

What investors look for when buying into a startup

Early-stage investors poured around \$4 billion into startups in India in 2014, nearly three times the previous year, according to PrivCo, a provider of financial data. While dominant investors such as Sequoia Capital and Accel deepened their commitment to Indian startups, behemoths such as Japan's SoftBank — with over \$800 million invested in Indian enterprises — made their presence felt too. Venture capital companies (VCs) chased the big bets frantically — Flipkart's valuation rose from \$1.6 billion to \$5 billion to \$10 billion in little over a year. The e-retailer today has 50 investors. VCs raced to close the best deals in the market, but ditched the traditional rules of the market. Marquee names such as Sequoia, Mayfield, Matrix and Bessemer have all invested in ventures in their infancy — called pre-revenue startups — betting on little more than a bright idea.

The angel investor community was a beehive of activity — popular forums such as Indian Angel Network and Mumbai Angels face a problem of plenty, with membership swelling and eager entrepreneurs flocking their events to attract potential backers. Venture capital favourites such as Sachin Bansal of Flipkart, Naveen Tiwari of Inmobi and Kunal Bahl of Snapdeal all turned investors themselves to cash in on the startup boom.

So what's the kind of funding your startup needs; is this the right time to venture for capital; do you have the right business model; the right people? Read on to find out what investors look for when buying into a startup:

'Have you Realised the Full Potential of Your Business?'

Renuka Ramnath,

53 Founder, Multiples Alternate Asset Management

CLAIM TO FAME

Founder of ICICI Venture and one of the early private equity investors in India. Founded her own investment firm Multiples Alternate Asset Management

STARTUP MANTRA

As an entrepreneur, the question you should ask yourself is — have you realised the full potential of the business you have created and do you have the right team which can deliver this dream?

'Build a Great Founding Team'

KP Balaraj,

43 Co-Founder, Westbridge Capital

CLAIM TO FAME

Co-founder of WestBridge Capital and Sequoia Capital India, two venture capital companies

STARTUP MANTRA

Build a great founding team — where founders support each other across market cycles, are all equally driven to win, have complementary skillsets, very high integrity and strong work ethics. It is for a good reason that most of the poster companies in India and globally have multiple co-founders.

'Stick to Strategy Even in Bad Times'

Vishakha Mulye,

43 CEO, ICICI Venture

CLAIM TO FAME

Former finance chief of ICICI Bank, she headed the team that oversaw the merger of ICICI and ICICI Bank

STARTUP MANTRA

My consistent message for our entrepreneur partners is to have a clear business strategy, finetune it for the times but follow it diligently irrespective of whether the times are good or bad. Markets will continue to remain volatile. That is the new world order.

'Doing What you Love is the Strongest Foundation'

Sanjay Nayar,
54 CEO, KKR India

CLAIM TO FAME

Former head of Citibank in India, who now helms the India operations of Kolberg Kravis and Roberts, a diversified investment firm with over \$96 billion in assets under management

STARTUP MANTRA

Follow your passion to create your own future — doing what you love is the strongest foundation of a good business. The best entrepreneurs have a knack for thinking big, acting big and asking the hard questions. Achieving success takes risk, perseverance and dexterity. Cultivate these and you have a solid foundation as an entrepreneur.

'Pick With an Eye on Forever'

Naval Ravikant,
40 Co-Founder, Angellist

CLAIM TO FAME

Rated among the top angel investors in the world, he is co-founder of AngelList and has invested in dozens of companies such as Twitter, Uber, Yammer, Stack Overflow

STARTUP MANTRA

It always takes longer and is harder than you think — so pick people you want to work with forever and a business that you'd be happy to run forever, through thick or thin. Then, you'll make it.

'People, People, People'

Luis Miranda,
52 Founder, IDFC PE

CLAIM TO FAME

Was part of the startup team at HDFC Bank, partner at Chryscapital and founder of IDFC Private Equity. Now chairs the Centre for Civil Society

STARTUP MANTRA

People, People, People. Surround yourself with people who are good. Don't take yes-men; they are dangerous. Don't take friends just because they are fun to hang around with; you can party with them outside work. Get people who are better than you and empower them. Communicate openly and frequently.

'Solve a Big Problem, then Start a Company'

Anupam Mittal,
45 Founder, People Group

CLAIM TO FAME

Founder of People Group, an internet business venture that is behind portals such as Shaadi.com and Makaan.com. Recently turned an avid angel investor, backing 40 startups to date

<http://economictimes.indiatimes.com/news/emerging-businesses/startups/what-investors-look-for-when-buying-into-a-startup/articleshow/45661616.cms>

STARTUP MANTRA

Unless you are passionate about an idea or bring a large enough problem to solve, don't start a company. Many people say they want to be an entrepreneur, but they don't know what to do. Start a company when you feel you can solve a problem better than anyone else. Wannabe entrepreneurs must remember that it is not necessarily the smartest or most intelligent person who wins, but the guy who shows the most tenacity, perseverance and adaptability.

Rajan Anandan,

45 Co-Founder, Blue Ocean Ventures

CLAIM TO FAME

The Sri Lankan is head of Google India and co-founder of Blue Ocean Ventures that has invested in many technology startups like StepOut, Sapience, CultureAlley

STARTUP MANTRA

'Endurance: 18 hours a day. 7 days a week. 10 to 15 years'

'Sail into Uncharted Territory'

Ashish Dhawan,

45 Co-Founder, ChrysCapital

CLAIM TO FAME

The pioneer of private equity in India, he co-founded ChrysCapital in 1999. He is also a co-founder of not-for-profit Central Square Foundation and Ashoka University

STARTUP MANTRA

Be a contrarian. Don't look for validation from others. For instance, this may not be the best time to start yet another e-commerce company. Think hard before you choose the space that you want to play in before you jump headlong. The highest rewards come from the adventure of setting sail into uncharted territory.

