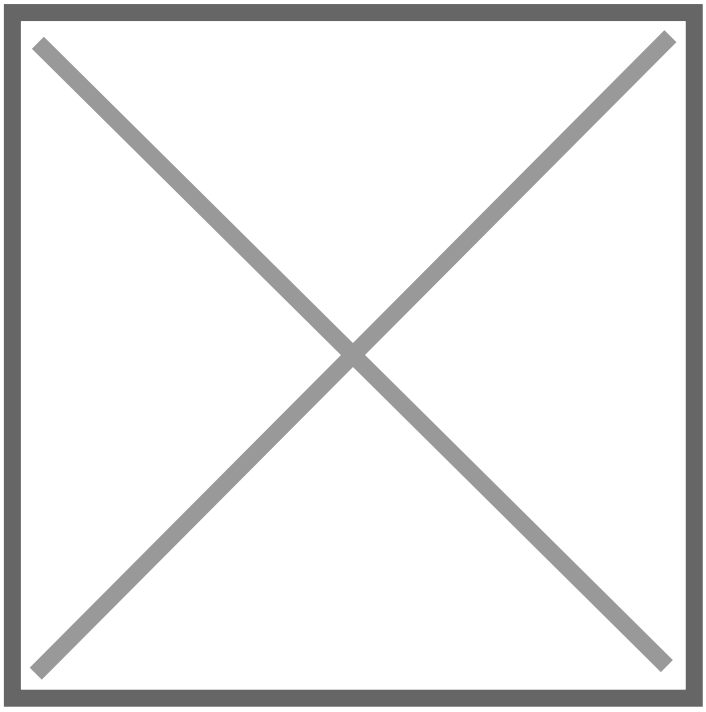
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Biofunds, Still Elusive

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Biofunds, Still Elusive

Though the biotech and life sciences industry in India is on a maturing trail, the funding still remains elusive. The government and venture capitalists are looking at building this sector. With an understanding of the positions of all the players involved, the sector can attract more investments.



In May 2003, just two months after BioSpectrum was launched, we carried a report on the biotech financing scenario in India. The need of the hour then was Rs 200 crore to help the industry blossom. But the concern was where would the funds come from-through the government or the venture capital funds or the private equity? Each of the players involved-the government, the financiers, and the entrepreneurs-had their own view points. There is no doubt that a great deal of progress has been made on this front, though the scenario has not changed drastically.

For a biotech start-up, the only sources of funds then were the Technology Development Board (TDB) in the Department of Science & Technology (DST), the New Millennium Indian Technology Leadership Initiative (NMITLI) of CSIR, and the SPREAD program of the ICICI Bank. However, the pool from where biotechs can source funds has grown. Today, biotechs can go to SIDBI, APIDC-VCL, GVFL, Pharmaceutical Research and Development Support Fund (PRDSF), The Small Business Innovation Research Initiative (SBIRI), and a host of VC and private equity funds. However, this does not indicate that a lot has changed in terms of investments into biotechs.

"Money is not an issue provided the projects are good. It can be mobilized. There are many investors who are eager to invest in the biotechnology industry. The government has been doing a lot. It has taken up the issue. There are many funding initiatives such as the TDB, NIMITLI PRDSF, and SBIR. These schemes would try to bridge the gap of supply and demand of funds needed for research activities," reiterated Alok Gupta, country head, life sciences & biotechnology, Yes Bank Ltd.

However, the understanding about the investment opportunities is yet to spread. "There is a growing awareness of the investment opportunities in the Indian biotech sector. But what is needed now is to create a deeper understanding of what these opportunities are," said Dr Kiran Mazumdar-Shaw, founder president of ABLE, and CMD Biocon.

In addition to the government, the private sector VC funding too has been growing. "The life sciences industry is currently generating enormous interest among Private Equity (PE) firms with many leading investors making significant investment bets on companies in this sector," said Arun Natarajan, founder and CEO of Venture Intelligence, a leading provider of research

and networking services to the Private Equity and Venture Capital ecosystem in India.

