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AMA#17 WITH ANAND DATTA DATED 25TH OCTOBER

SNEAK PEEK

Anand Datta, is the Vice President at Nexus Venture Partners. He has played various roles in his career from operations manager to consultant to founder to vice president presently.

Anand has also been a founding team member of a Series A funded startup and led growth and BD across Asia for a Series D funded startup.Anand graduated from IIT Kharagpur in 2006 and later got his MBA from IIM Ahmedabad..

.At Nexus, Anand's focus has been on investing in early-stage (seed, Series A) teams driven to solve large impact challenges in Fintech/Insuretech, Ed Tech, Health, and solutions for "Bharat". Prior to investing, Anand gained experience in Strategy Consulting (Bain), P&L roles across the globe - the US and APAC, and has worked with startups and growth-stage companies.

"IT SHOULD NOT BE A RACE OF PASSING THE BELL AND LAST FOOL STANDING. IT HAS TO BE A GAME OF BUILDING FUNDAMENTALLY GOOD COMPANIES..."

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Could you tell us a little bit about your journey into venture capital and how you got there?

Having spent a lot of time as an operator, a small stint as an entrepreneur - VC was an obvious choice.

I started my career as a consultant in Bain.

Then was a founding team member at magicpin. Started up a fintech startup which didn't go anywhere. And then led a startup in its 10 to 100 journey.

The cost of acquiring users digitally are going up across the verticals. How VCs address this with their existing portfolio of companies?

They definitely are and are a major challenge.

At the first level, if your LTV is high enough you can cover the cost. Thus retention and good gross margin become key.

At the same time if you want to reduce CAC - you have to build in as much organic growth and virality as possible.

Thus in Nexus we are a big proponent of product-led growth - Postman and Whitehat Junior are some key examples of it.

How did the recent times shift the investment mindset for investors here, if at all?

- Higher focus on unit economics and profitability.
- Get the customers and will figure out monetization - this thinking has gone down.

Also, a preference for higher tech and product orientation has increased.

What are the most important considerations for you when you're evaluating a potential investment opportunity which is pre-revenue and pre-product?

Entrepreneur/Team + Space

Space - generally is it large enough and a problem genuinely exists. Also the entrepreneur's understanding of that space.

For an early consultant, how could one chart his way through to break into VC space? Any particular skill/mindset you would advise one to focus on?

A genuine interest in startups would help. VC might look like a glamorous job from the outside, however, it is a lot of hard work. Unless you like the startup ecosystem and do have an understanding of how the digital world, it will be very difficult to break in and succeed.

What advice would you give someone who wants to break into VC if they don't have a consulting background or haven't started a company?

Honest answer is that it will be very hard to do.

You need certain skills which are key for any job.

The other way could be deep experience into a certain space and getting into that space specific VC firms.

Key skills include first principle thinking, seeing the scale-up journey, tech product network, etc. If you can pick that up in your current job, it could be a way to break-in.

What is your thesis for the short video sector? Is this not a space which will get too diluted as TikTok replicated are just too many?

It is a difficult space - however, the outcome can be potentially very large. Short Video space has several tailwinds - specifically coming from broadband and Vaccum created by the ban on Chinese apps.

However, creating and hosting a good short video app takes a lot of tech and capital spend. Thus though we might see crowding now, it will move towards consolidation very soon - and some of the players will be left behind.

We will also see some community specific deep short video companies emerge. In general, where there is crowded horizontal play - companies can break out taking deep vertical strategies.

Among all the investments you have done, what was different about those that really had a breakout?

The team. I believe it makes all the difference.

How you build the team and make them work towards a common objective. Know that it is a subjective answer - but fact of life is that if you put a bunch of stellar people at a challenging problem, there is a high likelihood of a great outcome.

What are your thoughts on current start-up revolution in India and the role that expected to play by VC's in the entire setup?

I am super excited by what is happening in the startup eco-system in India. We are world's third-largest startup ecosystem and growing very fast.I believe VC's will play 3 very critical roles here:

1. Access to capital
2. Access to knowledge
3. Access to people

While access to Capital is something people relate a lot with VCs. However, good VCs are as much a co-founder in the company.

They meet a lot of great people in their day job. And in general, have seen multiple cycles and many journeys. Thus they can make a significant contribution to the startup eco-system in making sure they go beyond just capital and add value in the other two aspects as well.

How do you look at the healthtech space in the current scenario? What are some promising startups you're following here?

Healthcare is among the largest out-of-pocket expense for the Indian population. Access to quality healthcare services is a big issue.

A lot of innovative startup will definitely come up in this space.

