

PE funding elusive for most SMEs

Only 35 deals have been signed between Jan 2008 and July 2009

G Seetharaman. Mumbai

Funds are invariably a pressing issue for most entrepreneurs, more so for those starting or running a small or medium enterprise.

Though venture capital (VC) and private equity (PE) funding has grown considerably in the last decade or so, micro, small & medium enterprises (MSMEs) are still founded mostly with the entrepreneur's own money or, in some cases, with loans from banks.

Ramesh Kumar, MD and CEO, Zwrin Pragati Capfin, a Delhi-based non-banking finance company which is into VC funding and micro-finance, said PE opportunities in India vis-a-vis globally are relatively

not much. "And whenever they have been realised, it's the larger players who have benefited," he said.

Whatever funding happens for MSMEs is late-stage funding, when risks for the investors are less than at the time of founding of the company.

Between January 2008 and July 2009, there have been only 35 deals worth Rs 937.5 crore by seven VC/ PE funds with MSMEs. "The requirement is at least 40-50 times more," Kumar said. India has over 15 million MSME units.

The downturn played its part in further slowing momentum in PE funding for MSMEs. Seed funding, or early stage funding, for MSMEs dropped nearly 90% in 2008, while late-stage funding was relatively unaffected, an industry expert said.

According to a report by data service provider Venture Intelligence, the first nine months of 2009 saw 140 deals worth \$2.36 billion compared with 365 deals valued at \$9.48 billion



in the same period last year. Though things are better than a few months back, PE activity is expected to be subdued over the next 12 months.

So what ails PE funding in MSMEs?

"Lack of awareness is a primary issue," said Chandrakant Salunkhe, president, SME Chamber of India.

Moreover, any proposal from an

Empty pipeline

The first nine months of 2009 saw 140 deals worth \$2.36 billion compared with 365 deals valued at \$9.48 billion in the same period last year

Seed funding dropped nearly 90% in 2008, while late-stage funding was relatively unaffected, an industry expert said

Whatever funding happens for MSMEs is late-stage funding, when risks for investors are less than at the time of the company's founding

MSME is looked at with skepticism because of a lack of business plan and transparency. Harsh Kaul, CEO, Sidbi VC, said given the stringent norms, only 10% of the MSME units will qualify for funding.

"I come across issues like income-tax and provident fund default in MSMEs," Kaul said.

An entrepreneur running an en-

gineering unit near Coimbatore, requesting anonymity, said he approached a couple of PE firms two years back. "But they said my books were not clean enough," he said.

N A Raghu, MD, Chennai-based Technoplus Services, which does boiler and energy audits, did not find the going any easier when he tried sourcing funds for two of his friends' firms. "One is a Rs 150 crore edible oil company and the other one is into trading carbon credits. Both are profitable. I approached various PE funds everywhere, but their response was not better than that of banks, which were not very helpful themselves," he told *DNA Money*.

Sangeeta Modi, partner at Aureos India Advisers, a PE fund manager, said a PE fund normally looks at 300-400 companies every year, of which only about 100 are MSMEs. "They finally invest in 3-4 companies. So MSMEs attracting PE funding is indeed difficult," Modi said.