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Bessemer chases AI startup that could disrupt India's IT Sector | Report



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Article Content:

Bessemer Venture Partners is eyeing pre-seed, seed, and early-stage investments in artificial intelligence companies that aim to disrupt India's \$283- billion information technology services sector, according to a top executive at the global investment firm.

"About 95% of our conversations are with early-stage founders, but that's because these are very early days of the disruption of the market," Nithin Kaimal, partner and chief operating officer at Bessemer Venture Partners India, told Mint.

Bessemer evaluates 20-30 companies working in the AI for information technology (IT) services sector every week. The firm is comfortable offering up anything between \$3 and \$6 million, according to Kaimal. "This is enough for them to get things off the ground and

get their first set of clients. If they're scaling well and are successful, we have no problem writing another cheque."

The investment fund is willing to go up to \$15 million or more in the subsequent rounds, given its access to Bessemer's global capital pool as well.

Venture capital firms have stepped up efforts to back AI companies in the country over the past year. Accel, Lightspeed Venture Partners and Peak XV have been actively searching for startups working on building AI applications, and even the prominent VC firm Andreessen Horowitz is looking to set up an office in India. According to CB Insights, AI startups have managed to secure 51% of the funding and 22% of deals signed so far this year globally.

However, it is still early, and there are two ways to look at how the AI startups and IT services combination will evolve, according to Swapnil Bhatnagar, partner at Avasant, an independent technology sourcing and deal advisory firm. "In the initial phase, partnerships are a lot more likely. Once enterprise scalability has been proved, we might see some acquisitions."

India has been a stronghold for IT services companies for decades, led by the big five: Tata Consultancy Services Ltd, Infosys Ltd, HCL Technologies Ltd, Wipro Ltd, and Tech Mahindra Ltd. But now AI tools are cutting into their revenues.

However, their global competitor, Accenture Plc, has managed a relatively successful pivot with AI. In its quarterly presentation in September, the firm called out \$2.7 billion in new revenue from 'advanced AI solutions'. The Dublin headquartered company also claims that its advanced AI bookings totalled \$5.9 billion. In comparison, most Indian IT services companies do not disclose their AI revenue. HCL was the only one to report \$100 million in AI revenue in the September quarter.

New investment thesis

AI in IT services as a sector is a new roadmap for Bessemer. The firm's roadmaps are detailed investment theses where it identifies investment opportunities, major shifts and discontinuities across sectors. These guide its investment decisions.

"This is a very peculiar India-specific phenomenon—a dominant position in IT services. A lot of the founders we meet have the front-end capabilities that you see in the West, but they also know what it takes to work with a product engineering team back home," said Kaimal.

Bessemer's decision is rooted in the belief that AI can disrupt the IT services industry's traditional workflows and reduce the repetitive nature of several tasks, while also

creating a meaningful impact in shorter timelines. "Executives are willing to keep a chunk of their budget for a pilot with a startup, and if they can perform and show impact on KPIs (key performance indicators), they're happy to give them more business," said Kaimal.

The firm divides investable companies into three opportunities under the new road map: pure software plays, AI-enabled services, and services for AI. Of the three, most of the deals that Bessemer is evaluating currently fall under the first two buckets. "My team is spending a lot of time on vertical AI companies," Kaimal said.

Earlier this month, Bessemer wrote a \$3 million seed cheque to AI-based Life sciences company Graph AI. In the past, it has invested in HR assistant Leena AI, which raised \$30 million in its Series B round led by Bessemer alongside existing investors Greycroft and B Capital Group.

The firm is currently investing out of its second India-focused fund from a corpus of \$350 million. While it has been investing in the country since 2006, Bessemer only set up an India-focused fund in 2021, sized at \$220 million.

Over the last 15 years, the investment firm has invested in over 80 startups in India, including Swiggy, Perfios, Urban Company, BigBasket and Boldfit. Nine of its portfolio companies have gone public, including Bharat Matrimony, Indian Energy Exchange, HomeFirst Finance Company, Medi Assist, Motilal Oswal, and Shriram City.

According to analysts, AI disruption in the IT sector may not happen overnight. However, startups' agility and automation services will put pressure on IT services firms.

"In the long run, some of these AI startups could either become acquisition targets for big IT firms or grow into niche product companies of their own," said Munish Vaid, vice president at Primus Partners, an India-headquartered management consulting firm. "Either way, they will force the industry to evolve from being "services-heavy" to "IP-led."

State of AI

Globally, AI use by enterprises is growing. The number of companies using AI for at least one business function has gone up from 50% in 2022 to 78% by July last year, according to a survey by McKinsey & Co. Similarly, since OpenAI made generative AI popular, its use in enterprise went from 33% in 2023 to 71% as of July last year. However, only 16% of enterprises surveyed were using AI in five or more functions, up from just 4% in 2021. There are companies that have successfully disrupted the IT sector with AI and drawn investor interest globally. Uniphore, which creates AI platforms for businesses, recently raised \$260 million from Nvidia, AMD, Snowflake, and Databricks. Similarly, UnifyApps, an enterprise-focused AI startup, recently raised \$50 million in a new round led by WestBridge Capital.