

Venturing into Biotechnology

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India today is an established IT player globally. From mere body shopping, the industry has moved up the value chain to provide high-end services like consultancy. The markets are well defined and so are the regulatory policies. This has made the investors look for the next big thing.

And it is Biotechnology that is being looked upon by the experts that will take India to a next level.

The Indian biotech story began with Biocon way back in 1978 but has today grown to over 280 companies with six of them generating revenues of over Rs 100 crore. From its origins in fermentation and enzyme production, the \$1-billion plus Indian biotech industry consists of new drug discovery, bioinformatics, clinical research, and synthetic chemistry with approximately 230 drugs in the market spanning 13 therapeutic segments. With the new product patent regime in place and a national biotech policy set to be notified soon, the Indian biotech industry is targeting \$5 billion in revenues by 2010.

The boom is going to be led by new age entrepreneurs who believe in innovative technology and newer avenues. Biotech will

exceed the penetration of IT into everyday life in another ten years, but until then the growth of this sector will be less rapid than what was experienced by the IT sector in its peak.

The global industry raised \$21.1 billion in 2004, a 15 percent increase over resources raised in 2003. In comparison, Indian VCs are still cautious in committing resources for the biotech sector. Annual investment in 2004 is estimated at \$150 million, an increase of just 9 percent over \$137 million invested in 2003.

What is worth noting here is that investments coming in this sector from the VCs are skewed towards late stage private equity deals. The products, technology and markets are clearly identified. Only about 15 percent of funding for biotech is being invested in seed stage companies, which is the need of the hour. And to my understanding, VCs investing in such start-ups are few and sparse.

The potential of biotechnology as an emerging sector can only be fully realized if the venture capital funds come forward proactively. The main reason that most VCs are hesitant in investing funds at early stage to the biotechnology industry is mainly because of exit issues from a small size company, uncertain business models and financials and uncertain regulatory systems.

With the biotechnology segment gaining prominence and with its capability to act as a strong vehicle to transform the socio-economic deficiencies, the venture capital funds should develop a sense of confidence to invest more into the sector.

Biotech firms should more firmly establish themselves in factors relating to patents, management, innovative ideas, and commercial potential. Also Indian biotech firms need to improve the quality of research to orient the application of this technology towards industrial sector to increase the interests of the venture capital funds.

Ultimately there is a need to develop a special class of entrepreneurs to exploit the big potential of biotechnology applications in the industrial sector for its capability to become a cheaper technology for production of critical inputs for the economic development.

Venture capital has been a remarkable catalyst of entrepreneurial activity in many developed countries. VC-backed firms are major contributors to the growth of the economy. It has led to significant growth in industry and innovation. The prospects for the triumph of Indian VC industry in the biotech sector are no less than humongous. It is up to the VC community to evolve a strategy to seize the optimal opportunity that biotechnology offers today and be partners in success.