

## Tonse Opinion

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### India Telecom / Media Venture Capital Investment: 2006-07

So how many more venture capital companies will enter India this year? Is the Indian dot com story for real? Is the investment bubble in the Indian VAS space about to burst? Is the mobile VAS region already saturated? This and many other questions are commonly heard around these days as the new business year (India's financial year typically is April – March) just begins. Tracking the Indian telecom market for the last couple of years and spreading the word via this and other publications here is a summary of how the VC industry fared in Indian telecom last year.

The year 2005 was probably the first time VCs started making noticeable investments in India. This is not to say that there were no foreign VC s investing in India earlier but 2005 was the first time a series of VCs started looking at India as an investment destination and the total venture capital invested was about \$36million in 7 deals. In 2006, this number went up to \$200million in a total of 30 transactions. In 2007, 20 deals of about \$130 million have already been done. (source: Venture Intelligence, 2007).

In 2006, some interesting patterns developed. For a country like India, where on-line is an entirely new phenomenon, the Internet businesses have done exceedingly well in attracting venture capital. This perhaps had two factors: One, the US / European VC s who have already seen the build-out of Internet style businesses and watched them become full fledged mainstream corporations, understand the importance of picking the right Internet business. The great bubble of 1999 that left the world poorer by about a few hundred billion dollars, has certainly driven home some valuable lessons.

Internet Companies			
Invested In	Primary Business	Investment Amount	Investor
<b>TutorVista</b>	Online Tutoring	\$7 million	Sequoia India
<b>InstaColl</b>	Online collaboration software	\$3 million	SoftBank Corp
<b>Guruji.com</b>	Local search engine	\$7 Million	Sequoia Capital
<b>JustDial</b>	Telephone Directory Search	undisclosed	SAIF Partners
<b>KPIT Cummins Infosystems</b>	Enterprise application solutions	\$9 million	Cargill Ventures
<b>Manthan Systems</b>	Retail Management software	\$ 2 million	IDG Ventures India
<b>Comat Technologies</b>	eGovernance software	\$4 Million	Intel Capital
<b>Tejas Networks</b>	Networking company	\$12 Million	Mayfield
<b>Skelta Software</b>	Embedded . Net	\$1.5 Million	SIDBI Venture Capital
<b>VMLogix</b>	virtual infrastructure management technology	\$3.5 Million	Bain Capital Ventures
<b>SmartAnalyst</b>	Custom Research and analytics	\$3.75 Million	Edison Venture And Milestone
<b>Iiantus Technologies</b>	Access management	\$250 Million	Intel Capital
<b>TechAxes</b>	Business Intelligence and analytics software	undisclosed	Rajasthan Venture Capital
<b>Microland Lands</b>	IT infrastructure management	\$11 Million	Cargill Ventures
<b>Indium</b>	Software Testing Company	\$1 Million	IRIS Capital
<b>Induslogic</b>	Outsourced product development services company	\$12.5 Million	WestBridge Capital

Compiled by: Tonse Telecom

Those businesses that enabled the large Indian masses to complete very fundamental transactions (such as travel reservations, matrimonial classifieds, simple buy and sell of everyday goods – cars, consumer goods) and so on became top preferences. No wonder the On-line travel sector picked up \$45 million in the last year.

Travel Portal			
Invested In	Primary Business	Investment Amount	Investor
Makemytrip	Online Travel portal	\$13 million	Helion Ventures, Sierra Ventures and SAIF
HolidayIQ.com	Online Travel portal	undisclosed	Bennett, Coleman
Travelguru	Online Travel portal	\$15 Million	Battery Ventures, Sequoia Capital
Web18 Caymans	internet portal includes yatra.com	\$10 Million	Tracer Capital
Cleartrip.com	Online Travel portal	\$8 million	Kleiner, Sherpalo
Compiled by: Tonse Telecom			

On-line matrimonial services, a minor section of the whopping \$10 billion annual marriage industry in India (source: India Today magazine, 2006) ranked next with 5 start-ups vying for the services of the Indian young and unmarried audiences.

Matrimonial Services			
Invested In	Primary Business	Investment Amount	Investor
BharatMatrimony.com	Matrimonial Services	\$8.6 Million	Canaan Partners, Yahoo
Jeevansathi	Matrimonial Services	Undisclosed	GVFL
Compiled by: Tonse Telecom			

Yet another category that raised venture capital and even saw some early M&A activity was Job Portals: sites that facilitate finding jobs and placing people. Monster, the global recruitment firm bought Jobs Ahead.com in 2004 for about Rs 40 crores (about \$9.5 million current exchange rates) and built up a large presence in India job market. Ever since, Naukri.com, TimesJobs and other job portals have begun to hit mainstream volumes with resumes and profiles in excess of 3.5million with each of them.

