IBEP Project – 3

1. As a fund manager, I will personally prefer to set up sector agnostic funds. A sector-agnostic PE fund takes a broader approach and invests in companies across multiple industries. This approach offers the following benefits:

   a) Diversification: By investing in various sectors, the fund manager can diversify the fund's portfolio and spread risks. This diversification helps mitigate the impact of poor performance in any one sector and potentially provides more stable returns.

   b) Flexibility and opportunistic investments: A sector-agnostic approach allows the fund manager to identify investment opportunities across different industries. This flexibility enables them to capitalize on emerging trends, market inefficiencies, and undervalued companies.

   c) Adaptability to market conditions: A sector-agnostic fund can adjust its investment strategy according to prevailing economic conditions and market dynamics. This adaptability helps optimize returns and seize opportunities in sectors that show growth potential.

   However, there are some considerations to keep in mind, A sector-agnostic approach may lack the deep industry knowledge and expertise that sector-specific funds possess. This could potentially impact the fund manager's ability to identify unique value drivers and generate superior returns. Investing across multiple sectors requires a broader due diligence effort. The fund manager must assess and understand the intricacies of different industries, potentially increasing the complexity and time required for thorough evaluations. Building strong sector-specific networks and relationships may be more challenging with a sector-agnostic fund. This could impact deal sourcing and access to industry-specific insights.

   Sector-specific funds concentrate on a particular line of business and make investments accordingly. Using extensive research, the fund can target profit maximizing sectors that have shown positive growth for a period of time. Sector-specific funds also have the ability to attract investors who specialize in that particular field. For example, the HNIs and family offices mentioned in this project report ahead primarily specialize in IT, Digital Media, and Consumer Internet. A sector-specific fund that focuses on these areas will be able to attract such investors who can not only provide funding but also technical and managerial guidance to the start-ups. This guidance is especially beneficial for the commercialization stage and early growth stage start-ups to come to fruition.

2. Since the sector-agnostic fund focuses on several sectors but the core focus of my PE fund will be the technology or IT sector. As technology has become an essential part of our lives, to make a business scalable technology is the best way as it can be accessed from anywhere and can be harnessed. Thus my targeted investors would primarily be from a technology background, who can provide technical and managerial guidance to the start-ups.

   T.V. Mohandas Pai - Chairman – Manipal Global Education, Former Director, Infosys
   A former chief financial officer of Infosys, Mohandas Pai is a prolifically active angel investor. His focus has mostly been on early-stage investments in technology startups. With a conscious choice to make relatively small investments, his strategy has been that of an

opportunistic investor. He is also one of the biggest supporters of women entrepreneurs. No wonder, Shraddha Sharma's Yourstory got in the right way!

- Major Domains He Invests In: Technology startups, Consumer Internet, Media
- Past Investments: Zoomcar, Zimmber, YourStory, FairCent, Kaaryah

Anupam Mittal - Founder & CEO – People Group

The name behind the Founder People Group and the one to bring revolution in the Indian arranged marriage market. With his very successful venture Shaadi.com, Anupam Mittal has become a prominent name in the angel investors' network. Backing up almost 50 startups, including the very lucrative Ola Cabs, Anupam Mittal's portfolio has jumped 10-old in the last couple of years. What works for one of the most active angel investor here? A big market potential, sustainability, and scalability.

- Major Domains He Invests In: Technology, Consumer Internet, Mobile, Healthcare and SaaS
- Past Investments: HackerEarth, Drivezy, Kae Capital, Letsventure, Ola Cabs, Truebil, myHQ

Harshil Mathur - CEO & Co-Founder at Razorpay

Harshil co-founded one of the most valuable fintech startup, Razorpay Software Private Limited, in 2014. Harshil Mathur did his B.Tech from IIT Roorkee and has made headlines for investing in new-age startups. He understands the difficulty in securing the initial round of seed capital and hence, has helped multiple fledgling startups.

- Major Domains He Investments In: Fintech, Edtech, B2B cross-border trading platform, Assisted eCommerce, Payment Platform, Coworking Space.
- Past Investments: BHIVE Workspace, BharatX, Birky App, GlobalFair, Volopay.

Amit Somani - Managing Partner, Prime Venture Partners

Amit has more than 20 years of experience in the technology and internet industries and is also deeply engaged with the early-stage ecosystem in India. In his previous role as the Chief Products Officer for MakeMyTrip, Amit led the entire online product portfolio. He was a part of the leadership team that took the company public on NASDAQ in 2010. He has also been the head of various teams focusing on search, mobile and advertisement products at Google. Making him a perfect folio for those who seek angel investments for their budding ventures and startups in India.

- Major Domains He Invests In: Travel Industry, Consumer Internet
- Past Investments: Qikwell Technologies India, Advises Phone Warrior Inc, Ixigo.com, HotelTravel.com, and MindTickle.

Girish Mathrubootham - CEO – FreshWorks

A self-confessed enthusiast of customer support, Girish Mathrubootham is the founder and CEO of India's most successful Customer support software provider, startup FreshWorks. He is said to have an eye for the right products and is known to have built highly user-centric products.

- Major Domains He Invests In: SAAS, customer support, Enterprise Softwares, Consumer Internet, Education, Content & Listing Platforms
- Past Investments: Whatfix, The Ken, Innov8, GoBumpr and iService, Unacademy, Factor Daily, Inkmonk, The Ken, Zarget

RNT Associates – Ratan Tata
RNT Associates is partnered with of the University of California to jointly fund startups over the next 10 years. RNT Associates focus on healthcare and alternate energy investments. Considering that most targeted investors are technology driven, RNT Associates can help the sector agnostic fund explore other industries.