According to a study by Venture Intelligence, private equity firms invested about $109 million across 10 firms during the six months ended June 2006. This compares to $179 million across 12 companies in 2005.



Newer funding models are emerging too. Established pharma and biotech companies and diversified business houses are experimenting to expand their technology basket following the footsteps of their more mature peers in the developed economics. For example, the Tata Group has invested in a start-up drug discovery company, Advinus Therapeutics. Biocon acquired stakes in two US-based research companies-Nobex and Vaccinex. Zydus Cadila has entered onto a joint venture with the US-based Onconova Therapeutics, a biopharmaceutical company specializing in the field of oncology. Dr Reddy's Laboratories entered into an innovative financing structure for its drug pipeline by forming an integrated drug development company called Perlecan Pharma with equity commitments of $52.5 million from Citigroup Venture Capital and ICICI Venture Funds. "These are all very interesting models and this would encourage the private equity support to the biotech," pointed out Dr Kiran Mazumdar-Shaw.

There is venture and corporate funding support to young biotech companies cutting across the various segments of biotechnology like bioinformatics (Ocimum Biosolutions and Molecular Connections), vaccines (Bharat Biotech), drug discovery (VLife Sciences Technologies, Advinus Therapeutics, and Perlecan Pharma), clinical research (Manipal AcuNova, Metropolis, and SIRO), biopharmaceuticals (Zenotech), bioagri (Metahelix), preventive healthcare (Avesthagen) and diagnostics (ReaMetrix) .

"On the whole, the sector attracted over $125 million funding, a 150 percent growth over the previous year. On the business model front, inorganic international growth seems to be the new trend and Indian biotech sector is pro-actively repackaging itself from low-end research and manufacturing base to a value-added partner in the global marketplace. Biotech companies in India are seen to be increasingly focusing on high-end technologies, drug discovery and scalable products," pointed out Nitin Deshmukh, honorary director, ABLE and head-private equity, Kotak Mahindra Bank.

He added, "Smaller biopharmaceutical companies which initially emulated the services model, are moving towards innovative research and drug discovery realizing that it is imperative to move towards a product driven model to attract VC funding and scale up growth. A similar transformation is happening with India's champion bioinformatics companies who are fast incorporating wet labs for a sustainable growth."

Clinical research companies were the new entrants on the biotech landscape in 2005 and were seen to be mushrooming across the country. The business models of many of these companies were far from market realism though and needed strong support of business acumen and knowledgeable partnerships.

The movement for creating the platform for deeper understanding of the opportunities in the area has begun. Events are being organized to facilitate this dialog between the investing community and the biotechs. While ABLE is organizing BioInvest 2006 in Mumbai on November 17-18, IVCJ held a conference on Private Equity and Life sciences with Focus on Biotechnology, Pharmaceuticals and Healthcare in August. "These conferences will help the VC community to understand the biotechnology sector better and will also increase the probability of more investments in biotechnology in the near future," noted Alok Gupta.

The Indian biotech industry posted a very strong overall growth in 2005-06. The topline grew by 37.42 percent to record $1.45 billion (Rs 6,521 crore) in revenues. BioPharma and BioAgri continued to be the critical drivers contributing to this growth rate. Importantly, it is not just the growth in revenues but also the growth in terms of number of companies, alliances, product launches and stronger product pipelines that give the preview of things to come.

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VC and Private Equity Investments

The Indian biotech sector is moving ahead on its evolutionary path and entering the preliminary stages of a long-term growth cycle. As the generics market gets more competitive, more players are in pursuit of biotech opportunities, which have now become an integral part of the pharma scene in India.



This sector is receiving strong government support and is being nurtured by ambitious entrepreneurs and technocrats. But there were only two VC and PE deals in 2005 in biotechnology which is not sufficient to give the required boost to the biotechnology industry in the country, risk funding being pivotal to the growth of this industry. As risk associated with investments in this industry is high, private equity and venture capital, as a class of funding, is crucial to escalate the development of the Indian biotech sector in the same vein as it served as a catalyst for the biotech industries in Europe and the US. Equally, existing and aspiring entrepreneurs and technocrats need to seriously consider the risk capital route and bring forward well thought-out business strategies to the table of private equity and venture capital players for consideration. With timely indications of more enthusiasm from Venture Capitalists and Private Equity players, the Indian biotech industry has the potential to scale into a force to reckon with over the medium to long term.

