

T&I GP Interview

Alok Mittal, Canaan Partners

Alok Mittal was born and grew up in New Delhi India, attending Greenfield and Delhi Public School, before going on to study engineering at IIT Delhi, where he majored in computer science and from which he was graduated in 1994. Mittal's father was an mechanical engineer, who spent most of his life working in electrical engineering for the government. Mittal's elder brother, is also an electrical engineer, so his career was influenced in that direction, but Mittal says that his exam scores were what determined his career, much in the model of British school systems where destinies are determined by the system and not the individual. Looking back Mittal says he was fortunate in that he was perhaps one of the few who ended up enjoying his assignment of vocation and that by the time he was at IIT Delhi, the school had a full, well-developed department of computer science. He excelled as a student, winning the President's gold medal, graduating at the top of his graduating class of 350 in a best of the best of the best distinction.

Asked if such an achievement won him a flock of job offers, he says "not really, India wasn't as hot as it is now," and so that the goal of most graduates, himself included, was merely to find work. But despite being offered a job, he decided to pursue graduate study. During his university years an internship had taken him to a small software company that was writing CAD software, and which guided his post graduate studies, as Mittal applied to and was selected to attend UC Berkeley where he earned his MS in computer science in December of 1995. Mittal worked in the compiler and languages group at Berkeley, during which time he took on a second graduate program, simultaneously earning a separate certification in technology management at the Haas School of Management at Berkeley. Despite that distinguished academic background, and unlike so many graduate students who go off to the US, never to return to their home, he did not want to remain and work in the US. His aspiration was to create a startup company in India, so even before his diploma was delivered in 1995 he returned to India, to work for Hughes Software Systems India, a subsidiary of the Hughes of the US. Mittal recalls people telling him at the time, that he was making a lifelong career mistake by returning to India; the he should remain in the US.



Mittal remained at Hughes Software India – later acquired by Flextronics which was in turn acquired by KKR – for four years, working in several divisions, mostly in software development for satellite communications for telephony, mobile (asynchronous transfer network) ATM communications, including projects such as Iridium and another by the Zee group. Mittal took an assignment in Bangalore, to lead Hughes' development of Voice Over Internet Protocol software, in 1998, before Skype was even on the horizon. He recalls that Bangalore at the time, "was still a great place to live and work," not the hot bed of technology, investing and urban life is has become of late. He also recalls that

for the entire period, despite the enjoyment of building a startup effort, albeit within a global company, he was constantly dreaming of creating his own startup. And so while in Bangalore he began thinking and planning about what he would do next, but because most of the Indian startups of the time were oriented around software, Mittal at first thought that he would create a software house, an idea he pursued with two friends and which did not, in his own description, “work out.”

After that, in March of 1999, Mittal and Puneet Dalmia, a friend from IIT and the scion of India’s Dalmia cement family had met. Dalmia had finished an MBA and had been working for the family for a few years and was of a like mind as Mittal, casting about for what he would do with his life, when the two met in Bangalore and within two hours of “basically said we would do something together,” to start a company, though at the time they didn’t know what the company would do, but their mutual skill sets, marketing and computer science were a good match.

So in April of 1999, Mittal resigned from Hughes and left Bangalore for New Delhi where Dalmia was already based and where Mittal had his roots and family home. Their joint effort began in June, based from an office at Dalmia Cement. The pair named their company Web Neuron Services, because “we didn’t know what the company would do and we wanted something generic enough,” to fit whatever they decided upon. That idea, when it came, was the development of a community web portal, called Zip Ahead, to serve India’s young internet services and social internet portals, in the first wave of social networking on the internet. Zip Ahead offered its users advice in careers, fashion, dating and e-commerce. The firm launched, with about a half-million in funding from friends and family in November of 1999, at about the same time that Sify Group acquired IndiaWorld, “making the internet suddenly hot in India,” says Mittal, and making the space crazy as people suddenly began leaving their jobs to set up internet startups in India. Mittal and Dalmia, had fortunately anticipated that trend and were launched by the time that internet madness spread in India, though they couldn’t entirely escape the impact of what was happening.

