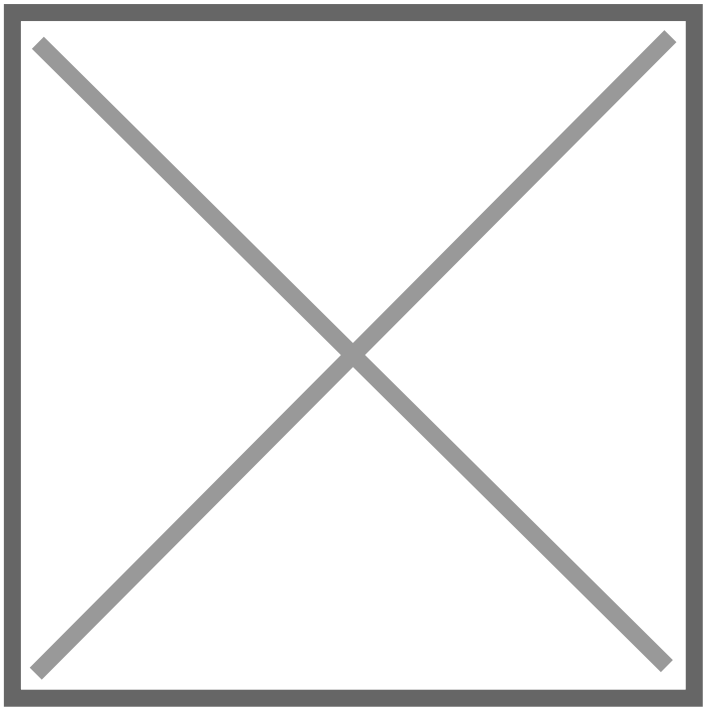
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VCs still shying away from early stage funding

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The biotechnology industry has been garnering attention from one quarter or the other in the last couple of years. It received the much-needed support from venture capitalists/private equity players in 2005-06. This year, the finance minister, P Chidambaram has batted in its favor, but the industry failed to retain the level of interest among the VCs in 2006-07.

Data from the US-IVCA/Venture Intelligence study reveals that venture capitalists (VCs) have made four investments worth $16 million in the healthcare and life sciences industry during 2006. Of these, three investments were in the CRO space in companies like Ocimum Bio ($5 million from IFC), Accutest Research ($4 million from Aureos India) and Siro Clinpharm (undisclosed amount from Baring PE). The other investment was in the pharma space, according to Arun Natarajan, founder and CEO, Venture Intelligence.

If one looks back at the previous year, there was a lot of enthusiasm among the VCs with regards to the biotechnology sector. On the VC front, the funding activity showed significant momentum during the year with the VCs getting more excited with the changed but more sustainable business models. Venture and corporate funding support to young biotech companies increased across various segments of biotechnology like bioinformatics (Ocimum and Molecular Connections), vaccines (Bharat Biotech), drug discovery (VLife Science Technologies, Advinus and Perlecan Pharma), clinical research (Manipal Acunova, SIRO, Metropolis), biopharmaceuticals (Zenotech), agbio (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.

Observing this trend last year, Nitin Deshmukh, head, private equity, Kotak Mahindra Bank, noted that overall, India's biotech engine was revving louder, fuelled by increased venture capital funding and government support for sustainable business models and successful commercialization of biotech products.

However, the same positive trend was not there in the second half of last year. Concerted efforts made by associations and organizations like ABLE to provide a platform for the VCs and the biotechnology companies to interact and meet each other's requirements, did not yield results in immediate terms.

"There are assurances and promises. And it is surprising to note that not much has happened in biotechnology from venture capitalists/private equity players after a very good year in 2005-06," noted Nitin Deshmukh, who is also the honorary director of ABLE, the biotech industry association.

He added, "VCs and PEs are quite happy in investing in mid-sized companies that are doing pretty well. They are still reluctant to take the initial risk by investing in early stage funding in biotech companies. However, we at Kotak are proactively

keen on making investments in early stage biotechnology companies. By March 2008, there will be good number of investments from Kotak in early stage funding for the biotech companies."

