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Funding start-ups is a huge concern in India

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The life sciences sector has been to a large extent insulated from the recession that cast a long shadow on the industry. Having said that, the industry has its own set of challenges.
The situation across the sector in India is rapidly evolving, with a growing emphasis on early stage development.

The number of enterprises in the early stage development has certainly seen an increase. Although India has already received $268 million private equity investments in the year 2012, funding start-up enterprises continues to be an area of concern. Enterprises focused purely on discovery research still find funding extremely hard to come by, though there has been significant improvement in the number of transactions in this space. Since 2005, $100 million has been invested in early stage companies.

The challenges of scale and feasible exit routes continue to haunt such enterprises. The Government of India has significantly increased funding discovery research through a number of schemes launched by it. However, Government funding is spread across the life cycle of enterprises. Development or late stage capital is easier to come by in India.

It would be immensely beneficial if the government could predominantly focus on high-risk enterprises in early stage development. What we need in India is baton exchange program, with the enterprise moving from one set of investors to the next dependent on the level of maturity attained. There is a significant number of individuals in India who selectively invest in early stage enterprises. However, there is no fiscal incentive for them to do so.

If the government were to incentivize early stage investment as it is expected to do in the case of first time investors in mutual funds, a lot of risk capital can be made available to start ups. Moreover, if a mechanism could be evolved for creation of high-risk investment vehicles with commensurate incentives, this would go a long way in unlocking resources.

Across the spectrum of life sciences, healthcare continues to attract a large share of private equity, primarily due to the large demand supply mismatch. Between January 2010-to-April 2012, Private equity of $700 million was invested in the life sciences sector, of which healthcare accounted for the majority share (60 percent), followed by pharma.
Going forward one may see some level of consolidation, which will also provide an exit route to early investors. In summary, the life sciences space continues to be an attractive proposition to the investing community. Individual segments offer varied promise, with some such as healthcare related appearing more attractive as opposed to those in discovery.