

Finance/Funding



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▼ Foreign VC funds get mixed reception in India

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The first foreign venture capitalists have started looking for biotech opportunities in India.

Matrix Capital Management LLC (Matrix; Waltham, MA, USA) announced on March 19 its plans to invest between \$300–\$600 million in late-stage funding in Indian biotech and pharmaceutical companies this year—the largest amount ever allotted for this sector by a single foreign investor. But Indian startup companies, which are accustomed to a dearth of venture capital (VC) in the country, are skeptical that overseas funds will benefit the industry.

"We are looking at India because Indian human capital is arguably the highest in the world and it is a country where one can get high returns at low cost [of investment]," says David Goel, managing general partner at Matrix. Teams that manage \$1 billion in funds from Matrix and its sister company Matrix Venture Capital Investments (Waltham, MA, USA) were in India in March scouting for what Goel describes as "high-quality pharma and biotech companies to invest [in]."

But Matrix is not alone. At the BioAsia-2004 meeting held in Hyderabad February 26–28, Andreas Wicki, CEO of VC firm HBM Bioventures (Baar, Switzerland), announced plans to commit \$10–\$20 million annually for Indian biotech companies. And Michael Alder, managing director of VC company Redmont Venture Partners (Birmingham, AL, USA), talked about the possibility of his firm joining an Indian coinvestor to create a \$20 million fund for early-stage biotech firms.

"We think overseas venture funding will give a big push to our nascent biotech industry, whose main problem is finances," says Bhim Sain Bajaj, a senior official at the All India Biotechnology Association (AIBA, New Delhi). "Last month we were talking to HBM Bioventures and now Matrix is here. As the word spreads, more [overseas VC] will come to give our companies a boost," says Bibhu Prasad Acharya, secretary of Industries and Commerce for the state of Andhra Pradesh.

But not everyone agrees with Bajaj. Ashok Kumar Sadhukhan, managing director of Transgene Biotek (Hyderabad, India), welcomes the Matrix move to invest in the country, but does not think startup firms are going to benefit. "Why would the foreign investors take risks when our own venture funds are shying away?" he wonders.

Peter Boelhouwer, a Matrix team member, admits that for its first venture in India—which is also its first foray into the biotechnology field—the main strategy of his company is to buy stocks in Indian public companies already making profits. Wicki also makes it clear that his company's focus "is on mature companies including spinoffs and, in some instances, early-stage companies."

Sarath Naru, managing director of APIDC-Venture Capital (APIDC-VCL; Hyderabad), which funds only biotech startups, is not surprised at the dilemma of overseas investors. "Traditionally they are used to funding early-stage companies in their backyards," he says. "Not many of them are coming to India because it is difficult for them to operate unless they tie up with a local venture partner."

But potential local VC partners are few and far between. The total amount annually invested into Indian biotech is about \$500 million, according to



AP Wide World

India is attractive to potential investors for its highly skilled and low cost workforce, which could provide high returns on investment.

AIBI. But other than APIDC-VCL, none of the approximately 25 Indian VC funds is dedicated to biotechnology. Last year, the Indian Department of Biotechnology (DBT) proposed to raise and manage a \$12 million fund, but the Finance Ministry stalled the initiative because it felt the funds should be raised and managed by private firms and the DBT's role should be limited to providing matching loans. The only other Indian fund dedicated to local biotech firms is a \$45 fund that is still under discussion by the Association of Biotechnology Led Enterprises (Bangalore, India).

According to Naru, Indian VCs have been staying away from early-stage biotech companies since the dot-com bust in 2000. The long gestation period of biotech projects is another reason, says Renuka Ramnath, CEO of VC firm i-Venture (Mumbai, India). Against this backdrop, Naru says that overseas funding will definitely be helpful, but "what we want in India is early-stage funding by foreign VCs with handholding fund managers in India, [a situation that would] add value locally and overseas."

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