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Picture behind the veil of hype

Carnage on the stock markets continued unabated for the third week in a row with Nasdaq losing close to 300 points in a single day's trading for the third time in less than 10 days. Techstocks even in the Asian stock markets took a beating while BSE Sensex witnessed yet another erratic downslide. The most alarming aspect of the dwindling share markets across the globe was the bloodying of hitech and dotcom shares. In almost every market, tech shares have taken a beating, putting a big question mark on the stability of the new economy shares.

Facing the brunt of this massive downslide in share prices are several Indian and Indian-owned companies listed on the Nasdaq index. The biggest names in the tech sector including Microsoft, Cisco, Intel, Yahoo, Amazon, E-bay and AOL no doubt lost heavily in terms of market value in this frenzy. But the most disturbing part has been the fact that the top 20 Indian-owned tech companies in the US losing in excess of \$ 75 billion in market capitalisation in the last one month waylaying in the process darling tech stocks like Sycamore Networks and i2technologies. Gururaj Deshpande's Sycamore Networks has lost more than half of its market value in this period.

In sharp contrast, several traditional business stocks steadily improved their standings guided by impressive year-end performance results. This has brought the focus right back on the role of valuation of a company in the new idea based economy. Fund managers and investment Gurus feel that the uptrend in tech stocks in the new economy is as virtual as the business they stand for. Several experts who are authorities on investment and fund management have spoken openly about the performance of tech stocks in recent weeks and all of them feel that the picture behind the veil of hype is slowly getting clearer on the booming dotcom revolution. Fund manager and president of Templeton emerging markets world fund Mark J Mobius' statement that dotcom stocks are grossly overvalued and could witness sharp drop in prices has only added fuel to the fire.

But, there is no need to scramble to the exit as the downturn actually means restoring sanity in the dotcom market with euphoria making way for pragmatism. Dotcom is not a bubble that can burst at small market fluctuations. Understanding the reasons for the fluctuating behaviour of the tech stocks would help decipher the problem. The primary reason for the volatile nature of new age stocks is the non-availability of an established business model. In the idea-based economy, traditional rules of valuation wouldn't hold good. For one the knowledge economy cannot be equated to the industrial economy where productivity was based purely on physical, tangible factors. In the new economy where ideas rule the roost the return on investment many a times would not be readily seen.

There's obviously no need to press the panic buttons as yet, but greater degree of sustainable value needs to be built in by dotcom companies to resurrect the lost credibility.

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'Indians are the best entrepreneurs in the world'

Kanwal Rekhi, President of The IndUS Entrepreneurs (TIE) was in India recently on a mission to inspire young Indian entrepreneurs to make it 'big'. G.P.Vinaybabu caught up with him during his brief sojourn in Mumbai and spoke to him about dotcom ventures, entrepreneurship development and the future for Indian entrepreneurs.

What reasons do you attribute for the downswing in dotcom fortunes of late?

Market has cooled down a lot on the dotcoms front. There is a definite collapsing of the bubble. Even the big names like amazon.com have lost heavily in market cap of late. Most of the dotcoms are pouring VC funded money on advertising rather than striving to add value to their ventures to become viable. They aren't concentrating on generating long-term sustainable value. All are depending on advertising based revenues. We already have media like TV, Radio, Newspapers, and Cable, which have a greater reach than Internet. How many mouths can you feed from the same pie? But I feel some sanity is now returning to the market. In the dotcom world some people will make money but majority of the people will not.

Where do you think this will freeze up?

I can see sanity returning. The capitalist economics work on efficient use of capital. So you can't be lazy and expect to succeed.

How do you gauge the success of a dotcom venture?

Using time tested valuation models like discounted cash flow, growth rate and net value of assets. In today's idea-based economy the valuation models are not fully established and market place is still grappling with the situation. How much value can you assign to brands? It is intangible but definitely has some value. Hotmail doesn't have revenue. Microsoft paid 400 million dollars for hotmail. Now Microsoft can sell their products to lot more people than Bhatia could have done with Hotmail. One of the theories of dotcom success is that if you can build up an asset, which may or may not be of much value to you, it will definitely be of immense value to a third party who can leverage on it. That's what has created the theory of dotcom success, which relies on somebody acquiring you. That theory was gained strength when Satyam acquired Indiaworld last year. Most dotcom companies are still hoping and praying that somebody will come and acquire them. Even in the US it is the same case. But only value can sustain in the long term.

Which are the most successful dotcom companies?

Yahoo with a \$60 million profit tops the list. E-bay is also a highly successful venture. But Amazon.com is still a suspicious case. If a company that earns \$ 600 million in revenues cannot make profits there should be something peculiar about it.

How many ventures have you funded and which are the most successful ones?

In all I have funded around fifty ventures. Some of the successful ones are Exodus, Versata, Cybermedia, Ambit and Selectica while the ones that have failed include Nirvana, Intellymatch and Blue.

How do you account for the success of your ventures?

It is not magic. Investing in new ventures is a very high-risk game. Most of the ventures will fail. Even the best of the ideas and best of the entrepreneurs will fail. Everything will be determined by the market sentiments.

What keeps you going?

I love to be with entrepreneurs. I draw a lot of strength from entrepreneurs.

Are you gaining from your investments?

Yes, not only financially but emotionally I am gaining huge pay offs. Being an angel investor keeps me going, keeps me young and keeps me productive all the time. It is not about funding. It is about inspiring, making a difference, and acting as a change agent. Our goal is no less than to make India a powerful country and to transform India and make it very productive.

India is a powerful country. But it is under performing. We as people are under performers. It is really puzzling why such a vibrant people can't succeed. Inspiring people to become entrepreneurs is our objective. It is not the job of the government. Government can never produce wealth. It is the entrepreneurs who produce wealth. We provide all tools and means for them to succeed. India is a very capable country. It has a powerful democracy. Through TIE we are giving a message that 'we can do it'. IT is restoring faith of Indians that we can also compete in a sunrise industry with the best in the world.

What is the difference between Indian entrepreneurs in India and abroad?

Indians are the best entrepreneurs anywhere in the world. If Indian Entrepreneurs are successful in America it is because the environment there is conducive for entrepreneurship. If they are doing poorly in India it is because of environment. But Indian entrepreneurs are so good that they are succeeding inspite of that. People like Narayana Murthy, Premji, Ramani, Harish Mehta are succeeding inspite of hurdles.

What do you think should be done to improve the situation in India?

Infrastructure needs to be improved. There is nothing wrong in our genes. We are a very creative people. Look at Indians reaching great heights in Hollywood and music. Unfortunately Indians are underachievers. We are first-rate people in a third rate country. Americans say "If you are so smart why aren't you rich? Why are you making money?" Despite all these I see a very bright future for India. I see the Indian GNP growing at the rate of 10% per year. If you grow at 10 % per year for 5 years you per capita income grows by 8 fold and can easily reach \$ 4000 in the next 8 years.