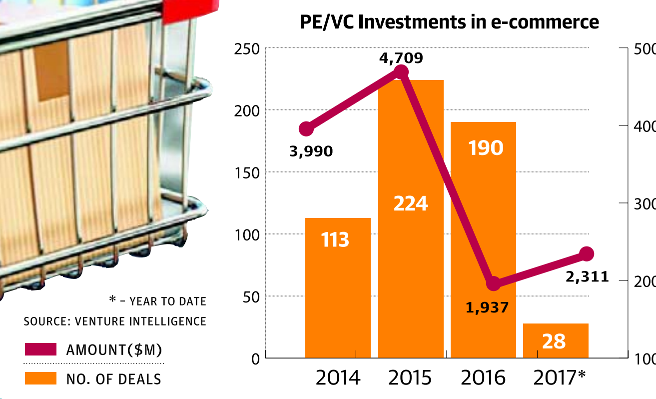
NOIDA/DELHI THE HINDU
MONDAY, APRIL 17, 2017

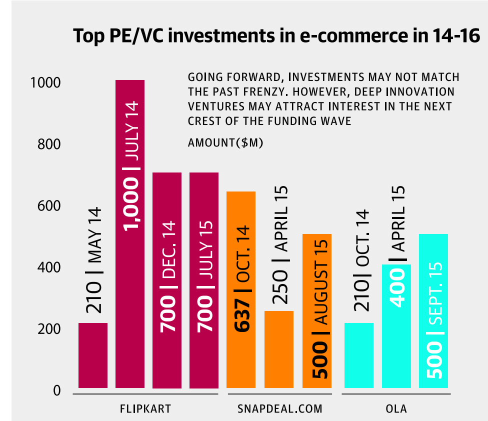
The flow of money

After heavy investments in 2014 and 2015, flows slumped for a year before picking up again this calendar

Top PE/VC investments in e-commerce 2017*

Company	Investors	Amount($M)	Date
Flipkart	Tencent, ebay, Microsoft	1,400	Mar. '17
Ola	SoftBank Corp, Others	330	Mar. '17
Paytm E-Commerce	SAIF, Alibaba	200	Mar. '17
Zinka Logistics	IFC, Accel India, Flipkart, Sands Capital, Sanjiv Rangrass	70	Mar. '17
CarTrade.com	Temasek, a U.S.-based family office	54	Feb. '17





WHILE INVESTMENTS HAVE PICKED UP AGAIN THIS YEAR, E-COMMERCE PLAYERS MAY NOW HAVE TO SHOW SUSTAINABLE CASH FLOWS IF THEY WANT TO CONTINUE TO ATTRACT FUNDING

The money begins to flow again

Another round of funding at Flipkart has brought optimism back to the e-commerce sector. But does this set a trend?

SANJAY VIJAYAKUMAR
SANGEETHA KANDAVEL
CHENNAI

After more than a one-year hiatus, big-ticket investments are back in the Indian e-commerce market with home-grown online retailer Flipkart raising $1.4 billion from China's Tencent, eBay and Microsoft. Will this signal a revival of funding environment for the entire start-up ecosystem, which has gone through rough weather?

As part of the deal, eBay will sell its Indian business to Flipkart. The funding comes at a time when Jeff Bezos's Amazon is expanding aggressively and plans to invest $5 billion in India in the next few years. Flipkart has gone through a top-level revamp, while key investors are pushing another home-grown online retailer Snapdeal for a potential sale to Flipkart or Alibaba-backed Paytm. Expectations are that it would be three-way fight in the Indian e-commerce market among Amazon, Alibaba and Flipkart, which is consolidating its position through mergers, with backing of strategic investors.

The years 2014 and 2015 saw billions of dollars being poured into the ecosystem. Then emerged the news of firms making huge losses and investors becoming cautious of putting in money and pushing firms towards sustainable business models. Hence, private equity and venture capital funding in Indian e-commerce fell to $1.94 billion in 2016 from a peak of $4.7 billion in 2015, data from Venture Intelligence show. According to the firm, there has been a notable shift away from consumer Internet and mobile deals.

