



investor view

Alok Mittal

Managing director, Canaan

Baby steps for early-stage firms

EARLY-stage entrepreneurs will see huge opportunities from areas such as mobile services, e-commerce, financial services and education, according to Alok Mittal, managing director of Canaan, an early-stage venture capital firm that has invested around \$100 million in India. The firm expects to invest a similar amount in the next few years. In conversation with Peerzada Abrar, Mr Mittal explains the fund's investment strategy.

EARLY-STAGE ENVIRONMENT

Entrepreneurs have more experience in the market, and are more able to relate to the problems of their customers and solve them. We are much encouraged with the entrepreneurial teams and ideas they bring. We look for teams with capability and the ability to create value and sustain an edge over competition. That is the core feature we look for when we are investing in a company.



INVESTMENT MODEL

We are a 23-year-old global venture capital company. We have been in India for about five years, and have invested in 10 companies. We invest largely in early-stage companies. In India, most of our focus is on IT sector. Our typical investment is \$2-5 million in a company that has demonstrated some proof of concept. It might or might not have revenues, and typically does not have profitability. Then we do some seed-stage investments, which are smaller amounts, at an earlier stage. They might not have a proof of concept, but if they have an idea and a good team, we might do some close-stage investments.

EARLY-STAGE FUEL

Our investment in MotorExchange, made about 8-9 months back, is a seed-stage investment for us. The firm aims to become India's largest used-vehicle marketplace. That market is right now of about 2 million units of cars, many more two-wheelers and trucks. So, all put together, it becomes a fairly large market that is growing rapidly. Founder of Motor Exchange, Vinay Sanghi, started in an online business for Automart 10 years back, and handled that space well. He has a family business of autodealership for 25 years now. And over the last few years, he has built the largest used-car dealership business in India — Mahindra First Choice. So he is well-versed about the market and the solutions that can be applied online. This compelled us to make a seed investment in that company. And they have proven over the last 6-7 months that they have launched a solution. They have signed large banks and small auto dealers as their customers.

MENTORING START-UPS

With this kind of a team, our role becomes more of a strategic advisor — helping business development, recruiting, and drawing financing strategies. The team here is quite capable. They don't need our help on operational aspects, which is the hallmark of great entrepreneurial teams. They will tap you for things that you are relevant for. But for running the business, they are really a self-contained superstar team.

HOT MARKETS

In India, investments are largely in the internet, mobile, offshore services, BPO, KPO, LPO, software products, payment systems and financial technologies. Some of them have proof of the concept, which is the bulk of our business, and then some of them are seed businesses where there is a team and a plan. We are looking at a bunch of opportunities. We still have to make an investment this year, but the intent is to continue on the pace that we have set for ourselves.

FUNDS: WHEN & WHERE

Entrepreneurs must determine the fit for their business with the venture model. There are many great entrepreneurs and good business, but they are not necessarily investable. There are other sources of capital they should tap in. Sometimes you start serving customers with your own, and use that cash for the product. Then there are funds from friends, family and angel funds. There are other sources of finance that might be relevant, but it is important to establish that it fits with the venture firm. I think that as much as we choose the entrepreneurs, entrepreneurs choose us, and it is important to make that choice.