The paucity of VC and PE deals taking shape for biotech projects signifies a structural flaw in the flow of this type of capital towards the biotech industry in India. Some factors plaguing this sector are: lack of qualified employees, lack of understanding of this sector in support industries like IT and banking, weak IP laws and lack of world-class infrastructure. VCs are still cautious in committing resources for the biotech sector and mostly skewed towards late stage private equity deals. With investments in start-ups being few and meager and hardly any benchmark deals to aspire towards, young Indian companies are exploring alternative forms of alliances to enlarge their growth potential.



There is a new interest from international quarters to fill the major vacuum in the biotech space. HBM partners, one of the world's largest biotech VC has allocated $20 million for India. International financial organizations, especially those under the umbrella of the IMF or World Bank, are inclining towards a new trend to encourage start-ups and early stage ventures in India, in varied fields of biotech, software and other high tech areas. The International Finance Corporation (IFC), a private sector arm of the World Bank Group, committed $4 million in equity to APIDC Biotechnology Fund, targeting early stage companies in life sciences. The IFC has committed to the APIDC Biology Fund, which in turn will make equity and equity-related investments in early-stage life-science businesses. The APIDC Biotechnology Fund is the first fund in the country to focus exclusively on the life sciences sector.

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Technology Development Board

Technology Development Board

The Technology Development Board is the first organization of its kind within the government framework with the sole objective of translating the fruits of indigenous research into commercial products and services. The Board plays a proactive role by encouraging commercial enterprises to take up technology-driven projects.
It offers soft loans to the enterprises, for commercializing innovative indigenous technologies and/or adapting imported technologies to Indian conditions.

Dr H Purushotham, Advisor, TDB, shares a few details.

What are the new life sciences projects that have been financed during this year?

About 7-8 life sciences projects have been financed during the year. The projects financed include Trichoderma and Rhizobium fermentation-Haryana Biotech; Purified antigen vaccine for FMD in animals-Bangalore-based BioVet; Production of recombinant Hepatitis C viral antigens-Hyderabad-based Sudarshan Biotech; Pentavalent Vaccine (DTP+Hib+HepB)-Hyderabad-based Shantha Biotech; Biotech based oncology and endocrinology drug-Hyderabad-based Genotech Laboratories; Commercialization of enzymes-Hyderabad-based Celestial Labs; and Trace analysis laboratories in genome valley for contract research-Vimta Labs.

Till date, how many life sciences projects have been successfully completed?

Since the establishment of the TDB in 1997, about 17-18 projects have been completed.

What is the limit of funding to these projects?

The Board finances 50 percent of the project cost. Till date, the minimum funding towards any project has been Rs 40 lakh, while the maximum funding has been to the tune of Rs 10-12 crore.

How many proposals does the TDB receive from life sciences/biotech companies in a year?

The TDB receives about 14-15 projects in a year out of which five to six projects may be finally considered for funding.

GVFL announces first investment from GBVF

GVFL Ltd has announced its first investment under its biotech fund. It is providing an early stage funding of Rs 2 crore to Ahmedabad-based Celestial Biologicals Ltd, which is promoted by the Intas Group. It is understood to be the first Indian company to source local (Indian) plasma, get it fractionated and market the derived products Albumin (brand name: ALBUCEL) and Immunoglobulins (brand name: GLOBUCEL) in India.

With these funds, Celestial Biologicals plans to set up a state-of-the-art fractionation facility at Ahmedabad, to ensure self reliance of plasma proteins for the Indian market. "It will not only bring down the cost of plasma protein but also ensure safety and quality of these products. Worldwide, one million lives are saved through plasma therapeutics-Albumin, Immunoglobulins, Factor VIII, and Factor IX. These are all invaluable in the treatment of circulatory ailments, clotting deficiencies, and immunodeficiency. But thousands of Indians lose out, as our people are dependent on imports that are expensive and not readily available. Celestial Biologicals Ltd seeks to alleviate this situation and we see immense potential in this industry and the company," said Vishnu Varshney, CEO, GVFL Ltd.

