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Biotech: Opportunity beckons!

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A healthy venture capital industry is crucial for deep and sustainable growth of the biotech sector in India.

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The Indian biotechnology industry is at a nascent yet exciting stage of growth and today offers the prospect of becoming a key global outsourcing hub for the industry. However, a key stumbling block for growth of this knowledge intensive industry has been early stage risk capital. The sector has not been able to attract significant early stage investments due to a multitude of factors including risk perception, infrastructure, business models, human resources and sectoral understanding.

However, over the last few years, due to increased interest levels from government, industry and investors alike, there have been some interesting developments in the industry. Early stage financiers, M&A, corporate partnering, governmental support, debt funding are all being availed of as sources of financing for the industry.

Financing strategies differ from company to company based on their business models. For example, a large number of biotech companies in India are service providers and hence it is conceptually easier for them to raise financing as their revenue models are more predictable. For a classic biotech product company, there is a requirement for pre-seed and early stage finance during the "Funding Pit" life cycle phase. In India, this market is very limited in an organized form. While the government is attempting to provide systematic intervention through various innovative schemes such as SBIRI, NMITLI and agencies such as TDB, there remains a lot to be done from the private sector.

A pioneering initiative in this regard has been started by the Department of Biotechnology (DBT), which launched the "Small Business Innovation Research Initiative" (SBIRI) to promote growth of biotechnology industry in India through public-private-partnership mechanisms.

SBIRI targets supporting relatively high-risk proof-of-concept research and development in small and medium companies led by technocrats. The DBT has established a committee of scientists and industry personnel (including YES BANK) to evaluate projects for their technical / financial and management suitability. Models like SBIRI can help in creating an investment pipeline for later stage investors with relatively limited risk appetite.

A healthy venture capital industry is crucial for deep and sustainable growth of the biotech sector in India, as it provides the impetus to the entire financial chain and future capital sources such as follow on financings, bank lending and capital markets. Over the years, corporate venture capital has also been emerging as a funding alternative for early stage companies. Some of the private sector VC funding is emerging from established pharma / biotech companies and diversified business houses experimenting to expand their technology basket following the footsteps of their more mature peers in developed economies.

In order to attract investors and reach its full potential, there are certain key issues that need to be addressed including human resource development, instilling a patent culture, infrastructure development and financing models. The recent infrastructure developments in the form of biotech parks and incubators are very positive and should be progressed through public-private partnerships and government support as relevant. There is a need to develop innovative funding models such as PPP models between government and private sector and technology transfer cells at leading institutions. There also needs to be a focus on encouraging early stage investing in the sector through various fiscal incentives. Additionally, better regulatory support and deeper penetration of very innovative government schemes launched in recent past needs to be undertaken and implemented. With the right support and focus, the Indian biotech sector can emerge as a key outsourcing hub for the global life sciences and biotechnology industry.