In December of 1999, they had closed their first institutional round of funding from Chrys Capital, a venture capital investor at the time, who gave them \$2.5 million. About the same time, Mittal says that they began to analyze traffic patterns on their web site, and saw that 80% of their traffic was in their job section. By January of 2000 they decided to shift their model solely to employment services and by March there had launched “Jobs Ahead” a standalone employment portal. Zip Ahead continued. But as they were launching their new service on March 23, Nasdaq was crashing, alerting the founders to the disfavor, among other things, of community portals, at which time they abandoned Zip Ahead in favor of their job portal. They attempted to raise more money for Jobs Ahead, and in fact, a prominent Asian PE firm gave them a \$100 million valuation in preparation for a planned investment of \$20 million, but the internet ship was capsizing, and the VC investment, like a Nigerian email promise, never materialized.

Fortunately for the founders, they had tended to their money from Chrys conservatively, using their capital carefully in 2000 to build up Jobs Ahead. They spent a million in

marketing, gave 3,000 companies, free trials of the Jobs Ahead service, and “under existing conditions, we did pretty well,” so that after a trial period of three months, the pair decided to go live, turning on the revenue taps, ending free services and that brought in \$50,000 a month. But as they still had a term sheet in-house from their suitor, they began building the company with the expectation of having huge sums to spend in the upcoming year; hiring, expanding, and planning for the second round of funding which was never to materialize. By December when they learned that their Asian partners were in no position to invest, they had to re-structure the company, cutting costs, laying off staff and slowing expansion, despite growing revenue. When the IT business downturn struck in spring of 2001, at a time when “80% of our business was in IT recruiting,” Mittal says that life got really tough and the founders shifted their model once more to serving recruiting companies, who were seeking ways to stay alive and when the competition between bricks and mortar recruiters and online service providers were suddenly more complimentary than competitive. After more tough cost re-structuring they hit break-even by January of 2002.

By the end of 2004, the pair sold their startup to Monster.com for almost \$10 million, which “wasn’t a huge return, but it made our investors happy, because they weren’t expecting to get any of their money back.” And the earliest investors got a return of 2.5X or more on invested capital, giving them a success, largely due to its founder’s fortitude in keeping their work alive. Mittal remained at Monster through February of 2005, to insure that the acquisition would proceed smoothly, following which he took some time off to plan his future. He spoke with, among others, the President of TIE’s Delhi chapter and Ashish Dhawan from Chrys Capital, and the three agreed that there was little early stage venture funding work in India. The trio wanted to do something about that, but they didn’t want to raise a fund, so they started considering alternative ideas for how they might adopt a model other than a formal fund, beginning with an effort to create a band of angels for India, in May of 2005, now called the Indian Angel Network. In September of 2005, Mittal’s break and work on the Band of Angels India ended.

Mittal met with another friend, Rahul Bhasim (head of Baring Private Equity India) who invited Mittal to join Baring in Gurugram to help them invest in technology companies. Baring India had just raised its second India fund of \$175 million, a multi-stage, multi-sector fund for India and Mittal joined to focus on early stage and technology. He invested for six months and found that he enjoyed the work, but that Baring was on a path towards later stage investing while Mittal’s interest lay in early-stage tech. After an introduction by one of his IIT alumni network, Sandeep Singhal of Sequoia India, to Canaan Partners, he decided to join Canaan Partners to help them open their India office.

T&I: What was your position, what was your mandate, what were you joining in India?

AM: I joined Canaan, to be based in India, in March of 2006 as a one person office.

T&I: Canaan had an office in India?

AM: No (laughing) I was working from my home office. Over time I set up a small office in Delhi.

T&I: Correct me if I'm wrong, but I don't recall other Indian VCs based in Delhi then?

AM: Now there is Helion and others, but at the time, I believe we were the first.

