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GVFL Starts \$11.4M Indian Biotech Fund

Indian venture capital investor GVFL Ltd. (formerly Gujarat Venture Finance Ltd.), said it is raising an INR500 million (\$11.4 million) fund to invest solely in Indian biotechnology companies, one of the first such funds in India.

The government of the state of Gujarat has provided the fund with an initial infusion of INR50 million (\$1.1 million). GVFL president Vishnu Varshney said the firm would raise the rest over the next year from investors including banks and corporate institutions.

Ideally, he said, the firm would like the 12-year close-ended fund to have about 10 investors.

Varshney said he intended to use the biotech fund to invest INR40 million to INR50 million in six or seven start-up companies, and use the rest for follow-up investments as portfolio companies win investments from international venture capital funds.

For prospective investments GVFL plans to look in fields including biopharmaceuticals, marine biotechnology bioinformatics and industrial biotechnology. It will focus on its home state of Gujarat, which has one of the strongest industrial sectors in India.

Since 1990 GVFL has raised four information technology funds totaling about INR1.25 billion. Through those funds Varshney said he had made 56 investments and divested of 38 of them (the company's Web site says 36). The vast majority of exits have been through trade sales. "In India it is very difficult for a small company to have an IPO," Varshney said.

Varshney said that while GVFL initially made smaller investments, the INR40 million to INR50 million that the company plans to invest per biotech companies is about the same as his recent seed investments in IT companies.

The Indian biotech sector has taken a long time to find favor among regional investors, when compared with the more robust IT sector. GVFL's fund and a similar biotech-focused investment vehicle from Andhra Pradesh Industrial Development Corporation Ltd. show that change may be on the horizon.

"Biotech has always been there," Varshney said. "The only thing is that it has a very long gestation period," since getting a drug approved generally takes longer than the four or five years it can take an IT company to start paying off.

Varshney says the sector will gain momentum as it draws attention and money from international investors. Boston-based Mithra Group, for one, is seeking out life science investments in the country.

While India has many qualified scientists and a massive pharmaceutical industry, some doubt that the relatively small investment a company like GVFL can make will pay off against later stage investments from deep-pocketed foreigners.

Anne-Maree Byworth, a portfolio director for South and Southeast Asia at CDC Group PLC, said foreign investors could undermine a fund like GVFL in biotech more than they did in IT. "[Biotech] takes longer, it will always take longer," she said. As a result, a seed company can work effectively before their "stake gets diluted disproportionately." Thus the industry's strength could undermine local investors. CDC is a U.K. government investor that places investments in developing countries through third party fund managers.

Ahmedabad, India-based GVFL was started in July 1990 by the Gujarat Industrial Investment Corporation as a World Bank initiative. It functions as an independent company.