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INDIA RANKS 3RD IN ASIA-PACIFIC IN VC INVESTMENT IN 2001

The impact of wide-ranging regulatory reforms implemented in 2000, including the centralisation of venture capital control with SEBI, began to become evident in 2001.

India ranked as the third most active VC Market in Asia Pacific (excluding Japan), with venture capital funds disbursing a total of US$907.6m into 101 Indian companies during 2001. These are the findings of the first-ever comprehensive survey of the venture capital industry which has been presented in the IVCA YEARBOOK 2001. This survey was conducted by Thomson Financial/Venture Economics and PRIME Database on behalf of the Indian Venture Capital Association.**This Yearbook was formally launched by the SEBI Chairman, Shri G.N. Bajpai at a function in Mumbai.**

According to the survey, investments contracted by 21.8% from the previous year, where US$1.2bn of funds was disbursed into 270 Indian companies. Similarly, only 57 venture capital firms disbursed funds in 2001, compared to 88 a year earlier, as venture capitalists turned more cautious of funding opportunities amid a slackened pace of investments globally.

Even so, the sum total invested in venture capital in India grew. The $907.58 million in new disbursements added to an existing flow of private equity capital into Indian companies, building up the amount of venture capital invested over time. A major portion of this came from overseas, which is expected to increase over the next few years. Similarly, the $395.0 million in capital commitments added to the pool of funds available to venture capitalists to invest.

In short, the overall Indian venture capital sector grew. Significantly, it did so at a time of global economic contraction, political uncertainty, volatility on world stock exchanges and a severe global downturn in industries such as information technology and telecommunications.

Mr. Prithvi Haldea, Managing Director of PRIME Database , who conducted this survey through a one-on-one visit to each fund, said that the survey showed a heightened interest in India as a consequence of as many as seven firms listing on the NYSE during 1999-2001. Notably, Indian companies typically had a better multiple on NASDAQ than on Indian stock exchanges. The PE multiple of the Indian companies was usually better than the multiples achieved by comparable companies in the same sector but listed on their respective local markets.

According to the survey, Indian venture funds raised a total of US$395.0m in capital commitments in the year 2001, recording a slowdown by 52.2% from US$825.6m accumulated in 2000. Of the total funds formed in 2001, 11 Indian funds reportedly raised capital commitments from investors. While fundraising may show a downturn in the Indian venture capital market, funds raised in 2001 enjoyed a very slight increase in average committed per fund, rising to US$35.9m in 2001 compared to US$34.4 in 2000. Early stage funds received the largest share for new capital commitments in India, rising from US$124.4m in 2000 to US$294.3m in 2001.

India managed to pull through as the third nation with the highest venture capital deal flow in the Asia-Pacific (ex-Japan). It recorded 115 deals in 2001, trailing behind Australia and South Korea, which recorded 245 and 174 rounds, respectively. The average investment per deal also more than doubled from US$3.9m in 2000 to US$7.9m in 2001.

As per the survey, investments in the communications and media industry proved to be the most popular. This sector secured US$585.0m in investments or 64.5% of the total US$907.6m, collecting more than five times the funds received in 2000. Funding of the Internet sector, which was the favorite in 2000, dropped sharply from US$576.2m to only US$49.2m in 2001.

Expansion stage companies drew 80% of total investments, as 66 of them obtained US$733.5m. Early stage companies declined in prominence though, securing capital worth US$48.7m, far less than US$208.3m collected in the previous year.

The weakness in global sharemarkets also shifted focus of venture capital exits away from IPOs to other methods. During 2000, two exits were managed on public markets, whereas in 2001, no exits resulted via IPOs. However, there were 19 exits in this period, achieved through trade sales, and other methods like buybacks, promoters' buybacks, strategic investments, mergers and acquisitions, repayment of loans, redemptions, negotiated deals and return of amount invested.

The IVCA Yearbook would now be a regular, annual feature. Having overcome the impediments associated with any fresh effort, the future yearbooks are expected to be released within 3 months of an year getting over.