Indian VC Iron Pillar says 2019 deal pipeline looks good, aims to close 2 deals soon

To fill a void in the mid-stage funding space, venture capital firm Iron Pillar is trying to make a niche for itself by providing growth capital at the Series B to Series D stage.

Founded in early 2016, the VC firm has so far backed NowFloats, BlueStone and Servify and with the recent closure of its $90-million maiden fund, Iron Pillar is gearing up to pick up the pace and close two deals by year-end. Subsequently, it plans to invest in at least one company every quarter.

The six-member Iron Pillar founding team includes former Morgan Creek executive Anand Prasanna, former Citigroup India executives Sameer Nath and Harish Hulyalkar, former DFJ India head Mohanjit Jolly, former DBS executive Ashok Ananthakrishnan and former Xander Group executive Ashish Shah.

The fund recently partnered with global investment network Draper Venture Network to help gain global access for its portfolio companies as well as for Iron Pillar.

In an interview with DEALSTREETASIA, Harish Hulyalkar, Partner at Iron Pillar talks about the partnership with Draper network and China's Fosun, as well as clearing the air about its reported investment in Snapdeal.

Edited excerpts:-

What is Iron Pillar's investment strategy?

We are a venture growth fund that straddles Series A and late-stage rounds of funding. When we started out as six partners, we realised early on that there was plenty of capital at the early venture stage and there was plenty of capital available once you were raising over $50 million. But, at the mid-stage, when companies are raising between $10 million and $50 million, there weren't many funds in India who could lead those rounds. A lot of companies were finding it challenging to raise capital because of that, and the companies had to either prematurely sell themselves or consolidate with other players, or do things that otherwise they wouldn't have, had there been no lack of capital. There aren't a lot of players in this space, and now a few funds are coming in with a similar strategy as ours, which validates our belief. We invest in Series B through Series D opportunities with $10-50 million round sizes. We initially invest $5-7 million and keep some reserves for follow-on rounds.

Can you elaborate on the relationship with the Draper Network?

Because we provide growth capital, neither are our companies very early nor very mature in their evolution, so besides our capital, they need connections to a global network to help them grow. The power of a global network is several multiples that of the individual network of the six partners of Iron Pillar. That is one clear benefit that we see for our portfolio companies, in terms of getting access to the 22 venture funds across the globe within the Draper network, for their growth aspirations. The network will also help from an exit or a capital raising perspective, since it's important that the companies get access to the right set of investors when they go for subsequent round of investing; sometimes the right set of investors may not be based in India. That's another role that DVN can play. Also, from our Fund's perspective, it gives us access to LPs and an investor network that we can tap into, although that is not the primary objective.

Draper also has a partnership with Blume Ventures in India, is there any overlap?

Blume is an early-stage investor, so typically there would be at least one more investor between Blume's investment and ours. Early-stage investors like Blume would have 70-80 companies in their portfolio while we would have 8-9. The requirements when the company is young and starting out are different, whereas we come in at a later stage of the company's life cycle, when the company and the product are quite well established. So, even if Blume and us decide to tap into the Draper network, it would be at different stages and for different reasons.

What is the status of your strategic partnership with Fosun? Does that clash with your partnership with Draper Network?

The partnership with Fosun was never a part of the fund. It was a side pocket vehicle available to us, to co-invest in large deals, north of $50 million, where we would ordinarily not be able to participate. While we've looked at a few opportunities, we haven't done a deal with Fosun yet. The Fosun partnership is totally different from our partnership with Draper, because Draper is a network that we are a part of, and none of the Draper network firms invest in our deals, while the Fosun partnership is an ability for us to participate in larger deals if we wish.

What is the deal flow like in the level at which you operate-Series B to Series D? Are you benefiting from the fact that there was a boom a few years ago and now only the best have survived for you to consider?

We have been tracking this space for some years now. At any point in time, if you take the top 15-20 VCs in the county who fund Series A and pre-Series A rounds, there are about 250-300 companies that have raised a Series A round and around 100-150 companies that have raised a Series B round. So at any given point, there are about 300-400 companies which are exactly in our sweet spot. These are the highest quality companies that we can get to see, and within this universe, we have to pick 8-9 companies in our first fund. So the supply of companies is way more than the number of funds who are looking to invest in these companies.

