

Biotech Funding: What next?

12 November 2014 | Features | By Rahul Koul Koul

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There has been a lot of momentum generated since the NDA government, under Prime Minister Narendra Modi, took charge. There are some positive vibes for the biotech industry. First major announcement came from the Union Finance Minister Mr Arun Jaitley in his Budget speech in July this year. He announced the setting up of a Rs 10,000 crore fund to support start-ups and Small and Medium Enterprises (SMEs). The fund is aimed to catalyze financing in the form of equity, quasi-equity and other forms of risk capital. This is to facilitate entrepreneurs to access more risk capital and equity-based fund flow. The government also announced another fund, the "Technology Development Fund" with a corpus of Rs 100 crore. The other big impetus came to the sector, when the Prime Minister launched the Make in India campaign. Biotech and lifesciences is one of the identified segments for growth and investment.

The question now is 'what next'? And how much will the biotech industry get from the Government from its proposed Rs 10,000 crore fund? Who should bid for the fund? This is one thought that has been raging the minds of investors, technologists and entrepreneurs. And there have been several on this topic at various forums like the third annual innovators meeting organized by the Biotechnology Industry Research Assistance Council (BIRAC) in New Delhi and at biotech investors meet held by ABLE in Bangalore.

Most of the biotech majors in the country are asking BIRAC to play a lead role in seeking capital for the biotech industry. Simply because BIRAC has been playing a critical role for development of the sector and it is best suited to cater to the needs of the industry. According to Prof. Ashok Jhunjhunwala, Department of Electrical Engineering, IIT Madras, the venture capital today is available in the Second stage, the Third stage, and the Bridge/Pre-public stage of the financing process. The support is needed for the Seed and Start-up stage. Since the government is looking for agencies in the Seed to Start-up stage, the industry wants BIRAC to submit a proposal. BIRAC during the last three years has supported nearly 90 scientists and entrepreneurs, 240 companies, 360 projects, and 100 incubatees. It has provided support of nearly \$225 million.

Enabler for innovation

The critical components in a research ecosystem are industry, start-ups, and academic research institutes. Dr Kiran

Mazumdar-Shaw, CMD, Biocon, cited, "It starts with the academic research institutes. It is all about the symbiotic relationship between the academia and industry. Each component rely on each other to keep building that ecosystem. Unfortunately, in India, this critical component doesn't exist. Hence most researches die away within the walls of the laboratories."

The lab-to-market journey is a virtuous cycle. "Academic research is about conceptualizing new ideas and discovering new ways of doing things. This academic research is supported by public funds. For academic research to be productive, we need to get people interested in it and take the ideas to proof-of-concept (PoC) stage. This is where young start-ups have an important role to play. So this is about creating accretive value to that concept. Funding for the proof-of-concept level has to come from various funding schemes offered by BIRAC and others. It is also important to find angel investors at this stage," she explained.

Post the PoC stage, the start-ups need to become a larger organization, and take it to the industry and this would need the support of venture capitalists and capital markets. "When you create this important ecosystem, then you will find industries looking out for start-ups who are creating research with interesting concepts, and thus start-ups will be able to license their IPs. Simultaneously, the academic research will start to strengthen and the whole patenting culture will kick-in and the ecosystem will become an effective ecosystem," Ms Shaw elucidated.

Ms Shaw believes that if we can create a good ecosystem and build a strong path from lab-to-market, it will pave way for an exciting ecosystem. "If we want to get the government's attention in policy making, ABLE needs to write a white paper on building the ecosystem, about funding from the government, research institutes and incubators. We have to change the concept of how we access capital markets. We need to create interest among companies to take the PoC to the market funded through capital markets," commented Ms Shaw.

She warned that investing in old, tried-and-tested archaic models is not going to pay any dividends. "It is going to take a long time before you see profits. If people can do it in e-tailing, why not in biotech? This is all about investment in transformational change and investment in the future. We need to inculcate this thought process among the government, investors and policy makers. Creating this ecosystem will create jobs through start-ups and take advanced scientific ideas to market. Our competitive edge is in taking advanced science at lower costs," held Ms Shaw.

She defined affordable innovation as high science at lower costs in a global landscape delivered in a competitive way. "That is what India's model is about. This is what Mangalyaan was all about. And we can do that in Biotechnology (BT)," she encouraged.

Funding sentiment

The economic parameters have improved. There are right messages with respect to retrospective taxes. There is VC money coming compared to growth capital. And they have been invested in technology and e-commerce space. Several schemes like those under BIRAC are assisting the early stage. But the announcement of Rs 10,000 crore is the real good news. According to MoneyTree report, Biotech investments have been soaring globally. But that has not transcended into India. It is only a matter of time before this trend trickles down to India assert investors. Mr Sujay Shetty, partner, Pharma Life Sciences Leader, PricewaterhouseCoopers, observed, "Though there is a lot of excitement, there is a lot of cautiousness too. But more success can come from companies in the biomedical and diagnostics space."