'Key is When and Where to Pivot'

Vinod Dham,

64 Co-Founder, Indous Venture Partners

CLAIM TO FAME

Known as the Father of the Pentium chip, he is an inventor, entrepreneur, venture capitalist and co-founded incubator NewPath Ventures

STARTUP MANTRA

Your initial idea is likely to go through iterations. The key is when and where to pivot to, especially since cash — the lifeline for any entrepreneur — is always in short supply.

'Listen to Customers'

Rahul Bhasin,

49 Co-Founder, Baring Private Equity Partners India

CLAIM TO FAME

He is the founder and managing partner of Baring India. Private equity veteran who has seen the ups and downs since 1998

STARTUP MANTRA

Pay the closest attention to your customers — what they are saying, thinking, feeling and aspiring for in their lives. Do not ever turn your back on the customers — face them. Understand what they need, want and how you can best cater to them.

'Time to be Fearless'

Avnish Bajaj,

43 Co-Founder, Matrix Partners

CLAIM TO FAME

He also co-founded Baazee.com (acquired by eBay). Had stints with Apple, McKinsey and Goldman Sachs

STARTUP MANTRA

This is the time to be fearless. The opportunity to create large companies both within and from India has arrived. They say luck favours the brave — but actually the brave take more chances and hence get lucky. So, go out there and create your own luck.

'Build a Sustainable Business'

Raj Dugar,

44 Senior MD, Fidelity Growth Partners India

CLAIM TO FAME

Co-founder of Sequoia Capital India, former investment banker with the High Technology Group at Goldman Sachs

STARTUP MANTRA

Focus on building a differentiated and sustainable business in a capital-efficient manner rather than spending vast energies on chasing metrics that only drive notional valuations.

'Understand Who Your Customers Are'

Subrata Mitra,

49 Partner, Accel Partners

CLAIM TO FAME

IT executive-turned-entrepreneur and now venture capitalist with Accel Partners; early investor in Flipkart and Myntra

STARTUP MANTRA

Given that I tend to work with mostly early-stage companies, my one piece of advice is to understand who your customers are; why are they interested in your product/service (as opposed to competition/alternatives) and then try and extend this unique value proposition to as wide a set as possible. Once a company has established this, it then depends on making the unit economics work.

'Go Where the Love Is'

Venky Harinarayan,

47 Co-Founder, Cambrian Ventures

CLAIM TO FAME

Played a key role at Amazon.com in the late 1990s. Co-founder of Cambrian Ventures, a venture fund; he is also the co-founder of Jungle Corp

STARTUP MANTRA

In the early days of a startup, you are busy building a product you think the world needs. And then comes the time to test the market. Rarely does the market react the way you had planned. As Mike Tyson, the boxer, put it: "Everyone has a plan till they get punched." That's how you feel. Now you are

scrambling to figure out things — you question everything: technology, product, and customer. In one such quandary, I approached a friend, and he said to me words I now repeat: "Go where the love is."

If you have a certain customer segment that loves your product, that's the one you focus on. If there is a certain aspect of your technology and product that customers love, that's what you build. These are easier said than done. An entrepreneur has invested so much emotionally, that it is hard to change the belief system in an instant. Yet that is what one must do: listen to what the market is saying, and go where the love is.

'Focus on Time and Energy'

Sameer Sain,

44 Managing Partner, Everstone Capital

CLAIM TO FAME

Former banker with Goldman Sachs and co-founder and managing partner of Everstone Capital

STARTUP MANTRA

Today, time and energy are the true constraints. I would urge entrepreneurs to be very focused and clear about where they will expend their own time and energy and where they will harness the time and energy of others.

'Ask: Why Will I Succeed, Why Will I Win?'

Saurabh Srivastava,

68 Co-Founder, India Venture Capital Association

CLAIM TO FAME

Co-founder and investor in at least 50 startups. Co-founder of IT industry lobby Nasscom

STARTUP MANTRA

One piece of advice I would give all entrepreneurs is that they must constantly ask themselves the question "why will I succeed, why will I win?" — before they start a venture and right through its various stages. It is a difficult question and very often we don't ask it of ourselves because the answer may be inconvenient. But if we don't ask the question, we will not focus on what we must do that is sufficiently differentiated or what we must do differently and how will we stay ahead of competition.

Sanjeev Aggarwal,

54 MD, Helion Ventures

CLAIM TO FAME

Used to be an entrepreneur (founded the BPO Daksh) before turning venture capitalist to co-found Helion Ventures

STARTUP MANTRA

'Maniacal focus on customer satisfaction — rest will follow'

'Follow the Vision, not the Money'

Sasha Mirchandani,

42 Founder, Kae Capital

CLAIM TO FAME

Founder of Kae Capital, an early seed stage fund, he is also the cofounder of Mumbai Angels, India's first Angel Investment group

STARTUP MANTRA

Make sure you have a great co-founder. Entrepreneurship is a lonely journey. Also make sure you follow the vision and not the money.

'Differentiate Your Idea'

Puneet Bhatia,
48 MD, TPG Capital

CLAIM TO FAME

Made smart private equity deals in firms like Shriram Transport and delivered good returns

STARTUP MANTRA

The recipe for success is generally one or two factors and make sure you have at least one of these. Better if you have both. One, your idea or your mouse trap has to be differentiated. Two, execution has to be par excellence.