

Attractive Economic & Demographic Trends...

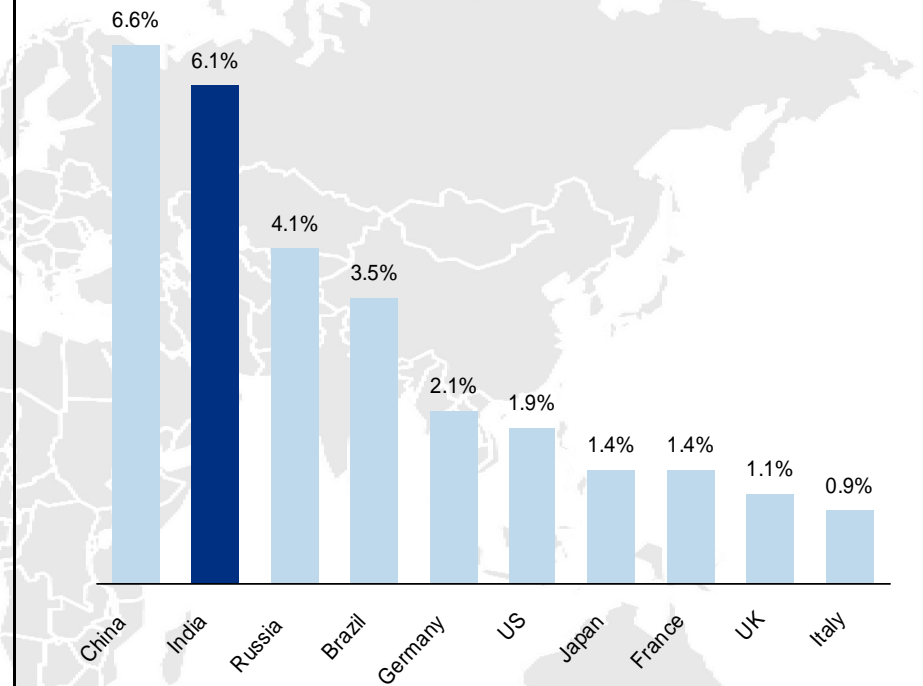
Total Population: 6.9 Billion People

2010 World Population
(mm of People)



Source: US Census Bureau (2010).

Real GDP per Capita Growth
(2011 – 2020 CAGR)



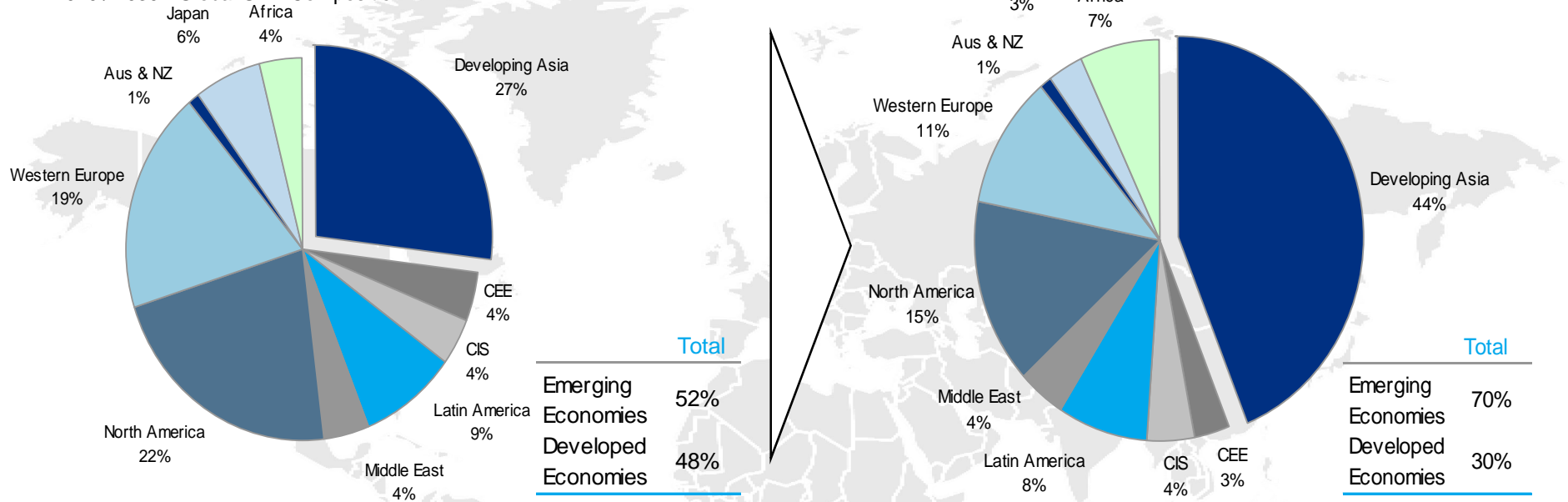
Just this month (June 2013), **Fitch upgraded India's Rating Outlook to Stable** – driven by Government steps to contain the deficit, stabilize the rupee and other positive reform-oriented actions

Sources: The Economist Intelligence Unit, CIA Fact Book and Citi Investment Research as of March 2011.

