TiE fanning the flames of entrepreneurship

Seed capital hard to come by for new ventures

Steve Halstedt

The Global Executive Forum visited the TiE Bangalore chapter. Forum member Steve Halstedt provided the information for this report. Halstedt is a cofounder and managing director of Centennial Ventures, a private venture firm formed in 1991. He is a board member of the National Venture Capital Association.

Entrepreneurship is alive and well in India but the scarcity of seed capital nips many new ideas in the bud, according to what the Global Executive Forum learned at a meeting with Dr. Sridhar Mitta, president of the TiE Bangalore chapter.

TiE is shorthand for The Indus Entrepreneurs and has come to mean talent-ideas-enterprise. “The TiE organization was founded in Silicon Valley by Indian entrepreneurs living and working in America,” reports Steve Halstedt.

“TiE is a global not-for-profit organization focused on promoting entrepreneurship. There are 42 chapters in nine countries. India has 13 chapters; the Bangalore chapter has 450 members plus 50 charter members. Charter members are leading business executives who provide mentoring for the general membership on the challenges and struggles of getting a company up and running.

“In the past, because of educational opportunities in America and a shortage of business prospects in India, many Indians chose to emigrate to the US. Mitta noted that a big portion of that Diaspora is now returning to India, specifically to Bangalore, to participate in the economic miracle occurring there.

“Most big US technology companies have operations in Bangalore; IBM is the biggest. Bangalore has become the world’s IT R&D center,” says Halstedt, with “30,000 expatriates and 200,000 techies working in Bangalore’s IT industries, more than in Silicon Valley.”

Despite being the center of the IT universe, it is difficult to raise seed capital for early stage investing. Samir Kumar, a venture capitalist at iD SoftCapital, a global investment management and business consultant company, addressed the Forum about this issue. Kumar suggested that the bullish stock market might be the reason for a shortage of seed capital.

“He noted that the Indian stock market increased 80 percent in 2005 and 50 percent in 2004,” says Halstedt, giving investors a quicker return on investment than the extended time frame typical with venture capital investments. “Seed capital is very difficult to come by given such liquid returns.”

Also, “Many Indian entrepreneurs do not understand venture capital ROI (return on investment) needs and must be educated.” Still, “in 2005, 147 companies raised $2.3 billion in private equity in India. Most were buyouts. Only 41 were venture capital deals and 27 ($365 million) were in Bangalore,” says Halstedt, explaining: “Buyouts are private purchases of large existing companies. Venture investments are typically in startup or expansion of young technology oriented companies. Together they are referred to as private equity.”

On the basis of 2005 numbers, “Bangalore accounts for more than two-thirds of all venture capital investments in the country – a veritable Silicon Valley of India.” This may sound good, but “India represents a small fraction of what is invested each year in the US,” says Halstedt.

Remedies are under way. “TiE plans to set up an angel fund for seed capital. Kumar and two Indian venture capitalists based in Silicon Valley are raising a $150 million venture fund to invest two-thirds in US technology companies connected to India and one-third in Indian IT companies.”
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“The government provides attractive tax incentives for venture capital investments and provides grants to companies to help develop technology,” says Halstedt. “The trend is toward liberalization but Kumar expressed concern about government policies. However, while these policies are restrictive in some industries, they are not restrictive in the IT sector.”

Corruption in government at heart of infrastructure problems

Following the TiE presentation, Forum member Earl L. Wright had a conversation with Jeevan Adya, an investment banker with Pioneer Investcorp Ltd., who is starting up the company’s Bangalore office. Adya offered another perspective on Indian affairs.

Says Wright: “I asked Jeevan when he thought India would have a national expressway around the country. His comment was “Never,” in effect saying it was unlikely to happen within the next decade.

“The reason? Jeevan pointed out that when it comes to infrastructure projects the government is the big problem. They are corrupt and there are not enough payouts or people to get the projects done.

“Jeevan relayed a story about a wealthy man in India who is trying to start a new political party. The man asked wealthy families to contribute money – up to $2 billion – to get the party started. They all turned him down because they feared retribution by the current political office holders if they were to do anything to help another political party get started.

“At risk were government contracts and the well-being of their own companies. “Javeen wasn’t impressed with the quality of engineers entering the job market. Of the 350,000 engineers graduating per year from various India institutes, he feels only 5 percent are from the top schools and of the high quality that India needs for its future. The balance is graduates of certificate granting institutions. Seed capital hard to come by for new ventures TiE fanning the flames of entrepreneurship