T&I: Who interviewed you?

AM: Canaan has a fairly democratic interview process. So I met with more than half of the partners before they made an offer and before I decided to take the offer. But the key person, who was leading India for us at that time, was Deepak Kamran.

T&I: So the mandate was to physically open an office?

AM: I spent the first three months preparing, including about 9 weeks in the United States. After that, I've settled into a routine of spending about a week or ten days every quarter, either at the Menlo Park or at the Connecticut offices, in order to keep up with people in both offices.

T&I: And since that time, you've built what in India?

AM: We started investing in India from our previous fund, Canaan VII. That was a \$450 million fund and we were about half way invested from that fund when I began in India. The idea was that we would try and make a few investments from Canaan VII, to find the right deal flow, to establish more comfort within the partnership about India and to get our feet wet in India.

T&I: Review the investments that you made to begin, from that previous fund.

AM: There were Bharat Matrimony, iYogi, Tech Tribe and CellCast. Bharat is an internet portal for matrimonial classified services; iYogi is technical support services; CellCast is mobile services. TechTribe is consumer internet services.

T&I: No surprises. Early stage and technology.

AM: We pretty much replicated what the firm does globally. So we invested in technology and within technology, we're IT oriented, but while in the US we invest a lot in healthcare technology, we weren't certain that we wanted to do that to start in India. In the US we're early stage and normally we take minority positions, so that was our starting point in India as well. To begin in India, when we were developing our thesis for what we wanted to do in India, we said that we wanted to be more on the transaction side of the mobile and internet business, rather than the advertising side of the business. Or in mobile sector, we wanted the lowest common denominator, so SMS and voice were going to be our focus and not data, but because as a firm, we wanted to be sure that we're overall consistent with what Canaan does, because we're a full partnership and we don't want to end up creating another silo in India which no one understands.

T&I: Which means that you're talking with your colleagues more often than quarterly?

AM: Pretty much on a daily basis and we're in on the Monday morning conference calls as well and those are now done on video calls and the whole firm sits in on that. This was and remains a pretty tightly controlled and run partnership. So we're on the phone at 8PM in the summers with the US, and 9PM in the winter. We're free by midnight.

T&I: And your investment range is on the frugal side?

AM: Typically we're putting in from \$2 to \$5 million, that is \$3 to \$5 million in the US and that was true across the first four investments we made in India, with the exception that one of those, Tech Tribe was a seed investment for us, a sub \$1 million investment. We haven't had any exits from those four investments to date.

T&I: What's happened since then and more recently?

AM: We raised Canaan VIII, a \$650 million fund, in January of 2008. And with that fund we went out, told our LPs specifically that we were going to increase our commitments to India and in Israel, which is the other location internationally we began just before we started in India. That raised expectations for our participation in India and with those expectations we've ramped up our efforts in India. We now have a three person team, consisting of two investment partners and one analyst working out of the Gurgaon office. Add one admin and that brings us to a team of four.

T&I: Where are you to date with commitments from fund VIII?

AM: We've made three investments into UnitedLex, Chakpak and mCarbon. UnitedLex is a legal outsourcing company. Helion had done the series A early in 2007 and we led the series B round in June of 2008. We'd looked at legal outsourcing for a while, even before I got here, because Deepak has been looking at companies in the space in India. Coming into 2008, we felt like the timing was appropriate, that there was sufficient scale to give impetus to the space, that clients were comfortable giving that kind of work to an outsourcing company in India, so we led what became a six million dollar round.

T&I: What in fact are they outsourcing?

AM: They have four main lines of business: litigation support, so they'll go online and do electronic discovery, they'll go through documents and abstract the documents. They're not doing open-ended research, they're looking at a specific set of documents and performing analysis. The second area of their work is contract management, in which they might look at all of the contracts for a large company to insure that all of the contract work is performed as per legal guidelines and according to template requirements. Any contract has a certain amount of legal review and risk management. And then they do patent drafting work and back office support for law firms, mostly US, but they have one large client in Asia, and a couple of clients in Europe.