Attractive Economic & Demographic Trends (Cont'd)...

Projected Shift in Composition of World Economy

2010 / 2030E Global GDP Composition



Projected Evolution of the Global Economy

(\$ in trillion, purchasing power)⁽¹⁾

Rank	Country	2010
1	US	\$14.12
2	China	5.43
3	Japan	4.33
4	India	3.75
5	Germany	2.91
6	France	2.75
7	UK	2.62
8	UK	2.16
9	France	2.12
10	Italy	1.75

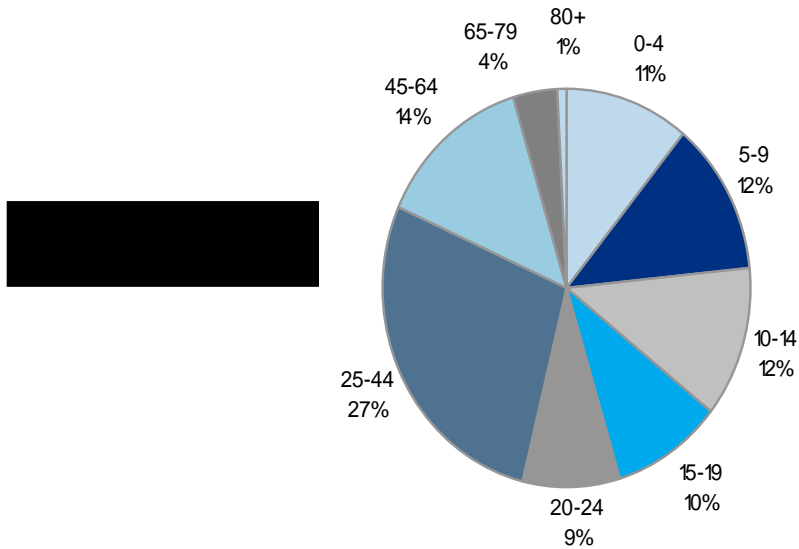
Rank	Country	2030
1	China	24.62
2	US	24.62
3	India	11.55
4	Japan	5.55
5	Germany	4.05
6	France	3.67
7	UK	3.67
8	Germany	4.05
9	UK	3.67
10	France	3.67

Sources: The Economist Intelligence Unit, CIA Fact Book and Citi Investment Research as of March 2011.

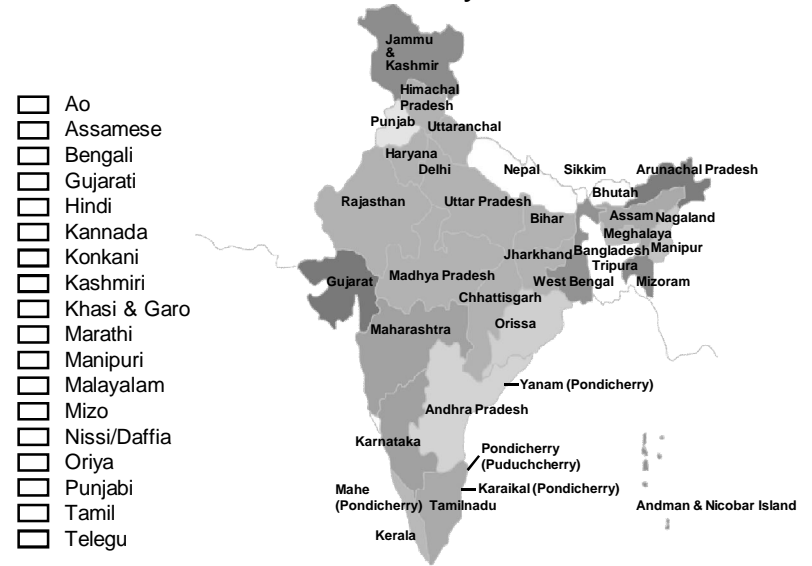
(1) "PPP" stands for Purchasing Power Parity, which is a theory of long-term equilibrium exchange rates based on relative price levels of two countries; the purchasing power of different currencies is equalized for a given basket of goods.