There has been news of employee firings and start-ups shutting down, mainly because they could not find sustainable business models. According to data from start-up tracker Tracxn, 314 start-ups closed down in 2016.

Even with the latest round of funding seen in the space, some industry watchers are still sceptical about the discounting model of e-commerce firms which result in higher cash burn levels.

At a recent event at IIT Madras, ace banker Deepak Parekh said the valuation game may have run ahead of what fundamentals warrant in the e-commerce space.

'Rein in cash burn'

"…. Time has come to caution and rein in the cash burn model. There has to be threshold level where the revenue stream and profitability have to become key considerations, rather than just focusing on gross merchandise value," he said, immediately after the latest round of fund raising by Flipkart.

"Unless these companies post cash profits, how will they ever be self-sustaining? Otherwise, the model is just based on going from one private equity fund to another and at some stage someone will be left holding the baby and this can have a domino effect across the entire system," he added.

> Unless they post cash profits, how will firms ever be self-sustaining?
>
> DEEPAK PAREKH
> Chairman, HDFC

However, he displayed faith in the e-commerce sector pointing out that India delivers about 2 million packages a day, when compared with an estimated 57 million in China and 35 million in US. "The growth of this sector hinges on sorting out logistics, warehousing and the transportation system."

Kerry Rice, a senior analyst on Internet and digital media at New York-based investment bank Needham & Company, said that India's consumer market is of a significant size. Indian e-commerce and financial services (which includes travel, digital payments, cab services, movie tickets, food delivery, online learning) is expected to reach $40-50 billion by 2020 from $15-20 billion, according to recent report by The Boston Consulting Group (BCG) along with The Indus Entrepreneurs (TIE).

'No dominant leader'

"I believe investors are likely looking at India as a similar market to China, except no dominant leader exists yet," Mr. Rice said in an email response. "Given that there is no dominant leader, we are seeing large global e-commerce companies, such as Alibaba, Amazon and eBay trying… to seize a leadership position. I expect more investments to come for India," he added.

Anil Kumar, CEO at Redseer Consulting reckons that the e-commerce space can see profits being made. "The market is still at the nascent stage. Only 1% of Indian market is online. The current size is $15 billion. If that grows by 10-15 times in next 10 years, the customer acquisition cost as well as cash burn will come down and profits would be made."

He also said one of the key issues would be how quickly the players can increase the user base from 15 million at present to 100-200 million.

One firm that has been successful in bringing down cash burns is online restaurant discovery and online food delivery firm Zomato, which has seen an 81% drop in annual operating burn for FY17 at $12 million, from $64 million in FY16, according to its recent blogpost. Last year, HSBC Securities and Capital Markets (India) had slashed the firm's valuation by about half to $500 million.

The sharp reduction in Zomato's burn is a significant positive, and if revenue growth momentum continues on this base, the concerns on $1-billion valuations will abate, particularly considering multiple valuation write-downs and business shutdowns over past year in the sector, Motilal Oswal said in a research note.

Flipkart's fund raising (at a 24% lower valuation than its previous funding round) signals a positive sign for the entire ecosystem since it is seen as a barometer. With government approving the listing of IRCTC, one of the profitable e-commerce firms, things are looking good for the ecosystem," Mr. Kumar added. "All in all, the current Flipkart deal at a reasonably rich valuation tells me there are still some takers for the Indian horizontal e-commerce story who believe that another large company can go profitably head-to-head with Amazon, notwithstanding the many who have closed down," or look close to downing shutters, said entrepreneur-turned-investor Chandu Nair said. He pointed out that the consumer Internet story in India got overheated too soon and there was too much money from certain investors, which had what the industry calls FOMO (or fear of missing out) written all over it, chasing very few quality deals.

"The Flipkart deal comes as a major relief to the e-commerce ecosystem," Arun Natarajan, MD, Venture Intelligence, said. "However, this deal is not likely to trigger the kind of frenzy in the Internet and mobile sector that we saw in 2015. The focus now is on whether Unicorns are able to walk the talk in terms of profitability and deliver real cash exits to investors," he added.