Coming to your fund, there was an SEC filing earlier that you were looking to raise up to $150 million, but you finally closed at $90 million. What was the reason for that?

Our target was $100 million, with a hard cap of $150 million. We were not comfortable raising more than that given our strategy for our first fund. So while we fell slightly short of the $100 million that we were targeting, we were very close to it and the shortfall is not material at all

What was the reason for the shortfall?

10% is not really a material shortfall. We are a first time fund. Hardly any first time funds in India to have raised the quantum that we have raised. Our source of capital is both domestic and international, which again many funds have not been able to do. We have raised enough to have a critical mass of capital to deploy, do a good job of that for our investors, and raise more capital later.

What is the status of the AIF?

The $90 million is the total capital raised including the AIF. Of the $90 million, two-third is from overseas and the remaining is through the AIF. We raised capital domestically in India both from institutions as well as HNIs, therefore the AIF is meant for these investors who couldn't invest into our Mauritius fund as per regulations.

What is the strategy for deployment of your fund?

We have already made three investments from our fund and we are making two more as we speak, so by the end of the calendar year we should have five companies in the portfolio. In terms of the sectors, we are a tech fund, so we do only technology sector deals, but we look at tech broadly, because technology today is disrupting every traditional industry in the country. We like companies that are very strong on innovation and trying to do something different. We tend to shy away from spaces where 4 or 5 people are trying to do the same thing. Then it becomes a capital game, and the company with the highest capital wins. For that strategy, you need big pocketed investors. We like companies that are innovative and are doing things which no one else is doing. That's not to say that we will never look at capital intensive industries. Once we announce our next two investments you will see a pattern that we have invested in companies that are truly differentiated within their chosen sectors.

Snapdeal was also said to be one of your investments, what is the status on that? Are you still invested?

Snapdeal was not one of our investments. When it was announced, Iron Pillar had just come together and one of our partners helped connect a Chinese investor who wanted to invest in Snapdeal, with the company since they did not have access to the company. Snapdeal was never part of our fund and it was never meant to be.

Broad picture-how has the investment market in India shaped up? And how do you view it in the next couple of years?

In some ways, what has happened in the last 2-3 years is good for the entire ecosystem. People have realised that just starting a 'me too' business will not work. If you want to get funded then you have to do something different, so that improves the overall quality of entrepreneurship in the country. Companies that we are now seeing at the Series B stage are much more sorted than what we had seen a couple of years back when we had just set out. Entrepreneurs are much more focused now on unit economics, and they recognize that unless they had a credible path to profitability they may not be able to raise additional capital.

However, on an overall basis, there is still more capital needed in the system, especially at our stage. Also, at our stage, the majority of the capital even today is coming from investors outside of India, so the local ecosystem needs to develop. If we take a 10-year view of how the venture capital industry will evolve in India and who will provide capital, Indian domestic institutions will have to start looking at this asset class more actively, much like in China for example.

You’ve been on the road for a couple of years, how have you seen LP behaviour changing?

2016 was a particularly bad year, because almost $9 billion of VC money came in 2015 and prior to that in 2014 it was almost $4 billion so it doubled in just one year, and most of that went into businesses that were not necessarily differentiated and needed much more capital than what they thought they would. And it created an inflation across the whole landscape in terms of valuation, quantum of capital raised etc, which spooked investors. So, 2016 was definitely a bad year after the frenzy in 2015. Things started to change around the middle of 2017, after Flipkart raised its final round before being acquired. I don’t think LP interest is still anywhere near its 2015 peak - people are still cautious. Also, the exit evidence from India on an overall basis is still limited relative to other geographies. A Flipkart deal may give you a very large outcome but we need a more consistent number of exits through both M&A and public markets. Though the exit trajectory every year has been better than the previous year, we need to show more exits as a country.

How does 2019 look for Iron Pillar?

We have a fairly good pipeline for 2019 already. Typically, at any point in time, we have 5-10 companies that we have liked and are tracking. We like to track companies for at least six months before we invest in them. So, at the same time as we are closing two investments, we are also talking to 5-6 companies that we are very interested in, and maybe we will finalise at least one of them as an investment in the first quarter of next year. Our tendency is to do around one deal a quarter and that’s also our internal target. Now that the fund is closed we are also seeing a lot more inbound enquiries.

By Ishita Russell