...Driven By Rising "Middle Class" and Domestic Consumption

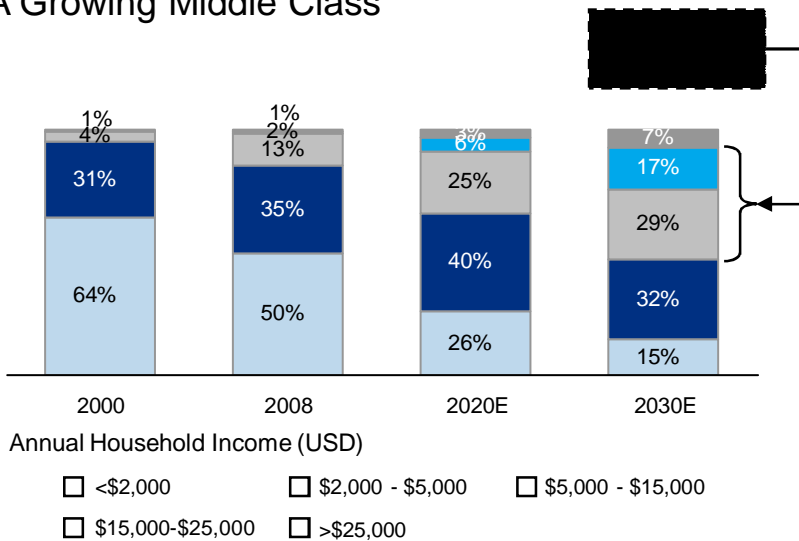
India is One of the World's Youngest Nations...



... With the Most Diverse Society

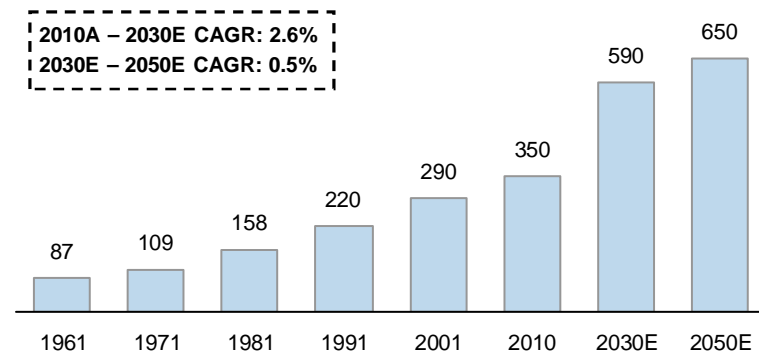


A Growing Middle Class



... With a Rapid Increase in Urbanization

(in millions)