Professor Thillai Rajan, Department of Management Studies, IIT-Madras, who closely tracks the start-up sector in India, said tepid interest in e-commerce and the consumer Internet space is unlikely to change while there could be "more interest towards deep innovation ventures."

GUEST COLUMN

Protect IP to find new cures

KANCHANA T.K.

The research-based pharmaceutical industry continues to lead the development of innovative treatments and cures. Globally, this industry invested $58.8 billion in R&D in 2015. Through such significant investments, researchers and scientists have gained a better understanding of diseases and a greater ability to harness new scientific advances. This has led to tremendous progress in the development of new treatments for some of the most debilitating diseases.

More Than 7,000 medicines are in development around the world. The value of a medicine is directly related to value it brings to patients. Globally, patients are living longer, healthier and more productive lives. Take cancer. New therapies have contributed to significant declines in cancer mortality rates since its peak in 1991.

According to the Global Health Estimates 2015 for South Asia, compiled by the World Bank for the WHO, of the almost 12.4 million who died from all causes, more than 7.5 million people died from non-communicable diseases, compared with just over 3.5 million from communicable diseases. Cancer accounted for more than a million. A 2008 study, "The determinants of recent gains in cancer survival: an analysis of the surveillance, epidemiology, and end results (SEER) database," in the Journal of Clinical Oncology revealed approximately 83% of survival gains in cancer are attributable to new treatments.

Hepatitis C virus is now curable in more than 90% of patients with only 8-12 weeks of treatment. In the '80s, the cure rate was about 5%.

In the 1990s, patients were treated with Interferon to destroy the hepatitis C virus-containing liver cells; combining it with Ribavirin raised the cure rates to more than 50%. The investment in R&D for treatments in Hepatitis B and C continue to strengthen the WHO vision to eliminate these diseases by 2030.

The World Economic Forum estimates that unless current trends reverse, common 'lifestyle' diseases – cancer, diabetes, heart disease, lung disease and mental ailments – will cost $47 trillion in treatment and lost wages. However, innovation in science has led to a decline in death rates for non-communicable diseases by almost 20% in the EU5, Australia, Canada and Japan from 2000 to 2012. India's National Health Policy aims to reduce premature mortality from cardiovascular diseases, cancer, diabetes and chronic respiratory diseases by 25% by 2025.

> **IP is the bedrock on which new drug development is built the world over**

Innovative bio-pharmaceutical firms are currently developing 190 medicines to treat heart disease, stroke and other cardiovascular diseases. A study by the Alzheimer's Association in the U.S. showed $376 billion in costs can be avoided by 2050 from the development of a new medicine that delays the onset of the disease by just five years.

From drug discovery to regulatory approval, developing a new medicine takes 10-15 years and costs $2.6 billion. Intellectual Property is the bedrock on which new drug development is built. It is critical to improve patient care and spur economic growth. Without strong IP protection, researchers may not have the motivation to innovate, leading to the treatments of tomorrow.

As we approach World IP Day on April 26, it is imperative for India to build an ecosystem conducive to innovation and creativity not only in terms of IP awareness and creation but also, more importantly, to recognise the importance of intellectual property in pharmaceutical development which has the ability to change the lives of millions of patients.

(The author is director-general, Organisation of Pharmaceutical Producers of India)

EXPLAINER

Energy: going where the wind blows

M. RAMESH
CHENNAI

Wind power industry is in the news. Why?

■ For the first time, wind power installations (windmills) crossed the 5 Gigawatt mark, to reach 5,400 MW in 2016-17. The earlier record was 3,472 MW of 2015-16. The current year might see installations of 6 GW.

And?

■ In February, in the country's first-ever auctions of wind power capacity, the price at which windmill owners would sell electricity to companies that supply power to consumers fell to a record low of ₹3.46 a kWhr, as competitive forces were at play. Otherwise, wind power prices are fixed by the various state electricity regulatory commissions.