I have in fact invested recently into a Women's sexual and reproductive wellness startup. This is a huge unmet need. Many women do not reach out to doctors and ignore such symptoms. There is stigma as well as a lack of education. A lot of this can be solved with digital which provides anonymity.

I am very keen on this space and will love to meet anyone providing a new approach to healthcare access in India.

What are the common mistakes do you think founders make while scaling-up?

I believe two mistakes which are common as well as most severe:

- Scaling up fast without a PMF. We should spend multiple iterations to find a PMF. To scale super aggressively without a PMF - aka buying your customers for metrics - can be super detrimental to long term sustainability of the company.
- Shortcutting on team building - Ensure you build an A-class team from start. Put as much effort into this as possible. Each new great addition is a force multiplier. Similarly, each bad hire can be destructive to the company.

The current tech revolution in agriculture has shown some good results however the market has a different segment from input to retailing. What are your views on the whole sector and the unit economy portion of it?

It genuinely is one of the most exciting sectors currently. Along with SaaS and Edutech - agritech will be among the top funded spaces in recent times.

Agri represents close to 15% of our economy. However, ~50% of the population is dependent on it. There are many Agri related activities which are value producing as well. It is imperative that they will get disrupted with technology.

Value chain can vary from input to production to farmgate to collection centers to mandis to markets to customers.

In each of these spaces, there are inefficiencies to be removed which will create profit pools and thus large opportunities.

I am specifically interested by new regulations and how they will open up the market linkages - this could be a super tailwind for some of the agritech companies.

Hard to go into broad based unit economics as they vary from model to model.

If you would have to specify 3 attributes that lead to a successful start-up? What would they be?

- A super gritty and sharp team
- Lot's of guidance and support
- Luck & timing

See finally like anything in the world - be it as small a thing as a school project - when you put in the best mind on to it, they will come up with ideas and ways to make a 10X difference.

Great successful start-ups are the outcome of that. Since you asked 3 - good guidance and luck increases the probabilities as in the startup world there is no certainty or linearity after all.

Which trends in insurtech are most exciting for you in the next 3-5 years. You had mentioned Parametric insurance in one of your sessions. Curious to know about others.

I am definitely very excited by parametric insurance. I also believe that embedded insurance will grow as a category. Look at CoverGenius, they had ~$250M in GWP. 60-70% of this was just from Booking.com,just 1 client.

I believe definitely there will be scope for this segment to really break out. Players like Riskovery, Koala, Igloo are very promising in this space.

For a pilot stage B2C startup which has users but no revenue yet, what are the key metrics that make them attractive to VCs?

For the stage which you mention - its a mix of the team and space.

On space, the product should have a path to high-frequency use case, Large order value, and high gross margin. Additionally, it should have a team that has deep domain knowledge of the space and can execute well.

If you ever decide to leave VC and start something of your own, how valuable do you think the VC experience will be? Other than the network that you've developed, what 2-3 things do you think will help you in your entrepreneurial journey? Also, is this something you're considering?

I am not considering leaving VC and am thoroughly enjoying my stint at Nexus.I believe VC gives you a very rich experience of working with multiple great founders and learning from them. That I believe is invaluable when you start up on your own - to know the journeys and how to overcome the most common problems.

Tactically having worked closely with multiple early-stage startup means you have a headstart in a few areas - like building a team, raising money, even registering the company, etc.

All these do give you a few undue advantages.

Is it better to have a small customer base and sustain or risk it all for scaling? What attributes will you see in a startup that is scaling gradually, to decide whether it's the right decision or not?

It will depend on the entrepreneur's vision. If you want to grow fast and scale up inordinately you will have to take up higher risk. This also does create large moats - scale itself is a huge moat. For eg. look at Flipkart - it chose to scale up fast so that it becomes the largest market place and now its scale itself is the moat. This is specifically very important for network-driven businesses.

However, you can decide to grow at your own space profitably. This generally holds true for startups where there is no winner take all dynamic. For eg. look at SaaS startups. Zoho took 26 years to reach where it is right now and did not raise any VC funding. Such spaces you can definitely decide to move slowly rather than blitzscale.

New regulations with regard to Chinese investors make it difficult for Indian VCs to

- **Raise additional funds (for some VC funds, not all)**
- **Find suitable exit opportunities (which might hamper the returns.**

What is the way out for Indian VCs?

To build great companies.

There is always enough capital for great companies - either through IPO or through PE etc. It should not be a race of passing the bell and last fool standing. It has to be a game of building fundamentally good companies.

While new age players such as Acko, Digit, etc. solve for a lot of inefficiencies in the offline insurance market, do you think the rate of market growth for the industry could eventually slow these players? How can they tackle this and the consumer 'mindset'?