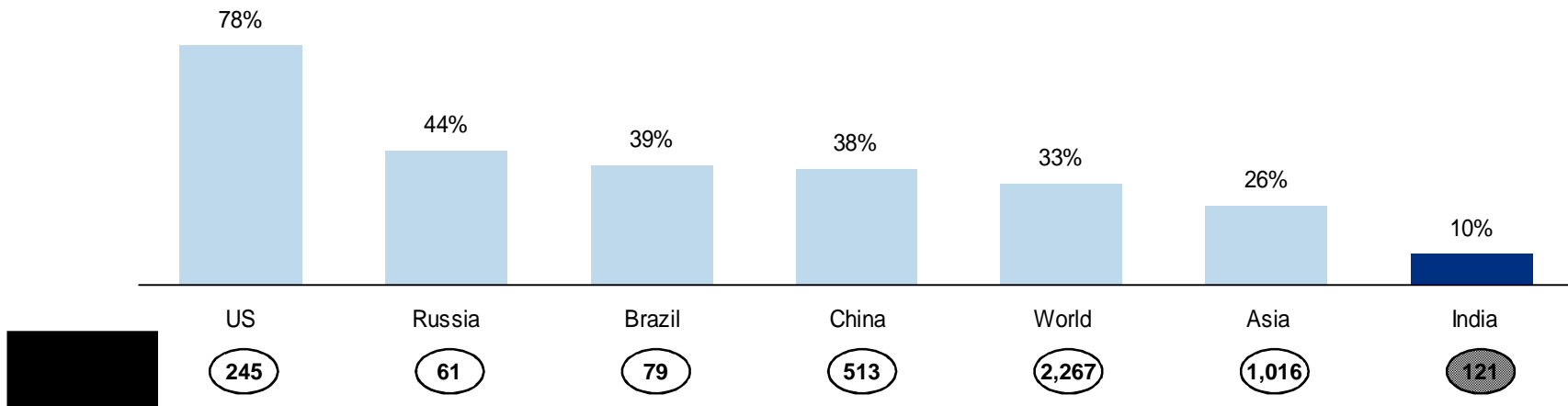


Sources: Street Research, Mckinsey Estimates and The Economist Intelligence Unit

India is Among the Most Attractive Internet Markets Globally

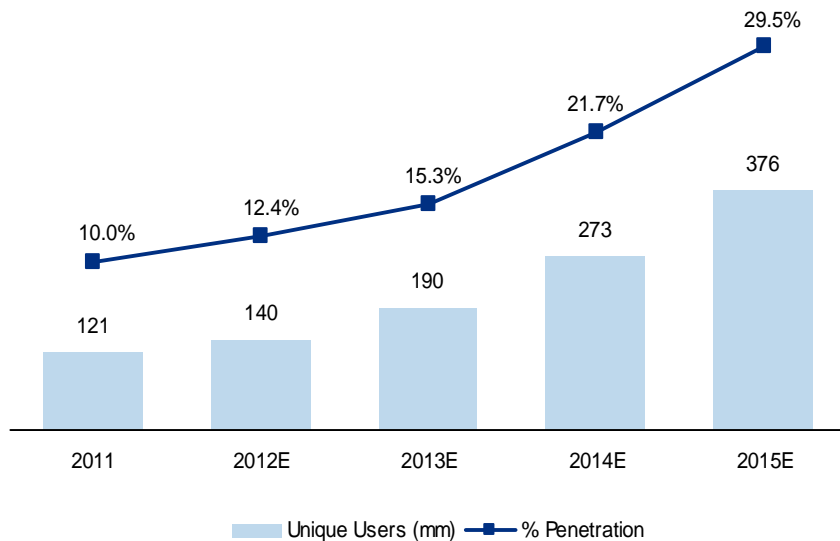
Low Internet Penetration Presents Further Upside

Internet Penetration (%), As on December 31, 2011



Source: Internet World Stats, as of December 2011.

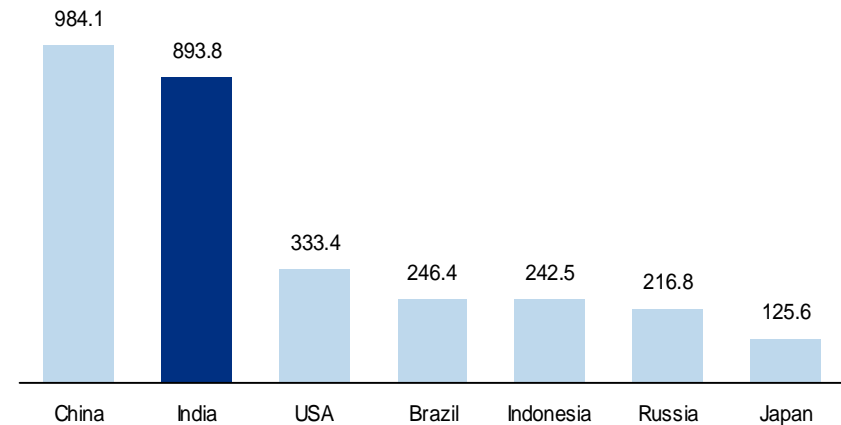
Unique Internet users in India



Source: Street Research

India: 2nd Largest Wireless Market Globally

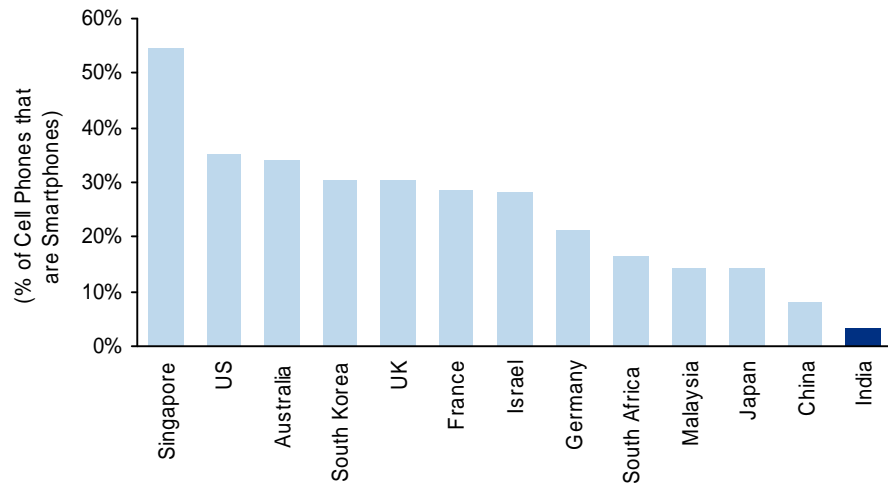
(Wireless subscribers as of December 2011, in millions)