Why this optimism?

■ The Indian wind industry has been around since the late 1980s. For many years, it existed only in T.N., the windiest State. In the last decade, it spread to eight other States that have any wind potential – four other southern states, M.P., Maharashtra, Gujarat and Rajasthan. But now, the Centre wants to buy electricity from wind power producers and sell it to electricity supply companies in other states, which are bound by law to buy a portion of their needs from wind and solar sources. The 1,000 MW capacity auction of February took place under such an arrangement, and there will be more. Government of India playing trader truly expands the market for wind power companies.

So, are wind power companies mighty excited?

■ Well, yes, but there is a flip side too. Following the Centre's example, all states want to determine prices through competitive bidding, and competition hammers down prices, as we saw in February. So, while the market expands, the prices also drop.

Besides, the government has let expire last month the 'generation-based incentive', a scheme which paid wind power companies 50 paise for every kWhr they produced, subject to certain caps. Also, the tax-saving 'accelerated depreciation' benefit, which engendered the industry in the late '80s, is now halved. So, it is a mixed bag for the wind industry.

How important is the sector, anyway?

■ India, with 32,280 MW, has the fourth biggest capacity in the world, after China, the U.S. and Germany.

The national target is 60 GW by 2022. Wind accounts for 10% of India's total power capacity of 3.2 lakh MW; and 4% in terms of electricity produced.

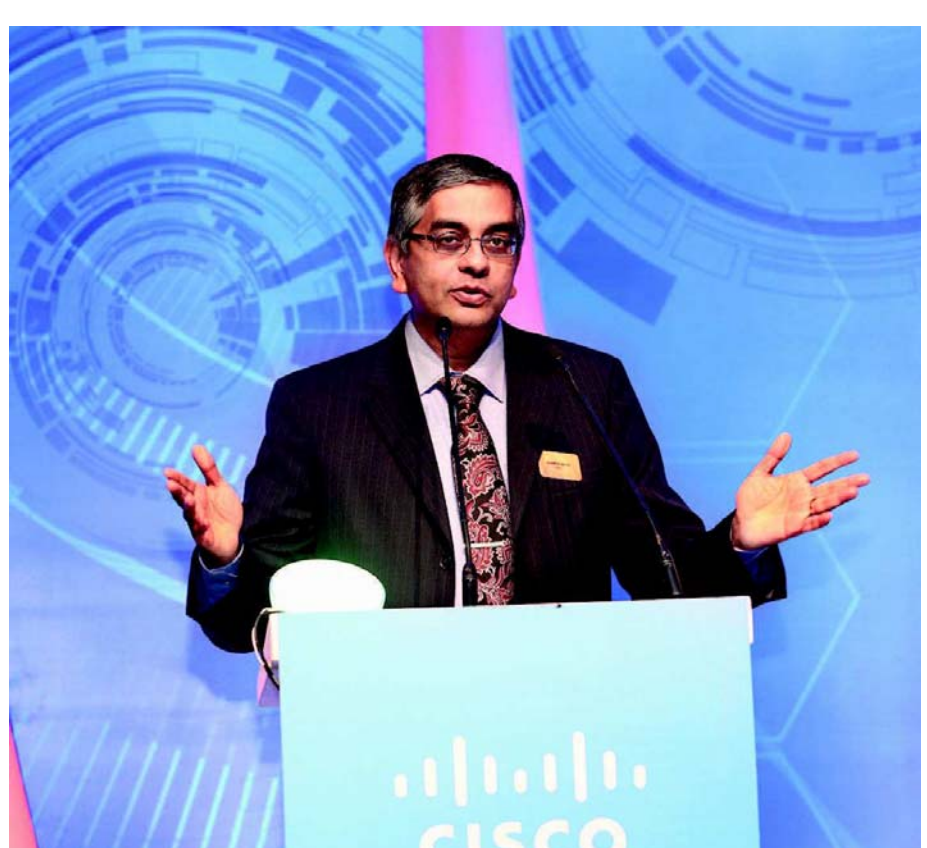
INTERVIEW|V.C. GOPALRATNAM

'India urgently needs a data security policy'