Although the penetration moved only from 2.15% to 2.76% in absolute terms it is a huge movement. Life insurance today in India is around 1.5 Lakh Cr. So when you talk about 60 basis points in penetration, its a very large movement. Not to mention this is in terms of GDP, which itself went 3 fold in this period.

Thus I am super hopeful about the Insurance segment in India. Large companies like Start Health will be regularly created in this space.

That said a lot of govt. initiatives, increased awareness among the customers, and employers in general can add tailwind to the sector.

If you look at Ayushman Bharat or Pradhanmantri Bima Yojana - suddenly a large part of the population is insured. So you have the top segment which is insured, and the bottom segment which is insured, but the middle class which is not. This customer segment will get educated about insurance and will demand for it. We will thus see a large tailwind in this space - however, how much of it will be digital will need to be seen.

What are some spaces that nobody talks about, but you think have huge potential in the coming years? In your experience, what common trends did you see in startups that failed?

I believe old-age care in India is one space where I have not seen much interest, but think India will have the need for a fundamentally different approach. We are witnessing a large shift in our society where we are moving from joint to nuclear migrant families. We do not have enough support systems for our elders. Thus a definite need of rethinking the entire space in a less manual way.

The biggest common trend is the team not gelling well or infighting among the co-founders. That is the single most reason of good teams not succeeding.

What are your thoughts on the opportunity for cybersecurity startups for the fintech sector?

It is a large but difficult sector.

Financial Services are the most vulnerable to cyberattacks and security breaches. And thus they are the highest spenders on cybersecurity.

This creates an opportunity. However, there are multiple large companies already in this domain, as well as many MSPs.

Thus to breakout and create a very large outcome will need truly differentiated tech which is 10X better than the next option. Thus I believe it's a large but difficult space.

How should a college student get started with the VC journey?

I genuinely believe before joining a VC one should spend some time getting to know the startup journey up close. Helps you become a good VC.

Thus I will rather encourage you to use your entrepreneurship club to get into some exciting startups and work with them for a couple of years before you aim at getting into a VC.

Do you see a major problem in Ed-tech space that still needs to be solved? What's your take on the customized delivery of content according to the current knowledge levels in a domain and learning speed of the student etc.?

There are still multiple areas in Education which will provide large opportunitiesFor eg., while coding has emerged as a large space for continued skill addition, I believe there several areas like accounting, manufacturing where similar needs exist. So startups can take up and create a curriculum for areas such as accounting and create specific job linked courses. I can see many takers for it.Definitely customized delivery of content would be an interesting space - however close rates just on pure content based edtechs have been questionable. So I will focus on ensuring outcomes to make such delivery successful.

What's your take on the Indian fitness space?

Indian population is definitely getting increasingly fitness and health-conscious. And thus it is a booming space. However, it is also super crowded and undifferentiated. Which means if there can be a team which can truly differentiate on the product and create a better outcome for customers, they will have a shot at a large outcome.

What are your views on payment aggregator guidelines by RBI? Do you expect this to be a roadblock in the Indian fintech Boom?

In any Fintech regulations do become a source of uncertainty and challenge.

While India's payment ecosystem is a unique case where we have leapfrogged the other geographies - regulatory interventions have created challenges time and again.

Monetization in payments have been in general difficult, however, I am hopeful of payments becoming the distribution hook leading to embedded finance and outcomes from there.

Which sector in Indian startup system will build big companies like Google or Microsoft ?

Currently, we don't have any company targeting that big.

I am very hopeful of Fintech and SaaS.

If you see 50% of India's Nifty is Financial Services company. HDFC is an INR 100B company. We will definitely see some very large outcomes.

If you see Google, Facebook, etc. these all derive their valuation from global monopolistic dominance. Traditionally such Global products have not come from India. I am hopeful that few such companies have started coming up now. Look at Postman for example - I believe Global SaaS does provide a very viable opportunity to create an inordinately large outcome from India.

What has been lacking in early-stage accelerators in India compared to those in the west? Can we see good quality startup accelerators now in India with the coming up of Surge by Sequoia?

India has had some very good startup accelerators. Techstars, Entrepreneurfirst, Axilor, GSF to name a few. We have been lucky (as an ex entrepreneur and friends of several founders) to have had them in the ecosystem.

Our eco-system is young, so the addition of large new accelerators is definitely welcome. As we will get more successful founders we will see an increase in mentorship and giving back to the ecosystem. All these will definitely act as a force multiplier.

So yes, very happy and excited by each such new addition of an accelerator.