Finlatics Investment Banking Experience Program

Project Report 3

- Manvendra Singh

1. A sector agnostic fund is one that invests in several different industries. This reduces the impact of market volatility on investors, lowering the risk of loss. However, because it necessitates a broad grasp of numerous businesses, it can be a time-consuming undertaking for fund managers. Only a few experts have sector knowledge, and they can build a portfolio that generates high returns without diluting it by adding a few unprofitable industries. As a result, the lack of these expertise could result in lower-than-average returns, and the portfolio's wide range of sectors could lower its overall quality. As a result, I'd go with a sector-specific fund.
   Sector-specific funds focus on a single business sector and make investments accordingly. The fund can target profit-maximizing sectors that have showed good growth for a period using significant study. Sector-specific funds might also draw in investors who are experts in that particular industry .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 commercialization stage and early growth stage start-ups to come to fruition.

2. Among many other sectors, the core focus of my PE fund would be the technology sector. The technology sector is booming, and many fresh ideas are surfacing with new visions. These visions need direction that can only be provided with the right expertise. Therefore, my targeted investors would primarily be from a technology background, who can provide technical and managerial guidance to the start-ups.

   Abhishek Rungta — Founder and CEO of Indus Net Technologies
   At the age of 19, Abhishek Rungta started his company with only INR 50 and now it is worth INR 40 Cr annually. He is a young entrepreneur who has made several smart investments such as iimjobs and can help guide young entrepreneurs accomplish their dreams without being intimated. He specializes in Multimedia Technology and therefore can help the fund explore Consumer Internet, Digital Media, and Advertising start-ups.

   Anupam Mittal — CEO of People Group
   Anupam Mittal is yet another active investor who has invested in over 50 start-ups. People group owns several thriving consumer internet services such as Shaadi.com, Makaan.com

and Mauj Mobile. His success has been recognized by various platforms. He has been voted by Business Week as one of India's most Powerful People and has also been the list of one of the 25 people to watch out for by 'The Week' magazine. His active involvement in the start-ups and experience in digital media can add a lot of value to the various portfolios under the PE fund.

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 start-ups.

RNT Associates — Ratan Tata

RNT Associates is partnered with of the University of California to jointly fund start-ups 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.

Rajan Anandan - Managing Director of Google India

Rajan Anandan is an active investor who specializes in Manufacturing Systems. He has worked with some of the top technology companies in the world such as Google and Microsoft. He has a history of providing extensive guidance to technology start-ups such as OMAK Technologies, Sapience Analytics, SellerApp etc. In the technology sector, his primary focus is on Big Data, Cloud Computing, Digital Media, Online Healthcare and SaaS Analytics. His active involvement in start-ups would be a big yes for my PE fund as it provides an opportunity for start-ups to learn and grow.

Debjani Ghosh - President of NASSCOM

Debjani Ghosh is the first woman president of NASSCOM in three long decades. She has been facilitated by the President of India in 2018, under the auspices of the 'First Ladies' program, which honours exceptional women pioneers in their respective fields. She wears multiple hats effortlessly as she was the first woman to lead Intel India and Manufacturers' Association for Information Technology (MAIT). She is also a member of Cisco's advisory board. She not only holds in depth knowledge in all arrays of technology but also has been in a position of great power for several number of years. Her guidance would be of immeasurable worth for the start-ups.

Sanjay Mehta - Co-founder and CEO of MAIA

MAIA, a business intelligence firm, is one of the three ventures of Sanjay Mehta. One of his appeals is his ability to exit a firm at the right time. His first venture, Bespoke Software, was a thriving success. Although, it was not scalable and keeping this in mind he ventured into different areas. One of his most successful and well recognized investments is OYO Rooms. He got a whooping 280 times return from it. Sanjay Mehta is one of the most active investors in India, with investments in over 130 start-ups. His ideology is to invest in a large number of deals with a smaller ticket size. This mindset would not only help my PE fund diversify into different industries but also rope in other investors, given his previous recognized gains.

3. The average success rate for start-ups is declining as new ones grow every day. Having said that, the criterion for selecting a successful company must be extremely strict. My PE fund's primary focus would be the initial stage of commercialization and early growth stage, out of the six stages of the company lifecycle. This is due to the fact that even the most brilliant ideas require assistance in order to comprehend the business ecology. Investing sooner in the start-up’s life cycle could help it prosper and generate big profits.

   First Stage of Commercialization
   The company's life cycle has progressed to the second stage. The firm is still in its early stages, but it has passed the ideation stage and is seeking for a suitable sales channel plan for its current product. The ideal product-market fit is crucial for a product's long-term growth and profitability, but it's impossible to assess without the help of a professional. With the assistance and knowledge of the aforementioned investors, I intend to target start-ups at this stage From the standpoint of an investor, this stage of a start-up is quite appealing because it is connected with significant risk, which may result in higher rewards.

   Early Growth Stage
   The company's life cycle is now in its third stage. The start-ups have now established their ideal product-market fit and are beginning to penetrate the market. The majority of my targeted HNIs are first-stage commercialization core investors, and the targeted family offices invest in both first-stage commercialization and early- stage growth. However, the early growth stage remains my favoured stage, owing to the fact that investors prefer to invest through PE funds, which have a larger ticket size than direct investments. PE funds can have a greater impact on growth stage funds by pooling money from multiple investors, resulting in larger gains.

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 start-ups.

5. The final and most crucial part of a PE fund's operation is the screening procedure. It can be difficult to determine whether a business is a good fit for the fund's development. They're all viable variables for the screening process, from the leader to the secure investments. Given that my fund focuses on early-stage commercialization and early-stage growth enterprises, market size and business plan would be my top two screening criteria.

Market size
Large and addressable market opportunity should be the focus of start-ups. The potential for a longer product life is increased by a larger market size, which may later help scale operations, resulting in cost savings. Investing in start-ups is hazardous from an investor's standpoint, thus they prefer to bet on start-ups that can scale quickly. As a result, a startup that has huge goals and can persist for a long time is preferred. Large market size would result in higher future returns, increasing the likelihood of a trade sale. This attracts investors because it gives them a potential way to exit their investment.

Business plan
The start-up’s business plan is its beating heart. The business plan's variables should all be clear, concise, and linear. A business strategy can help you understand how an entrepreneur thinks. Entrepreneurs are prone to focusing on their great ideas but failing to put them into action. The company plan serves as a blueprint for their strategy, highlighting their strengths while also revealing shortcomings in their preparation. For example, the spending of the business can speak a lot about the entrepreneurs 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.