T&I: Despite these being entirely separate legal systems?

AM: Well, contract management is not as intense legal work, as some things.

T&I: What is the exit path for a company like that?

AM: In my mind they're an acquisition. The Indian outsourcing sector, KPO sector has by its nature, wanted to acquire specific capabilities in areas where they can expand, so we think that this firm will eventually find a home in one of the larger offshore services firms. An IPO is an alternate possibility, but it depends upon how the company scales.

T&I: So you're out networking with all these companies, the Wipros and others?

AM: Correct and it's true of all of our companies. We tend to take board positions. We tend to spend from ten to twenty hours per month with the companies that we're invested

in. One of the areas of involvement that we have for the companies that we're involved with depending upon the scale of the company, is helping them contemplate exits.

T&I: What was the second investment from the new fund?

AM: Chakpak. It's a very early stage company, an entertainment community site, they've started with movies, but they want to expand into other entertainment music or television. So they have content that focuses on movies and movie stars but they'll expand.

T&I: What makes India a country that devours entertainment so voraciously?

AM: We looked at the online entertainment spaces pretty well and that is exactly the question that we were asking ourselves. We asked why wouldn't the communities available globally also be relevant to India. And I came to believe that in areas like professional networking, or in spaces such as that, there really is no reason why someone would prefer to participate in a local community. In my case for example. Half of my network of friends is outside of India. I certainly don't want separate networks for separate friends. But the entertainment options that we access as Indians is very different from what is consumed globally. And in fact India leads in terms of outreach by Indian movies, or cricket, so we thought that a site created out of India could create a global presence, rather than a global site coming into India and capturing the local market.

T&I: Who are your competitors? The likes of Zee Network or Dish TV?

AM: Not really, because we don't go into the broadcast space. So our competitors on the digital media side would be companies like Bollywood Hungama. Reliance has an entertainment initiative, but it's somewhat diffused and their interests are much wider including film making, but it still has a movie section to its efforts. We were following an earlier seed round in Chakpak by Erasmic.

T&I: And the final investment to date from the new fund?

AM: mCarbon, our latest investment in India, is in network value added services for mobile telecom companies.

T&I: And what does the remainder of 2009 look like for you?

AM: Our investment pace for India is from three to four per year, so that's what we'll do.

T&I: No inhibitions, no slow down on the part of Canaan Partners in India?

AM: I have to say that the bar has gone higher for Canaan investments. In India, in the US, in Israel. Everywhere.

T&I: Everyone is saying that these days. What does it mean at Canaan?

AM: It means that we want to look at some aspects of a deal more closely. In India, that would be the execution team. We're getting more strict about the kinds of teams that we want to invest in. We probably don't want to invest in sectors that are impacted by the downturn at the moment.

T&I: And what sectors would those include?

AM: For example, online advertising industry is one area that might have been in scope,

and we might still do something in that area, but any such investment opportunity would have to be stellar compared to what it was last year. I think that BPO/KPO investments would bear a lot more scrutiny before we would invest. Things like call centers, or IT services, even three years back, were a done market. We were interested in either high end services of the kind that UnitedLex does, or platform services such as iYogi. Data analytics remains an interesting area, but it's facing a lot of headwinds because of the slowdown, so it would be harder for us to back that kind of a business at this point.

T&I: Which prompts the question about what is attractive to you?

AM: On the internet side, most of the things that we have been doing remain attractive: financial services, transaction oriented models, education; all from a technology enabled standpoint. Mobile still remains interesting as we're not seeing any slowdown, no drop in usage. Those are the areas that we're interested in pursuing.

T&I: Is 3G making the kind of painful and costly introduction in India that it is in China?

