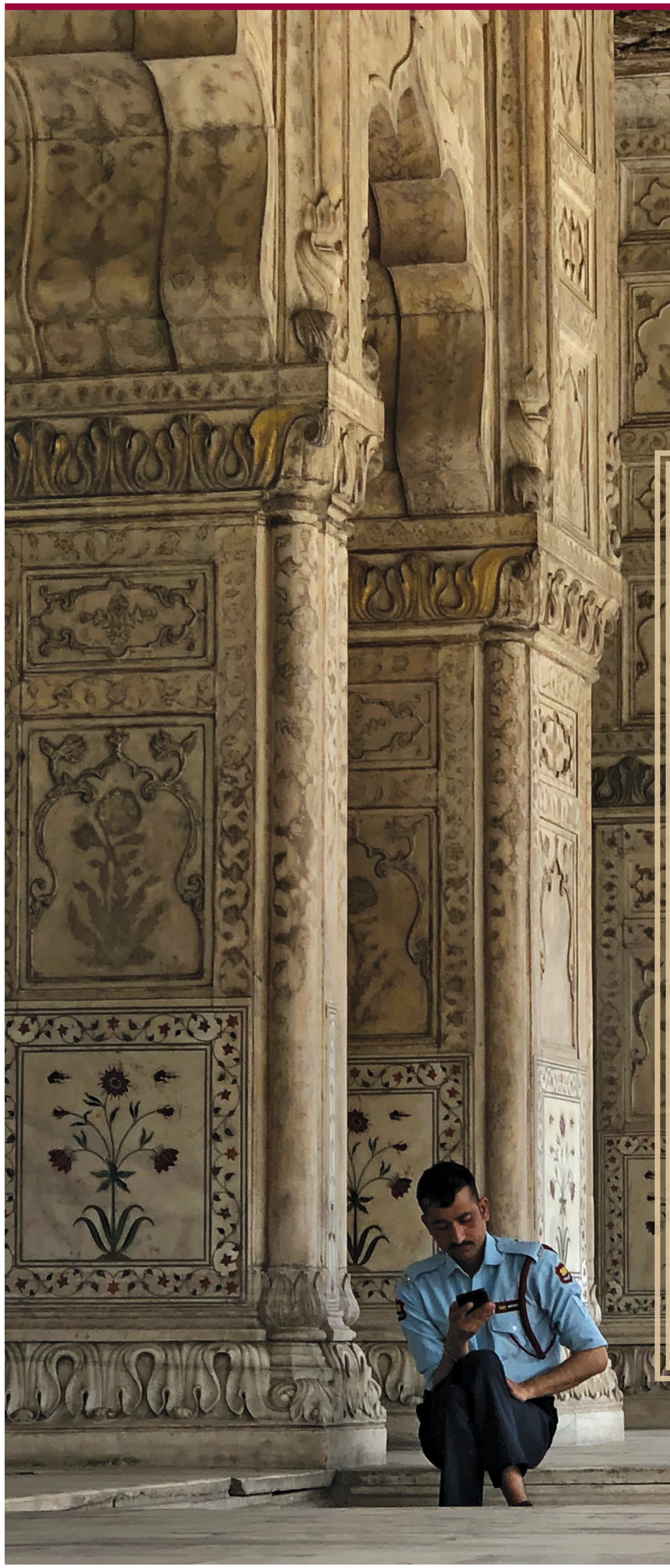


New investment wave comes to India

Venture capital from China to play bigger role in South Asian giant's start-ups

By Chu Daye in New Delhi

The Indian internet venture capital (VC) market is set to explode over the coming four years, and Chinese investors will play a bigger role and benefit from India's demographic dividends, two Indian chief executives told the Global Times.

The Indian internet sector has been developing rapidly over the past five years, and the country is set to become the next internet giant after the US and China, in part due to the participation of Chinese VC investment firms. Compared with traditional industries such as manufacturing, the internet sphere is where Chinese investors are most active, the executives said.

Chinese VC investment to India jumped nine-fold to \$5.6 billion in 2018 from \$668 million in 2016, according to data compiled by market analysis firm Tracxn in March.

Carving out a market

"The growth of the mobile internet has been much faster than would be the case if the Chinese had not come," Mahendra Swarup, founder of Venture Gurukool, told the Global Times in a recent interview.

"Lots of Indian companies and entrepreneurs are looking at Chinese funds. They not only want the capital, but also want their knowledge and expertise," Swarup said, noting that American, European and Japanese investors tend to bring only money as their experience is irrelevant to India.

The Indian VC market has received attention from Chinese companies in recent years. An entire ecosystem has been created in which smaller Chinese VC funds and investors have followed the steps of big strategy players like Alibaba, Meituan, Ctrip and Tencent.

Most of these investments have gone toward services that have been successful in China, such as fintech, payment systems, rental solutions, food delivery, gaming and e-commerce, experts said.

Headline-grabbing deals include Alibaba's investment in digital payments company Paytm, Tencent's investment in social app firm Hike and ByteDance's investment in information service provider Dailyhunt.

Chinese internet start-ups and entrepreneurs, drawn to India for its 560 million mobile users and its population of 1.3 billion, have also interacted well with Chinese funds and become targets for much of the Chinese investments in India.

"The Indian companies would typically want the Chinese experience of managing a very fast growing economy, as the challenge of growth they face is very different from those in slow-growing Western countries," said Swarup, a veteran in Indian venture capital circles.

Currently, the Gurukool network, which aims to serve as a bridge between Chinese investors and Indian entrepreneurs through annual road shows in China, has 160 firms interested in seeking Chinese investors.