Source: WCIS and TRAI

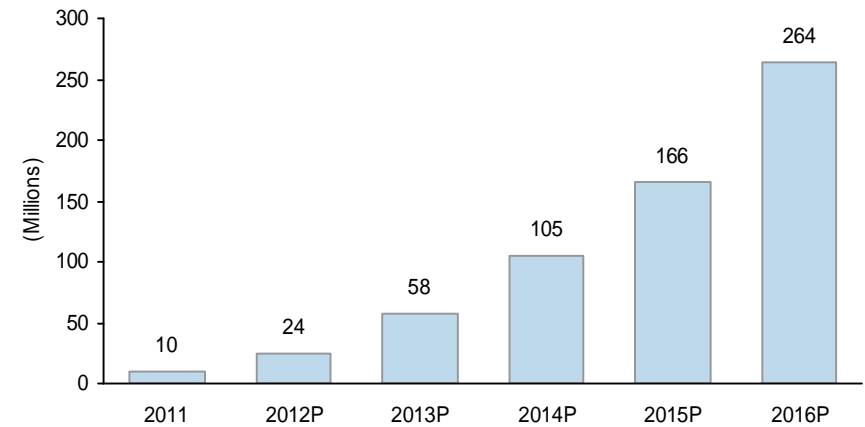
Rapidly Growing Smart Phone Penetration

Smart Phone % of all Cell Phones



Source: TomiAhonen Consulting Analysis December 2011, Citi Investment Research and Analysis.

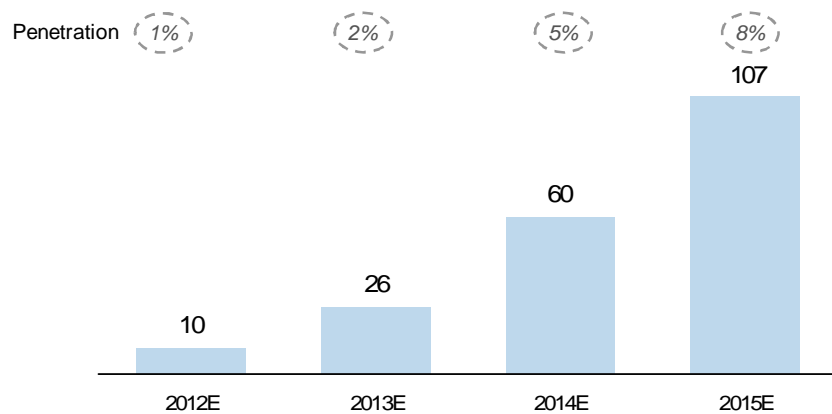
Active Internet Enabled Smart Phones⁽¹⁾



Source: KPMG in India Analysis.

3G / 4G Adoption a Key Growth Driver⁽²⁾

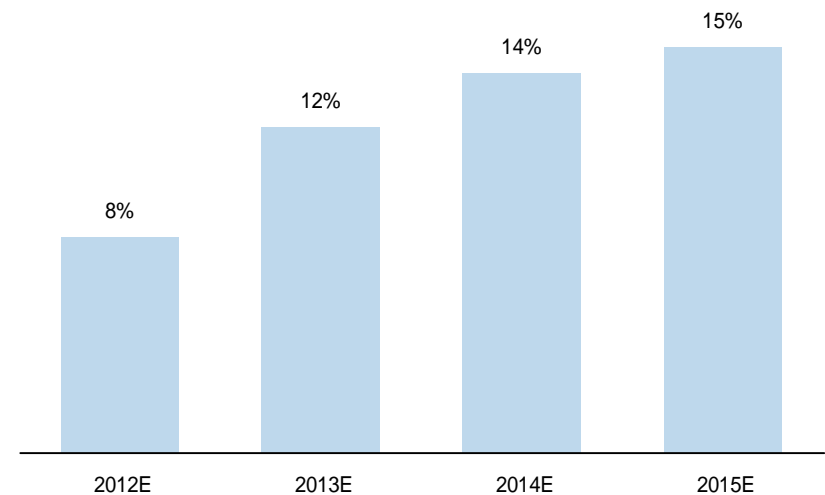
- Early 3G numbers are encouraging and point to medium-term upside
- Analysts project a c.8% 3G penetration by 2015, which we believe is conservative (Subscriber base in mm)



Source: Analysys Mason, IDC

Notes: (1) Includes Wi-Fi and 3 / 4G enabled smart phones. (2) Includes 3 / 4G enabled smart phones.

...Supported by Increasing Smart Phone Penetration



Q & A