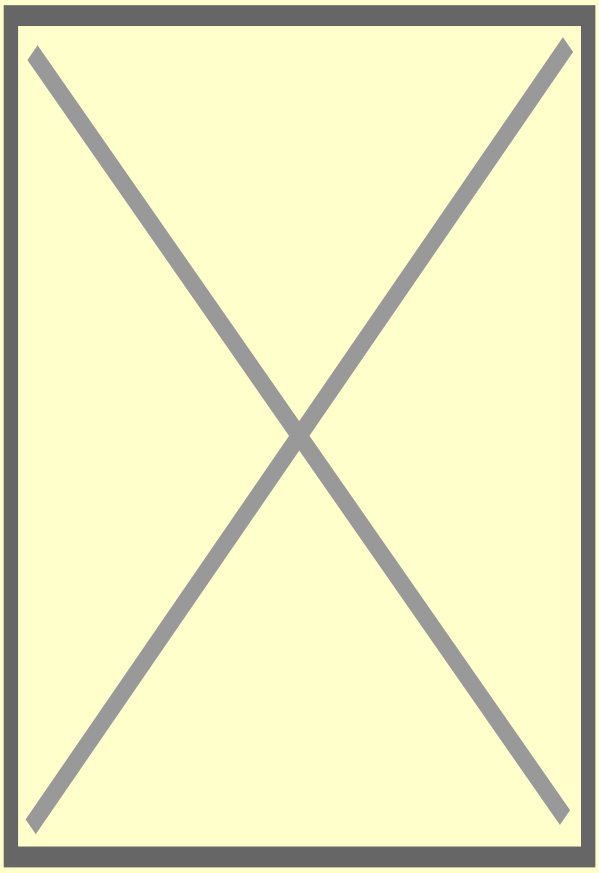
Contrary to the fact, GVFL Ltd has announced its first investment from the Biotech Fund in Ahmedabad-based Celestial Biologicals Ltd, an Intas Group company venturing into plasma fractionation and marketing of plasma derived proteins. "GVFL is providing early stage funding of Rs 2 crore to aid Celestial's expansion. We see immense potential and continuous growth for this innovative venture in the fast growing Indian plasma therapeutics market," said Vishnu Varshney, CEO of GVFL Ltd, while announcing the investments.

Government look-out

As usual the Central government has been making continuous efforts to support the niche biotechnology industry in all respects. "The department of biotechnology (DBT) has launched the Small Business Innovative Research Initiative (SBIRI) aiming at public-private partnership and forging effective links between academia and industry in upscaling and validation of laboratory research to commercialization. The overwhelming response from small and medium industries resulted in 200 applications and 34 proposals have been supported in areas of product development in agriculture, healthcare, aquaculture and animal sconces," said Dr MK Bhan, secretary, DBT, at the 21st biotech foundation day on February 26, 2007.

Even the Maharastra government is proactive in providing timely and adequate credits and other financial needs to entrepreneurs for setting up biotech projects in the state. The state government has signed three MoUs on March 23, 2007 with three leading banks- State Bank of India (SBI), Punjab National Bank (PNB) and Yes Bank. Ashok Chavan, minister of industries, Maharastra government, said, "These MoUs are expected to ease out the key concern of getting adequate and timely credit to biotechnology entrepreneurs in the state, especially to the small entrepreneurs for biotechnology projects."

"Investments in life sciences doubled last year with more deals in late stage"



-Sarath Naru, managing director, APIDC Venture Capital Ltd

What have been the investments of the APIDC Venture Capital Ltd's Biotechnology Venture Fund in the life sciences sector during the last year?

Ventureast, the only early stage VC has invested $16.9 million into 12 life sciences companies with a median deal size of $1.41 million Vs the industry average of $16-17 million per deal. The figure indicates our early stage focus in the life sciences space. The deals comprise both cross border and India opportunities in drug discovery, diagnostics, medical devices, research services and alternative energy.