Though there are concerns related to IP and drug pricing, these are not impacting the investor confidence. This has been an issue at the big pharma level but not for the investors. Things like price control are broader issues and they impact every one. It needs to be addressed in an honest manner. The industry is stifled especially on the clinical trials front and transgenics. The business of the clinical services organization has been effected. The clinical trials organizations lost 20,000 trials and \$1 billion in trials. Only 15 valid trials were done in the last few months. But large clinical services companies mitigated the risk by opening offices globally. Contract manufacturing story is well set growing by 15 percent and the synthesis business is also growing.

Despite these, investors are investing in biotech. Exits are happening in two ways. Secondary exits and strategic interests. Though the quantum is low. Now the capital markets have opened up. Companies are now lining up to be listed. Mr Shetty added, "There is a lot happening on the biotech talent and mobile health side. Service-led business models have been able to attract capital though most companies attract mid capital money."

Should BIRAC focus on start-ups?

"This is a great opportunity to tap Rs 10,000 crore and every financial institution is lobbying. As for the biotech and the

lifesciences industry, there is hardly anyone who has approached the government," stated Mr Utkarsh Palnitkar, Partner & National Head - Advisory, National Head - Life Sciences practice, KPMG India.

"BIRAC has a good track record as an evaluating and disbursing agency and it needs to go to the government to seek support for innovation and entrepreneurship. There several of its companies that will develop next generation drugs and drug delivery or medical devices. It will have to support them. BIRAC should look for fund managers. Another challenge is to find mentors for entrepreneurs. There is a strong case for BIRAC to pitch for the share of the fund," said Mr Nitin Deshmukh, CEO, Kotak Private Equity Group.

Learning from IKP Knowledge Park's experience as an incubator and funder, one can be assured that incubation and science works. India will need 800-1,000 incubators in the next five years if Prime Minister's vision of Make in India and Entrepreneurship culture has to be realized. According Ms Deepanwita Chattopadhyay, MD & CEO, IKP Knowledge Park, any new incubator needs Rs 5 crore. There is room for 150-200 life science incubators. BIRAC alone has funded 14-15 incubators. "For 100 incubators we need about Rs 500 crore. We need another Rs 100 core for scaling up the incubators." That is the kind of funding that would be needed for the biotech sector.

Ms Shaw feels that incubators needed to be created at every research institutes. "Very few research institutes have incubators in our country. If incubators do not move research ideas from concepts to PoC stage, then the virtuous cycle won't get initiated. However, once you start the cycle, the venture capitalists come on the scene and take the concept to the market," she added.

The location of incubators is very crucial. Every technology institute in the country must have good incubators. Those incubators must be able to nurture start-ups and invite others as well. "It is important that we give preference to our own researchers. Many incubators in the US charge about \$30 fee and let them take advantage of every part of that incubator," she revealed.

Mr Shrikumar Suryanarayan, Chairman and Co-founder, Sea6 Energy, is clear that the industry is very attractive and he suggests that the industry needs to prepare a deck. "The deck should be why us? What we plan to do? What is the impact? Need to look at the mechanics of implementation. Talk about the impact of food, fuels and health needs of the world." This will give the right picture. Further, there can be investor confidence in BIRAC-certified enterprises.

According to Ms Shaw another important push that would be required is on how to increase investments in revenue-less companies or loss-making companies? Investors are betting on the promise of any biotech company. How do we correct that? The investor banking company is not putting risk and the government should fund investment bankers to support the industry.

What should be the way ahead?

Prof. Jhunjunwala points out that BIRAC should carefully examine the partnership with VCs. They do not have the mindset for start-ups. VCs are not interested as there are many sectors and markets that have given better returns. Lifesciences industry is long gestation period. There are over 40 investments in India which have attracted between Rs 100-200 crore investment in India. Some of the non-lifesciences sectors have been able to demonstrate success. Mr Deshmukh, added, "In 2010, BSE was the first to set up SME Exchange. Nearly 66 enterprises were listed and only three were relate to lifesciences. The problem is a sponsor is needed to underwrite the issue."

BIRAC has little equity experience. It will have to balance between mindshare and money. Private Equity (PE) companies invest in 8-10 companies and they give a lot of time and money one these companies. BIRAC needs resources and people to manage the funds. Mr Suryanarayan suggested, "Get mentors and incentivize the mentors. BIG has taken off and BIRAC has to create an extended enterprise."

There are not enough agencies to do BIG or SIBRI. BIRAC should look for what is new that can be done with a portion of the Rs 10,000 crore pie like scaling up incubators. BIRAC does not know how to connect with PE companies and it will have to address this issue. Dr Renu Swarup, MD, BIRAC and Adviser, DBT is clear that BIRAC is not looking at scaling up BIPP, SBIRI.

There is no choice, only BIRAC can make the bid. Fine print should be read to see how Rs 10,000 crore is handed - equity, debt, or grants. Whether this is to handhold entrepreneurs or invent, incubate and make an impact. Dr Swarup has acknowledged that resources, change in ecosystem and demands of innovation are indeed the cardinal challenges for BIRAC, but, she also emphasized that BIRAC should grow exponentially by designing the next five-year plan which will address the above challenges.