AM: (Laughing) I think that it's about the same. 2.5 never arrived right? But there is excitement around 3G, around increasing voice capacity, rather than offering high bandwidth applications. Video over the phone is a bit out there on the horizon. When we look at mobile, we look more platforms. So for example, in the case of CellCast, that is a platform that enables the interaction of broadcast media through a mobile phone. They do participative game shows on television for example and allow real time participation over the telephone.

T&I: The other area of promise has been mobile payments. When will that happen?

AM: Payments is interesting. Banking by phone, I'm not so interested in from an investment point of view. I think it's useful to large banks, but I don't know how you create a company around that. Payment is different. Consumer payments, I think has a lot of merit, but it's a space that has been talked about for a long time. I think what will make it successful is a focus on specific applications. So while you're building the capability, you need to push one or two applications, really hard and really large.

T&I: What's deal flow like at present? How many deals are you given each week?

AM: From ten to fifteen. We got to that level by about six months after we launched and it's kind of stayed at that level. We get deals from all over India, but a large part of our deal flow is from Delhi, Mumbai and Bangalore. If you look at our market and want to see where deals come from, that is where the majority of deals originate. The kind of things, that we look to invest in; entrepreneurs who have some experience, who are creating scalable businesses, most of those come from these three geographies.

T&I: Which means your travel schedule is like what?

AM: I'm traveling somewhere in India six to seven days a month, to Bangalore and Bombay. Sometimes I'm in Chennai, because Bharat Matrimony is based there and I'm on their board, but I really don't go there for new deals. If you were to ask me for a fourth location where deals are originated I'd say Chennai, even more important than Hyderabad, which has more biotechnology and pharma and some entertainment.

T&I: As a firm, Canaan prefers strategic acquisitions?

AM: No, many of our companies make IPOs. But our entry point, into small and emerging companies means that late stage companies are not in our investments.

T&I: You're one of the few firms in India, that has a single global strategy?

AM: I'd like to think that there are more of us. Clearstone has been pretty consistent I think. DFJ has broadened a bit, but they're still doing early stage deals.

T&I: Topical issues for India, are there still issues for investing from Mauritius?

AM: We do have a Mauritius-based FDI investment entity. So depending upon the investment that we're making we still have to figure out if we can make the investments that we want to make, as a Mauritius off-shore entity. That remains relevant to us. Taxation remains where it was. The impact of the taxation change was on domestic funds, but for foreign investors that remains where it was.

T&I: And do you see any important changes brought to our industry in the new budget?

AM: The budget has been fairly neutral for venture capital, though there is a stated intent to encourage investments. The direct tax code proposal outlines have some potential issues on the taxation side, but a more detailed engagement is required to understand their exact impact. More generally, issues in investing have not been in taxation, but in pass through treatment and subsequent taxation on investor LPs in funds. We think the government will clarify what they intend to do with the pass-through taxes.

T&I: Any issues remain topical in your mind about investing in India?

AM: One, that we've been discussing for a while, which is the adaptation of US investment models for India or as templates for business models in India. There are a host of issues there, like the investment thesis, what kinds of duration of investment times are required, how much capital is required to build companies here and what kinds of exits work here. I see more and more people in Indian investment community, questioning the US model applied to India. Questioning people putting \$3 million in a portfolio company, without knowing how much more it's going to take to take. It's that aspect of US investing, as it's applied to India that I question. Successively bigger rounds, formulas applied to what size a syndicate should be. The expected size of exits, most importantly. The US is re-calibrating itself in terms of what can be expected from an exit – post the last tech bust of 2001 – because the size of exits has never come back. This is really topical in terms of the downturn that we've just lived through. We now face a longer term question, of whether the VC-backed technology industry, have the same scale of exits over the next five years of this ten year period, that it used to have. I think that this goes all the way back to issue of how substantive a role innovation continues to play in the IT industry, and the current perception that IT technology is based in a commodity market, which I think is currently true in some subsectors.

T&I: Talk a bit about healthcare, whether India can equal the US for Canaan?