Early stage drug discovery ($5.47 million): We have invested in 3 companies: Evolva, Marillion and Melior. The first is a Swiss company with operations in India that has a proprietary genetic chemistry platform using natural chemistry to make safer drugs. Marillion and Melior are US-based companies collaborating with Indian companies to discover new drugs for cancer and diabetes.

Diagnostics ($2.27 million): Elbit is India's pioneering medical diagnostics chain with outlets in Hyderabad, Chennai and Bangalore. The company is foraying into tier-two towns to provide high-end diagnostic services in collaboration with local hospitals. Over the next three years, the services will be extended to semi-rural areas as well. Elbit is enhancing diagnostic services in these areas by joining forces with existing hospital networks

Medical devices ($1.24 million): We have invested in two medical device companies. The first one, Neurosynaptics, a Bangalore-based company, is enhancing primary healthcare delivery in rural settings. The company has developed a proprietary gadget that monitors cardiac performance in line with global standards but at a fraction of the cost of MNC equipment such as ECG machines. The second, Mardil (US-based) is developing the first cardiac device that addresses mitral valve problems with a minimally invasive surgical technique.

Research services ($4.4 million): With three investments, Ventureast is leveraging the cost arbitrage Indian operations provide to service growing needs of the healthcare industry globally. Bioserve is a US-India cross-border company that provides pharmacogenomics services to make drug discovery

Meanwhile, there are a few issues that might push back the flow of funds to the biotechnology industry. The Budget proposal to tax the venture capital funds by taking away the pass-through benefit in respect of non-specified areas is one such issue. Reacting to this, Nitin Deshmukh said, "Clearly, this is a severe restriction on the growth of VC/PE industry in India that is just about taking prominence on the back of a robust economy. The size of our VC/PE industry is minuscule by global standards and this unfair taxation and differentiation between sectors will hamper the growth of this industry. This would also adversely impact the availability of venture capital for companies seeking start-up or early stage capital in sectors outside those specified in this list. For example, any investment in other emerging sectors such as medical devices, diagnostic services, hospitals, tourism, food businesses, education and training, new financial services, specialty chemicals and consumables will not qualify for tax benefits under this notification and one wonders what is being achieved by having such a restrictive and limited list of 'Knowledge intensive sectors'. It would have been prudent for someone to analyze the size of these sectors vis-Ã?Â -vis other developed countries before coming to any such conclusions on 'knowledge intensive sectors'.

He added, "There will be absolutely no level playing field for Indian funds raising money from Indian investors as this gives a very unfair advantage to global funds which have the flexibility to route their investors money through tax-friendly countries which provide tax efficient structures. How can we encourage Indian investors such as banks, life insurance companies, pension funds, corporates and High Net Worth Individuals (HNWIs) participating in Indian VC/ PE Funds with such unfair restrictions vis-Ã?Â -vis their counterparts in other regions of the globe?"

On the other hand, the proposed service tax exemption to technology business incubators (life sciences and IT) and incubatees whose turnover is less than Rs 50 lakh would set to promote funding in initial stages to address the seed capital paucity, says Utkarsh Palnitkar, leader, business advisory services, Ernst &Young Pvt. Ltd. He noted that promoting entrepreneurship is the key rationale behind this initiative. In India, private equity or developmental capital is available in plenty.

Besides benefiting from the government initiatives, it is now time for the big Indian biotechnology/pharmaceutical companies to support the small and upcoming biotechnology companies by taking stake and making strategic investments in the companies. In addition to working with MNCs, getting research contracts from MNCs, Indian players should look at smaller ones to growth mutually. It is time for the leading players to act like big brothers for upcoming small and medium sized biotech companies. This move will boost the growth of the SME sector and help in cluster development in India resulting in economic growth of the country.

Narayan Kulkarni