Catamaran Ventures – N R Narayana Murthy
Catamaran Ventures is a family office of N R Narayana Murthy, Founder of Infosys. It would be ideal for the PE fund as it is sector agnostic and is under the founder of one of India's top IT companies. The biggest benefit of this family office is its flexibility in terms of investment size and structure. They invest from very early to very late-stage businesses as well. This leaves a lot of room for the PE fund when hunting for scalable startups**.**

3. The declining success rate of start-ups, coupled with the rising number of new start-ups emerging daily, necessitates a more rigorous selection process for identifying successful ventures. As a private equity fund, our primary focus would lie in the initial stage of commercialization and the early growth phase, two critical milestones in a company's life cycle. It is during these stages that even the most brilliant ideas require guidance to navigate the complexities of the business ecosystem. By investing at this early juncture, we can provide invaluable support that enables start-ups to flourish and generate substantial returns.

First Stage of Commercialization
During the second stage of the company life cycle, known as the first stage of commercialization, start-ups have progressed beyond the ideation phase and are actively seeking an effective sales channel strategy for their product. Achieving a perfect product-market fit is crucial for sustaining growth and profitability, but it is a challenging task that often necessitates expert guidance. Recognizing this need, our fund aims to target start-ups operating at this stage. From an investor's standpoint, this stage presents an enticing opportunity as it is inherently associated with higher risk, which, in turn, can lead to greater returns. An illustrative example is Sanjay Mehta's early-stage investment in OYO rooms, which yielded a remarkable return of 280 times the initial investment. Given the risk appetite of our targeted investors, who are predominantly inclined towards early-stage financing, this stage holds particular appeal.

Early Growth Stage
The third stage of the company life cycle marks a crucial milestone where start-ups have successfully identified their ideal product-market fit and are now making inroads into the market. Within this stage, my focus extends to attracting the interest of targeted High Net Worth Individuals (HNIs) who have primarily been core investors during the first stage of commercialization. Additionally, family offices that I aim to engage with have a track record of investing in both the first stage of commercialization and the early growth stage. However, despite the opportunities presented in the third stage, my preference still lies with the early growth stage. This preference stems from the fact that investors often take a different approach when investing through Private Equity (PE) funds due to the larger ticket sizes involved compared to direct investments. By pooling funds from various investors, PE funds can make a more substantial impact on growth stage funding, leading to potentially

larger gains for all parties involved. This synergy allows for greater support and acceleration of start-up growth during the early growth stage, making it an attractive proposition for both investors and the start-ups themselves.

4. Scouting the market is a complex process as there are no undefended markets in the present time. The objective is to find companies that are differentiating their products/services and their value offering to the customers.

Network Driven Scouting

Network-driven scouting can be done through experts in the field, such as investment bankers. Start-ups reach out to investment banks to help them find capital. These bankers are well versed with the PE criteria and therefore skim through the start-ups themselves and provide a list of start-ups that fit among other PE fund investments. This not only helps save a good portion of time but also aids in finding good quality start-ups.

Institution Driven Scouting

There are institutions designed to help young entrepreneurs attain success. Incubators help entrepreneurs with idea generation and accelerators help existing companies grow with a minimal viable product. These institutions are the home of fresh ideas and act as an ideal place for picking good quality start-ups for funding. The benefit of scouting through these institutions is that the entrepreneurs are well trained and have interacted with other entrepreneurs as well. They have been exposed to a structured environment and have been supported to create solid business plans. Like investment bankers, the incubators and accelerators are also well versed with the selection criteria of PE funds. Incubators assist first stage of commercialization start-ups and help them raise funds and on the other hand accelerators guide early growth stage start-ups. These institutions organize events and workshops to help start-ups find capital, and these events can be extremely beneficial for PE funds as it also helps them gauge investors reaction towards the startups.

5. The screening process is the final and the most essential aspect for a PE fund. Determining whether the startup is a good fit for the development of the fund can be a hefty task. From the leader to the secured investments, they're all viable variables for the screening process. Given that my fund is focusing on the first stage of commercialization and the early growth stage companies, my top two screening parameters would be market size and business plan.

Market Size

Start-ups should target large and addressable market opportunities. Large market size increases the potential of longer product life and may later help scale operations resulting in cost advantages. From an investor's perspective, Investing in start-ups is risky and therefore they want to bet on start-ups that are quickly scalable. Therefore, a startup that is aiming big and can be durable for a long period of time is preferred. Large market size would lead to high returns in the future which would increase the probability of a trade sale. This attracts investors because it gives them a potential way to exit their investment.

Business Plan

The business plan is the heart of the startup. All the variables in the business plan should be clear, crisp and linear. A business plan can help get insight into an entrepreneur's mindset.

Entrepreneurs tend to focus on their big ideas but lack execution. The business plan acts like a blueprint for their vision, it highlights their strengths and uncovers flaws in their business planning. For example, the spending of the business can speak a lot about the entrepreneur's priorities. This is of utmost importance to the investors. They take a keen look at them to ensure that the business has been vetted through thorough market research. Another important variable in the business plan is the customer cost acquisition and customer lifetime value. The time it takes for the customer lifetime value to cross customer acquisition cost helps determine when the company will start becoming profitable for the investors.