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Funding drought continues, industry looks for mentors

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With an increasingly short supply of capital, the environment for bioscience venture finance continues to remain challenging. Despite factors such as aging population and rising living standards in India that support long-term demand for life science innovation, the funding is way far lesser. If we look at the sources of funding in Indian bioscience sector from the very beginning, it has been mainly from the government agencies and less from private investors. However, over the period of time, there has been a rise in the private participation.

While the companies at middle and higher levels are getting support, the start-ups at proof-of-concept find it very hard to sustain up to the product development stage. Experts confirm that the early-stage funding is far too less, while the mid stage is 35-40 percent and advanced stage is 45-50 percent respectively. The fact remains that only few Venture Capitalists (VCs) exist in this country. The successful conversion ratio is very slow and there is scarcity of resources with lifesciences background.

The first time lifesciences investors are more likely to back companies with less technological or development risk, such as those involving smaller clinical trials or an accelerated regulatory pathway, or that requires less capital to reach commercial markets.
Ms Deepanwita Chattopadhyay, managing director and chief executive officer, IKP Knowledge Park, which provides `50 lakh worth grant to companies who have a solid idea with clear roadmap on it added, "So far there has been $5-7 million worth of transactions and 11 companies in lifesciences area and one hospital have benefited."

The VCs such as VentureEast are more focused on biotechnology market and over 80 percent of their funding goes into the sector. Says Mr Jagannath Samavedam, partner, VentureEast, "We have $ 100 million fund for the companies who present an innovative idea and plan. We have a scalable and service model. Among the firms that got funded by us include Metahelix, which was the first in India, Intas Bipharma, Advanced Enzymes, Indus Biotech, Rubicon, Natco and many others. The differentiated models are key to higher conversion ratios."

"The alternative medicine firms because of short incubation time frame are now evoking good attention from VCs," felt Mr Sujay Shetty, senior consultant and leader for pharma and lifesciences, Pricewater houseCoopers. "In Indian context, it is very important to have emphasis on scale of innovation," he added further. Mr Shetty seems to have a valid point here. Earlier in 2013, Marck Biosciences, an Ahmedabad-based manufacturer and marketer of sterile liquids pharmaceutical dosages using the Blow-Fill-Seal (BFS) technology, sold a minority stake to Tata Capital Healthcare Fund. Tata Capital will invest `45 crore in the company and has picked up a 22 percent stake as well. LifeCell International, one of India's largest and most accredited stem cell banks, announced it is securing an investment from Helion Venture Partners, an India focused venture fund. With investment of `35 crore, Helion Venture Partners becomes the first venture capital firm to invest in a stem cell banking company in India.

Emphasizing that they are into impactful funding, Mr Pinaki Bhattacharyya, chief investment and incubation officer, Villgro Innovation Foundation, emphasized on turning ideas into enterprises. He said, "Our areas of operation include agriculture, health, energy, and education. We currently have $1 million and are running a 12-month program for potential clients in Chennai."

Sharing his perspective on international funding agencies, Dr Shirshendu Mukherjee, senior strategic advisor, Welcome Trust, mentioned, "These agencies play a pivotal role in promoting scientific research in India and beyond, in the challenging areas of bioscience research in human health, agriculture, green technologies, and related sciences. Though it is well argued and rightly so, that India, since the last decade has increased its funding in bioscience research considerably, and funding for a scientifically strong research problem is not at all an is sue in India now." Talking about his organization, Dr Shirshendu mentioned further that they have 30 million pound fund to support projects in the area of affordable healthcare. At the same time he is quick to point out that it applies only to late stage and specific projects that focus on certain disease areas.

With venture capital lagging, large lifesciences companies are playing an increasingly significant role in supporting start-ups through partnerships or mergers and acquisitions. But companies and investors are taking steps to achieve early exits as a result. However, the happy news is that valuations for the venture-backed companies continued to show a upward trend. While raising venture financing is slowly opening up, those companies that do raise additional money are doing so at improved valuations.

Interestingly, while investments in biotech, biopharmaceuticals, and medical devices may be dwindling, the same is not true for companies working in consumer-healthcare engagement, data analytics, or technology to make practicing medicine more efficient. VC funding in healthcare information technology sector continued at a torrid pace in Q1 2013 with $493 million in investments according to Mercom Capital Group.

Not just investors, they require mentors!

While funding from corporate investors, wealthy individuals, and disease foundations is helping to fill some of the gap, entrepreneurs who plan to seek venture capital financing would do well to carefully consider factors, such as capital efficiency and a faster path to exit, that can increase the odds of raising scarce funding. The investors generally are ready to support quality projects with low-risk factors. But what about those who are sitting on a good concept but have higher risk of failure? Early phase funds are too less in number as fund managers always look at potential sources only. In that case, they often feel like orphans with no guidance on which road to take and how.

Ms Deepanwita mentions that whenever someone approaches them, there is always a question whether the funds are for infrastructure or any other purpose. She explained further, "They require business mentors as a lot many of them don't have expertise in intellectual property and regulations. A lot more discussion is required on capacity building."

"VC funds invest more than what government agencies have to offer. For example, a startup requires `15- 20 lakh worth of seed capital to build up business and at a later stage it needs `15-20 crore to grow but in between the support seems to be lacking. Only 15-20 percent gets converted into success. VC funding too has limitations and that is why checks and balances have to be ensured so that funding doesn't go on half baked plans," said Mr Jagannath.

Another area of concern that analysts feel is the unavailability of higher-scale funding. For the companies to look at funds beyond `2 crore is a major issue in this industry. The only way out seems to be angel networks, which too are highly selective about supporting firms.

Dr Shirshendu Mukherjee believes that innovation has to be strongly funded. He added, "Since public good is our priority,

strong science has to be the basic criteria."
Create options

Though very appreciative about various government schemes in ensuring critical support, most of the industry leaders feel that there is a need to lessen the paperwork and do away with certain rules. On the other hand, the government agencies don't want industry to only rely on them for their growth. "Adequate funding is no doubt critical for science and our government has accorded high priority to this aspect. Unfortunately, private sector investment into R&D has not grown fast enough for us to double the overall national investments into R&D, from the current level of 1 percent of GDP to 2 percent. Increasing private sector investments into R&D and making possible conversion of knowledge into value and wealth remains a challenge that I would like the national science council to look into," remarked the Prime Minister, Manmohan Singh after the release of the book "Science in India (2004- 13): Decade of Achievements and Rising Aspirations", in New Delhi on July 08, 2013. The statement in itself presents the state-of-affairs of public funding for Indian science.

Dr Renu Swarup, managing director, Biotechnology Industry Research Assistance Council (BIRAC), during her recent interaction with the industry admitted that there were limitations with the government funding. She emphasized on the need to partner with private investors. "We do realize that the government funding has some limits and we cannot come up with huge funds at times. Hence, the best way to improve funding scenario is that we partner with private investors ensuring that deserving companies receive support at the right stages of product development," said Dr Swarup.

Dr Swarup also drew attention to the recommendation made on setting up of manufacturing fund by Dr M K Bhan, former secretary, DBT, at a recently concluded BIRAC Innovators meet. She also assured that BIRAC's portal would undergo further revamp and asked Association of Biotechnology Led Enterprises (ABLE) to play more proactive role in ensuring free flow of communication between various stakeholders.