A good bet

According to Swarup, Chinese investors have a much higher success rate in their bets on investment in India than in China, where usually a one percent success rate is considered good in an industry filled with risks.

Chinese investors have been helped by their familiarity with mobile internet growth patterns, and they also know what kind of software and technologies are applicable on devices used by Indian consumers, as nearly 75 percent of the hardware in India is made in China. Chinese investors also tend to get operationally involved.

Karan Mohla, partner and executive director with Chiratae Ventures, pointed out that, unlike China or the US, there is no one big cultural group in India, and the presence of global companies can be very strong in India.

Many internet firms in India have observed this as well.

For example, the Opera browser uses 12 languages in India to reach its diverse user groups. Sharing app SHAREit offers content in eight to 10 local languages.

"This provides an opening for Indian companies focusing on culturally or community-specific platforms to lead the market or disrupt the global companies," Mohla said.

Chiratae is the rebranded Indian branch of IDG Capital, a leading global VC firm. Chiratae has invested in 76 companies and has fully exited from 18.

Its best results include two IPOs in India and one IPO on the NASDAQ.

Typical exits in the India markets are not via IPOs but through secondary purchase, in which stakes are sold to another investor, according to Mohla.

Leaving the comfort zone

Swarup said one predominant pattern is that Chinese investors in India always invest in start-up ventures they have seen succeed in China, while avoiding unfamiliar scenarios.

For example, Tencent's investment in food delivery firm Swiggy in 2018 and Alibaba's bet on restaurant discovery and food delivery firm Zomato in the same year all came from their understanding that food delivery is a good investment target.

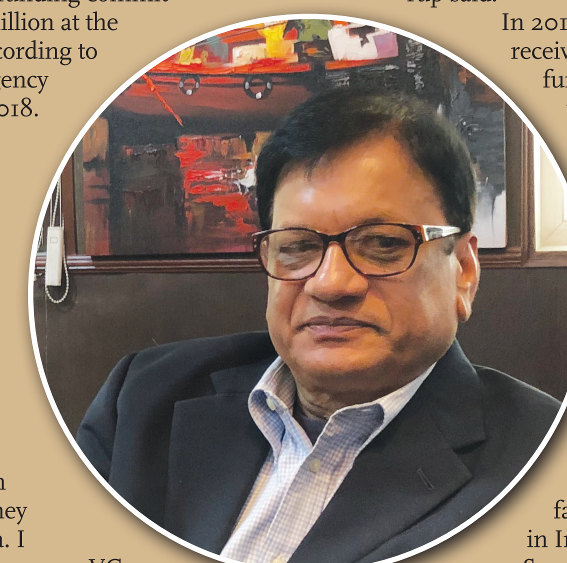
Mohla agreed, adding that there are no more than five to 10 Chinese funds actively committed in India today.

"People are invested in India, but they have not taken steps to actually invest or get out of their comfort zone," Mohla said, noting that when they do invest, they prefer to be co-investors rather than lead investors.

Mohla said Chinese investors always say they feel Indian companies they have invested in could be scaling a lot faster.

The "slow" growth in Indian investment targets has been due in part to gaps in the market for certain forms of capital, Mohla said.

"Today, there are already substantial investors in India. But they are concentrated in the seed stage and earlier stage, and the lack of funds in the growth stage has resulted in companies lacking the funds they need to scale that much," said Swarup.



Venture Gurukool has worked to bring more Chinese investors on board, partnering with the Embassy of India in China to hold a series of Indian start-up investment seminars.

Four Indian start-ups secured funding from Chinese venture capitalists of up to \$15 million in the first seminar in 2017, and eight Indian start-ups managed to secure funding commitments worth \$30 million at the second seminar, according to a report by news Agency PTI in November 2018.

India received \$37.76 billion in foreign direct investment in 2018, according to media reports.

What the future holds

"What I would see happening very soon in India is the way some American VC funds raise money [for targets] in India. I expect there would be some VC funds in China that will raise money only for investment in India. The currency can be the yuan, US dollars, and even other foreign currencies," Swarup said.

Mohla said India is the only "large" market left, and investing in Indian firms will not only yield handsome returns for Chinese VC funds, but also validate these Chinese funds.

"[Other investors] will have more faith in those VC funds because of their ability to see the right investment opportunities in India," said Mohla.

Any successes in India will add to their value in China, the two fund managers said. They say the daily average users, monthly users and market share of their invested targets will be reflected in their valuations.

"If a company has leadership positions in the world's two most populous and growing countries, you can imagine the valuation it will enjoy," Swarup said.

In 2018, Indian start-ups received \$11 billion in total funding across 743 deals with fintech and e-commerce as the top sectors for investments, the Indian media platform Inc42 said in January.

Swarup said as Indian internet firms grow at a projected rate of 25 to 35 percent year-on-year for the next several years, their investors will be the fastest-growing investors in India.

Swarup joked that Alibaba could potentially grow to 10 times what it is today if it succeeded in India.

Mohla said that Chinese investors may expand their portfolios from a few Chinese start-ups that were already doing well in India to include more indigenous Indian start-ups.

Swarup predicted that as earlier investments made about three years ago come to fruition in the next one or two years, the next big wave of Chinese investment is coming.

"The largest influx of Chinese money will come somewhere around 2021 onwards," the senior venture capitalist said.

A museum security guard checks out his mobile phone inside the Red Fort Museum in New Delhi on March 12. Inset: Karan Mohla and Mahendra Swarup Photos: Chu Daye/GT

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