The Gujarat Biotech Venture Fund (GBVF) is a 12-year close-end fund with a target corpus of Rs 50 crore. With fund commitments from the government of Gujarat and Zydus Cadila and eminent industry experts like Dr KK Tripathy (Advisor, DBT) and Dr Harish Padh (Director, Pharmaceutical Education and Research Development) on the investment board, GBVF would identify and invest in start-ups, early stage and existing companies in the areas of biotechnology having the potential to become leading players in India.

GVFL Ltd, formerly known as Gujarat Venture Finance Ltd, is widely regarded as the pioneer of venture capital in India. Started by the Gujarat Industrial and Investment Corporation (GIIC) at the initiative of the World Bank in July 1990, GVFL Ltd has raised five venture capital funds with a combined corpus of Rs 175.6 crore.

SBIRI

The Small Business Innovation Research Initiative (SBIRI) is the new scheme launched by the Department of Biotechnology (DBT) to boost public-private-partnership effort in the country in 2005. The distinctive feature of SBIRI is that it supports the high-risk pre-proof-of-concept research and late stage development in small and medium companies led by innovators with science backgrounds.

Area coverage: The scheme covers all areas in biotechnology related to healthcare, agriculture, industrial processes and environmental biotechnology, and biomedical devices and instruments.

Eligibility: The proposals can be made solely by in-house R&D unit(s) of industrial firms; or jointly by industry and national R&D institutions; or collaborative projects of common interest to the concerned sector/area proposed by a group of industries/users and national research organizations.

Funding structure: The SBIRI scheme will operate in two phases, i.e., for establishment of pre-proof of concepts of innovations and for product and process development. In both the phases, the projects will be implemented at the industry site.

Current status: The first set of companies being funded under the SIBRI scheme have been shortlisted and the final agreements are being worked upon between the stakeholders, while the proposals for the second round of funding have been received and are currently under evaluation.

PRDSF

During January 2004, the Indian government established the Pharmaceutical Research and Development Support Fund (PRDSF) and Drug Development Promotion Board (DDPB) under the Department of Science and Technology with an initial corpus of Rs 150 crore. Interest accrued on corpus is also utilized for supporting R&D projects jointly proposed by industry and academic institutions/laboratories and extend soft loan for R&D.

For collaborative R&D projects, this fund supports research in all systems of medicines including setting up of facilities. It supports joint research projects of industry and institution. Normally a collaborative project entails 50:50 sharing of financial requirements between industry and institution. While the research undertaken by the industry is funded 100 percent by the industry, the institution share is supported jointly by the government and industry.

The fund also provides soft loan for pharma industrial R&D projects. The maximum loan amounts up to 70 percent of the project cost. The repayment of the loan is expected in 10 annual equal installments after the project period

Significant achievements: Some significant achievements under this scheme are that a peptide based anti-cancer drug for the treatment of colorectal cancer by Dabur Research Foundation is under Phase II of clinical trial. Six product patent applications based on three projects have been filed, while 12 process patent applications based on four projects have been filed.

NMITLI

The New Millennium Indian Technology Leadership Initiative (NMITLI) is the largest R&D program to proactively boost the Public-Private-Partnership (PPP) within the country.

NMITLI supports two categories of projects-Nationally Evolved Projects (NEP) and Industry Originated Projects (IOP).

Financial support: During the last few years, less than five percent of the projects got qualified for development under this scheme. The financial support to all the projects under NMITLI program is in the form of grant-in-aid to the institutional partners in public domain and as soft loan at three percent interest to the industrial partners.

The scheme was initiated in 2000 and during the past six years of its existence, the program has evolved 42 R&D projects covering diverse areas. These projects involve 287 partners (222 in the public sector and 65 in the private sector) with an estimated outlay of Rs 300 crore. The R&D areas covered are biotechnology, drugs and pharmaceuticals, chemicals, materials, information technology, bioinformatics, leather technology, energy, weather forecasting, etc. In the area of life sciences, at present there are 26 ongoing projects with a total budgetary outlay of Rs 150 crore.