On the mobile front several start-ups raised venture capital mostly in the VAS space. The space has its inherent risks but a strong leader such as OnMobile has shown the way by clearing a top tier venture funding of \$28 million in a second round. The companies in this category are those providing the Value Added Services application – typically such as Music Ring back Tone, Missed Call Alert, personalization services and infotainment. The sector is getting really crowded with over 40 odd companies claiming to be VAS developers and most times the differentiation is close to zero. The problem also lies in the fact that the current business model followed by mobile operators is such that the upside to a VAS developer is severely restricted. And the Revenue sharing equations are so warped that unless the service launched is a roaring success, the VAS developer is certain to retreat with large holes in their pockets. Besides, with minimal barrier to entry, the VAS company has to constantly invest in a new suite of services as today's innovation is only valid as long as another similar service is launched in the market. The operators have absolutely no risk in most cases.

Another interesting space that has attracted funding among mobile applications is mCommerce or payment facilities through the mobile phone. The prominent companies in this category are mChk, PayMate, JiGrahak and couple of new ventures that are being formed.

<b>Telecom / VAS Companies</b>			
<b>Invested In</b>	<b>Primary Business</b>	<b>Investment Amount</b>	<b>Investor</b>
Cellebrum	VAS	\$15-million	Lehman Brothers
JiGrahak	mobile pymt solution	\$2.2 million	Helion Venture
Bubble Motion	voice SMS provider	\$10 million	Sequoia Capital
PayMate	mobile pymt solution	\$5 million	Kleiner Perkins Caufield & Byers
IMI Mobile	Content delivery platform	\$10M	Pequot
One97 Communications	VAS	\$8 -10M	SAIF Partners. Silicon Valley Bank
Telsima	WiMAX Player	\$50 Million	NewPath Ventures, New Enterprise Associates, CMEA Ventures, JAFCO Asia
Moveo Systems	VAS	\$1 million	Angel Investment
Quipo	Telecom Tower	\$34 million	IDFC Private Equity, GIC
OnMobile	VAS	\$27.8 Million	Goldman, DB, Polygon
<b>Compiled by: Tonse Telecom</b>			

Mobile Gaming as an independent sector includes some of the big names such as IndiaGames, Mobile2Win, Dhruva Interactive, Nazara and Mauj Telecom. Some of the companies in this sector are pure play mobile gaming companies but others are into mobile entertainment, shows, content and aggregation services. This sector continues to raise venture capital but the pain-points of the VAS sector mentioned above apply directly to this sector also. While the overall growth of this sector looks promising the shortage of trained staff and the complexity of making a game available across the large variety of handsets available in India make this a formidable challenge for any game developer.

<b>Entertainment</b>			
<b>Invested In</b>	<b>Primary Business</b>	<b>Investment Amount</b>	<b>Investor</b>
Seventy MM	Online DVD rental	\$7 Million	Matrix Partners
Madhouse Media	Online DVD rental	\$228,000	Band of Angels
Mercantila	Online collection of specialty stores	\$22.5 Million	Lightspeed Venture Partners
TutorVista	Online tutoring	\$10.7 Million	
Games2Win	Online gaming	\$5 Million	Clearstone Venture Partners & SVB Financial Group
Komli	Online Ad Network	undisclosed	Draper Fisher Jurvetson, Helion
Apnaloan	Loan on Internet	\$2.2 Million	Sequoia Capital

Sulekha.com	Indian Community Portal	\$10 Million	Norwest Partners Venture
iJive	Digital Signage Network	\$4.5 Million	Matrix Partners India
Picsquare	Photo Sharing	\$25,000	Angel Funding
Nautanki.TV	Online TV channel	\$250,000	Two investment bankers in their personal capacity
CEON Solutions	Online solution School	\$700,000	GVFL
<b>eCommerce</b>			
<b>Invested In</b>	<b>Primary Business</b>	<b>Investment Amount</b>	<b>Investor</b>
CarWale.com	Car sales online	undisclosed	Seedfund
Carzonrent	Car Rental Service	\$7 Million	Sequoia Capital
BillDesk	Online Bills	\$5 Million	Clearstone
<b>Compiled by: Tonse Telecom</b>			

From an investors perspective several other companies have started where funding has come in the form of angel round – with high net-worth individuals actually putting in up to \$250,000 or more of private funds which is not accounted in these tables. In a sense, these are seed rounds that are actually giving the would-be entrepreneur the much needed push to jump in.

One thing that is clearly noticeable with the venture capitalists entering the market is that there is an Innovation engine that has kicked off. Bangalore, probably continues to be at the center of it all with its enormous IT / software talent and large pool of individuals who have returned home from their careers abroad to strike out on their own. Also Bangalore probably has the largest number of successful IT entrepreneurs who have already sold one or more companies in the past and want to participate in creating the next generation of start-ups. The air is thick with ideas and the funding machinery is cranking up. So, will the next You Tube please stand up?

### About Tonse Telecom

Tonse Telecom enables telecom equipment vendors, ISVs, infrastructure developers for success in the Indian telecom marketplace. We are an end-to-end technology marketing services organization delivering a complete suite of services from custom technology research, off-shoring partnership, investment advisory, marketing communication and promotion services. Tonse Telecom is based in Bangalore , India .

www.tonsetelecom.com email: marketingtr@tonsetelecom.com mobile: +91 99800 36371

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