Identity and access management, as well as data storage standards should be well-defined, says Cisco's senior IT executive

YUTHIKA BHARGAVA
GURUGRAM

Amid the on-going debate over data security and focus on connectivity in the country, **V.C. Gopalratnam,** *senior vice president, IT and CIO-International, Cisco, in an interview shares his perspective on the issues, highlighting that India needs to accelerate the development of a security policy. "In my opinion, it was probably needed yesterday. It is that urgent," he said. Excerpts:*



You mentioned that security today dominates any conversation that you have with companies…

■ If you look at the world today, there is so much information being generated. So much data is being exchanged.

Naturally, there are questions about what is happening to this information, who is using this and for what purpose. It is natural that security is at the forefront of any conversation.

The other part of the security is that once something bad happens, it is hard to recover from that… not only from an individual's perspective but also from a company's reputation and branding perspective. If something is hacked or you lose customer information, the trust is very difficult to get back. Therefore, it becomes imperative that organisations stay ahead of the curve and be more proactive than necessary to make sure these things don't happen. It is critical to the survival of the organisation.

Second, with the global model, boundaries are disappearing between countries and between companies… with the cloud everywhere. No one has figured out a holistic information security policy because it's just too complicated. Every country is at various levels of security. The U.S. and Australia, for example, have minimum viable guidelines for security which are national security policies.

We don't have that here. It is still in the process of being developed and we need to accelerate it.

> Strangely enough, the number one skill set looked at today is psychology. For, you need to understand the human psyche as everything today is about experience

How urgent is this?

■ It was probably needed yesterday. It is that urgent. Any asset that can be linked to a human being can be protected through passwords. For example laptop, mobile device, bank account… these can be for identity and access management. But things that cannot be tied to human beings are also connected to the Internet like a car or a plane or an assembly line. There are no standards for security for all of those things. That is the world of OT (operational technology). The world of IT (information technology) is OK.

Then we talk about IoT (Internet of Things) which [is] an intersection of IT and OT… In the world of IoT, without security standards for 90% of the assets which are non-human connected, we have a problem. IoT cannot become real.

What key points should the policy cover?

■ The policy clearly needs to address standards around identity and access management. It needs to address issues around data storage and data sovereignty. It needs to address standards on encryption. It should also talk about… when you are developing products, how you should test the products to make sure they are robust, particularly in the telecom space.

India imports a lot of hardware. What standards are needed there?

■ Conversations are going on between the private sector and the public sector. Cisco has also been part of those conversations… it is the establishment of common criteria. For products brought into India and sold here, the question is whether those products need to be tested in India or if they can be tested by an accredited organisation outside India. The government is working with a cross-disciplinary team to establish a common criteria required before any company can sell its product [here].

You are working on a project to reduce poaching of rhinos in South Africa. Is there something you are working on with the Indian government, too?

■ We have started conversations with the government but they haven't progressed much… These conversations are around wildlife conservation and sustainability.

How difficult will it be to implement in India?

■ It will be difficult because connectivity is not pervasive and [reliable]. If you go into the middle of Gir forest or Ranthambore, you are not going to necessarily get the connectivity you want. You can use satellite but that's expensive and slow. Connectivity is the building block.

The challenge is also that, much like the U.S., the central government is one party and the state government is another party. So who drives the agenda? …Connectivity to every corner of India is not something that a private sector can do on its own.

What skills are companies are looking at today?

■ New skills obviously include data science. It is a big thing. There aren't enough data scientists.Then there is security…security architects, cloud architects… there is an abundant shortage of those skills. In infrastructure, we are looking at network architects, virtualisation specialists etc. Strangely enough, the number one skill set looked at around the world today is psychology. Because you need to understand the human psyche as everything today is about experience and a lot of companies are investing in psychologist and user experience.

(The writer was at Gurugram at the invitation of Cisco)