AM: Overall they probably don't. But we have to consider this from the viewpoint of what as a firm we do best. In the US, about one-third of our business is in healthcare, but

it's all healthcare technology: medical devices, new drug development, drug delivery, diagnostic technology.

T&I: Pharmaceuticals?

AM: I look at Pharmaceutical companies more as manufacturing and marketing businesses, because they don't really develop new technology. It's mostly a generics business up to the point of a certain size, when they eventually develop their own marketing and manufacturing, but even then the business centers around differentiated IP. And even then there aren't many such companies and the ones that there are, Piramal, Avesthagen, and Reddy have all arisen out of a corporate structure, they were not begun as standalone ventures.

T&I: Where are we with valuations in India?

AM: The most impact of the downturn was felt in the B and C rounds; the part of the market that was the most inflated. A lot of series B rounds in 2007, would have happened at \$20 million, where the only thing to justify that pre-money valuation was a million users and no revenues. That kind of deal would be hard to get done today and if it happened at all, I think it would be lucky to get done at single digits.

T&I: Whereas, a more typical B and C is?

AM: It depends upon the key areas of the business. If it's an IP development business, then it might get a B round in support of its IP development. And in that instance we would expect some customers, prior to the B round.

T&I: What happened with IT and Semiconductors for India? AMD said no go to India?

AM: In that case, and we saw that company a couple of times, from what I understand they set up an assembly plant as a first phase, but there remains a question about whether there is sufficient global demand for a semiconductor fab in India. I think that part of the problem with AMD and its partners in India establishing a fab here, was that they were hoping for a push towards local sourcing.

Biography For Alok Mittal



Age: 37

Education: Master's in Computer Science, UC Berkeley 1995. Bachelors of Technology, Computer Science, IIT Delhi, 1994.

Work History: 1996-1999 Hughes Software Systems – Communications and Telecom systems. 1999-2005 – JobsAhead. 2005-2006 Baring Private Equity Partners. 2006-To Present – Canaan Partners.

Family: Married. Two daughters. Wife does freelance software development.

Hobbies: Music, biking, blogging.

Last Book read: The Last Lecture

If I weren't in PE I'd be: A travel journalist.

Advice for Foreign Investors Who Want to Participate in

India: Hire local talent and be open to tweaking the model to suite the opportunity set in India.

Worst Investment to date: Some personal ones.

T&I: And the consumer electronics industry will never come to India?

AM: I think that India could service some of the demand locally for some consumer electronics products; cameras, computers, mobile phones, and other products. But if consumer electronics continues in an overcapacity mode, I think enough people are losing money on consumer electronics products so that I don't think that there are people who want to rush into investments in India.

T&I: PCs? Dell has an India plant.

AM: That makes a lot more sense. From a cost effective standpoint, what drives the PC industry is not just costs, but also manpower and India can compete on that front. And there are tax benefits from assembling a PC in India, rather than just bringing it in for local consumption. So some of that happens. Flextronics does some of that here, at the bottom end. Dell is in India. So I see more of that happening. Getting to a semiconductor fab is going to take more time.

T&I: Final words on the investment environment in India, to close?

AM: One observation is about funds that have begun investing here over the last two or three years and who are anticipating raising another fund, which is going to be hard. So GPs are anticipating a drop in their fee levels. And given that they've just started investing and have only been here for a few years, GPs are going to struggle to cope with this and other things which are starting to happen because of the fund raising environment over the next year. That will reflect on staffing, on how GPs manage themselves. And fund raising is going to be hard.

T&I: How many people are going to be raising new funds for India?

AM: Over the next two or three years, it's going to be everyone. And my expectation is that for the next two years, the fund raising environment is going to remain where it is. That is bad news, on the horizon, for domestic funds hoping to raise their second and third funds. And entrepreneurs in turn, in India, are taking more time to adjust to this new environment; more time than I would have liked. It means that they're going to end up spending money faster than I would like, and forcing them to go out in the market and raise new money in this environment, and that will present challenges too.

Thank You

T&I