Selection Process: The building up of NEPs begins with wide ranging consultation to elicit ideas. For IOPs, the process begins by soliciting proposals from Indian industry through press advertisements and personal letters from the DG, CSIR.

APIDC-VCL

A PIDC Venture Capital's "The Biotechnology Venture Fund" is India's only biotech focused venture fund. APIDC Venture Capital is one of a handful of fund managers that focus on early stage VC in India and has been working closely with research and technology institutions in India. APIDC-VC is looking to build global leaders from scratch, by backing both Indian and overseas entrepreneurs or companies with big ideas that leverage.

BioServe Biotechnologies and Silico Insights (now Nuvera Biosciences) are some of the companies where APIDC -VCL has invested $5,40,000 each. Both these companies are based in the US. A few months ago, it invested in Evolva Biotech SA (Allschwil, Switzerland). In connection to the financing, Evolva formed a subsidiary in Hyderabad, India and will be building a molecular biology research operation in India, to be based in Hyderabad or Goa.

Recently, International Finance Corporation, the private sector window of the World Bank, proposed to invest $500 million in India, a 25 percent rise from its exposure of $400 million last fiscal (July 2005 to June 2006). "The exposure of IFC in the South Asia last fiscal stood at $506 million, of which over $400 million was invested in India alone," said IFC South Asia Portfolio Manager Colin J Warren.

The key sectors which IFC is investing include pharmaceuticals, infrastructure, auto components, IT and biotechnology. IFC sees great potential for biotech and pharmaceutical sectors in India's economy.

IFC has invested in APIDC Biology Fund, which in turn will make equity and equity-related investments in emerging life science businesses. IFC has also invested in Bharat Biotec India Ltd.

Bioinvestor Meets

Over the past few months, focused investor meets are being organized to understand the opportunities and scope in funding. Burrill & Company organized "The India Life Science Partnering Meeting" in Chicago in April 2006. In addition to this, there are three more conferences, which are being organized to bring in the awareness about the biotech industry among the VC/PF community in India.

Life Sciences Connect: Venture Intelligence, the leading provider of research and networking services to the Private Equity and Venture Capital ecosystem in India organized "Life Sciences Connect", a conference on Private Equity investing in the Life Sciences sector. The event was held on August 29, 2006 at the ITC Hotel Kakatiya Sheraton & Towers, Hyderabad.

The key themes of discussion were Tapping PE to fund New Drug Development, Opportunities in the CRO Space, the Payoffs and Pitfalls of raising PE Financing and the Role of Mergers & Acquisitions in Life Sciences. The event was targeted at executives from the Private Equity industry looking for investment opportunities in the life sciences sector.

BioInvest 2006: ABLE, The Association of Biotechnology Led Enterprises, a national forum that represents the Indian biotechnology sector, is holding BioInvest 2006-an interactive conference for life sciences and investment firms in Mumbai on the November 17-18, 2006 at the Grand Hyatt.

The objective of the conference is to bring together on one platform life science companies, institutional investors and investment bankers to explore opportunities for investments and partnering.

IVCJ Conference on Private Equity & Lifesciences: Dickenson Intellinetics Pvt Ltd's Indian Venture Capital Journal (IVCJ) too is organizing a conference on life sciences and biotechnology and pharmaceuticals. IVCJ forum is a two-day conference that would be held on November 14-15, 2006 at ITC Grand Maratha Sheraton, Mumbai, and is aimed to serve as a platform for investors and industry players alike to discuss and plan their strategies around a totally new risk and returns milieu. IVCJ aims to bring out an absolute picture of the VC&PE activity taking place in all the three sections of lifesciences, namely pharmaceuticals, biotechnology and healthcare. It also aims to bring key decision makers from the of VC&PE and lifesciences industries to facilitate discussion on key issues and create a conducive networking environment.

Ch.Srinivas Rao, Rolly Dureha
and Narayan Kulkarni