

# Venture Capital in India is still in early stages: Vikram Gupta, Founder & Managing Partner of IvyCap Ventures

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Early to growth stage venture capital firm [IvyCap Ventures recently received government approval to invest \\$36 million](#) in Indian startups. The fund was floated by Vikram Gupta, who was the chief executive officer of India Venture Advisors Private Limited, the Private Equity arm of the diversified conglomerate run by billionaire Ajay Piramal. In an interview with NextBigWhat, Gupta talks about the fund's unique investment philosophy and takes a look at the future of Venture Capital in India.

## You have been in the industry for many years. How has the VC industry in India changed?

Venture Capital in India is still at its early stages. While there is a large number of Private Equity Funds looking to invest over \$10 million per investment, there are only a few Funds who want to invest \$1 mn to \$6 mn in early stage companies. This is primarily because the early stage companies require a lot more work, hand holding and guidance. The risks of investing in such companies are much higher. In addition, smaller size Funds find it difficult to afford good quality resources to add value in such investments due to the constraints of their respective Fund economics arising out of the size of their Funds.



## What is a VC's biggest challenge in India?

In addition to the challenge of raising Funds in tough market situations, the biggest challenge for a VC in India is to find the right set of passionate resources for each of their portfolio companies to support their growth at early stages. The reason many companies fail at early stages is not only because they are not able to mobilize Funds at initial stages, but because they are not able to attract the right talent to work with them and to guide them. Those VCs who are able to bring the right resources along with their Funding are the ones that will succeed in the long Term.

## How do you see the VC industry shaping up in the future in India?

There are various challenges that the VC Funds are likely to face going forward. **On the Fund raising side**, the Investors are increasingly asking harder questions on the track records and performance of Funds. Funds that have not shown positive performance are finding it extremely difficult to raise their next Funds. Overall, there are not too many successful examples due to that fact that Venture Capital Funds take 5 to 6 years to exit from each portfolio company and the industry itself is now getting more organized now. As we see more exits in the next four to five years, the confidence levels of Investors will increase further and one will see more infusion of Funds at early stage companies. **On the investing side**, entrepreneurs are increasingly becoming savvier and would want to share value only if they see real value from the VC funds more than just the money itself. Therefore, the Funds bringing additional value would be able to generate better returns for their investors.

**On the regulatory side**, SEBI has recently come up with new guidelines for the domestic Venture Capital Funds. These guidelines pose new challenges as well offer opportunities to many existing and new Funds in the market. The real benefits of these guidelines are yet to be seen by the Funds.

Your investment thesis is particularly interesting. You seem to back founders from top

**Tier colleges. I'm aware that the thought comes from a study you conducted. However, don't you think that some of the greatest companies were founded by college dropouts? Some of the biggest companies today weren't created by founders from top tier colleges. Don't you think that this thesis will prevent you from looking at some really good companies out there?**

There is no debate on who makes better entrepreneurs. Our philosophy is to approach investments through an ecosystem. The ecosystem that we are continuing to build is formed of people coming from premier institutes of India and abroad. The idea of this ecosystem is to build a strong support system for entrepreneurs who find it easier to connect with alumni from similar educational institutions. However, this does not mean that we will reject an entrepreneur just because he/ she doesn't come from the background of a premier institution. Any investment opportunity is evaluated based on its own merits – one of the important criteria being the background of the management team. Since IIT Alumni has been our strongest supporters, we have committed to them that any IITian entrepreneur approaching the Fund will get some support from our network even if the fund is not in a position to invest in them due to various reasons. We are already seeing the value of this approach on the ground through the quality of investment opportunities coming to the Fund as well the passion within the network associated with the Fund.

**How do you identify and meet potential companies?**

IvyCap Ventures has been established with an eco-system approach. This is the only Venture Capital Fund that strongly connects with many of the Ivy League type institutions in India and abroad. For the first time in the history of Venture Capital in India, a part of the profits of the Fund Manager has been committed to be given back to the Educational institutions of the choice of the investors. This approach has led IvyCap Ventures mobilize a large network of people from IITs, IIMs and other leading institutions of the world to not only invest in the Fund but also contribute their time to the Fund. Most of our deal sourcing happens through this network. We have structured our ecosystem into a network of advisors, mentors and expert groups depending on their experience, skills and willingness to contribute their time to the Fund. Most of our deals come through this network. In addition, we are also approached by entrepreneurs directly as well as through Investment Bankers.

**On an average, how much equity do you take for your investments.**

Typically we invest in the range of Rs 2 crores to up to Rs 30 crores in each deal. We prefer to take significant minority stakes in these companies in order to keep the promoters motivated about their businesses. However, in certain cases if we end up in majority we incentivize the promoters to earn out stake based on achievement of business goals.

**In your view, what are the sectors likely to create most opportunities and returns in India?**

We are excited about opportunities in Healthcare and Life Sciences, Education, Rural/ Agriculture, Energy/ Cleantech as well as Cyber security and Forensics. The innovative applications of emerging technologies in these sectors is particularly exciting us.