

## 'Incubating Two Startups was a Positive Experience'

In a unique display of hands-on investing, Lightspeed Venture Partners incubated two startups in the past year, providing money and mentoring to them. Successful venture investing requires a combination of ideas, entrepreneurs and the potential for technology-driven dislocations, says **Bejul Somala**, managing director of the fund. Excerpts from a conversation with **Paramita Chatterjee**:

**At a time when private equity investments are witnessing a slowdown, does the increase in venture funding signify confidence in the new breed of India's entrepreneurs?**

Late-stage private equity investments tend to be more highly correlated with macro-economic conditions, whereas venture investing is a function of the quality of ideas and entrepreneurs, and the potential for technology-driven dislocations. The quality and the number of entrepreneurs and ideas improve every year. The recent increase in venture activity was partly driven by internet-related investments into companies that have the potential to disrupt large markets such as retail and advertising.

**What approach to scaling up do investors look for in a new venture?**

Lightspeed encourages founders to first build a strong platform for their business by proving market and economic viability and removing key risks or unknowns. We encourage entrepreneurs to aggressively scale up once the business model and customer proposition has been proven at initial scale.

**What are the risks associated with venture funds incubating companies?**

We were involved in incubating two companies in the last 12 months - OneAssist and LimeRoad - and have been very pleased with the results so far. Being able to work closely with teams during the incubation period really helps set the right foundation and strategy for the business. The incubation approach is very time-intensive, with no certainty of a successful outcome. But we will build on our positive experience by catalysing new companies in an organised manner.

**Which sectors are Lightspeed looking to invest in?**

Education technology, financial technology, healthcare services, internet, mobile, software and software-as-a-service.

**Between 2004 and 2008, private equity and**



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**BEJUL SOMAIA** MD, Lightspeed Venture Partners

**venture capital firms invested nearly \$43 billion in the country. Is that level of investment sustainable?**

Emerging markets are susceptible to momentum flows so I am sure we will see a similar pattern again in the future. It's difficult to predict when this will happen. Given our belief in India's potential, as well as our long-term investing horizon of 5-7 years per firm, we will continue to invest through cycles, provided the quality of opportunities merit investment.

**Do you think the risk capital market in the country has come out of infancy?**

The risk or venture capital market is still quite nascent - there are perhaps 10 active venture firms in the country, which is a very small number. So we have a long way to go. That said, the ecosystem is developing, especially with deeper availability of seed capital as well as growth and late-stage capital. I think we'll see more exits through secondary sales than IPOs. Fund raising will likely remain a challenge for all but the strongest franchises.

**Do you think that the valuations that entrepreneurs are quoting today are reasonable? Which, according to you, are the sectors that are still riding on high valuation?**

Valuations are typically correlated with momentum flows of capital. They appear to have moderated, especially at the early-stage and in areas like the internet, where valuations were excessive last year. Investor interest in large education and healthcare services companies remains very high and valuations for these firms seem rich. In general, high quality teams in emerging and high potential sectors will always appear to be highly valued. They will maintain the premium valuation as they scale.

## IN BRIEF



**If you have an exciting business plan, check out SIDBI's online initiative for promoting youth entrepreneurship, smallB.in.** The site is running a contest for young entrepreneurs above the age of 18. Interested individuals can submit their original and innovative business plans until December 15 on the site and the winner will take home ₹50,000. "The contest will encourage and empower everyone to think about starting a new set-up," said Sushil Muhnot, CMD, SIDBI.



**Entrepreneurial solutions that address problems of urban infrastructure** are being regarded as the next steps in making our cities more liveable. To foster this culture, the special interest group on clean tech at TIE, a networking group for entrepreneurs, and the Indian Institute for Human Settlement (IIHS) will conduct a workshop and seminar on Entrepreneurship Opportunities in Managing Waste. Scheduled to be held on November 24 at the IIHS Bangalore City Campus, the event will see participation from entrepreneurs, government agencies such as Bruhat Bangalore Mahanagara Palike (BBMP) and regulators such as Karnataka State Pollution Control Board (KSPCB).



**Knimbus, a niche networking platform that helps scientists access content,** share findings and connect with peers across the globe, has bagged reseller agreements with USA's WTCox and Europe's Standards and More (SAM). This will allow the two-year-old company to reach over half of the world's research community, a market the company estimates is worth over \$22 billion. Knimbus was set up in November 2010 by two India-based entrepreneurs Rahul Agarwalla and Tarun Arora.