



Privately funding the India story

India Inc is increasingly attracting investments from global private funds. India-dedicated funds too are being set up to finance corporate India's growth aspirations. **Daksesh Parikh** reports

In the days before economic liberalisation, it was just established industrial houses such as Tata or Birla which had easy access to the capital market, largely on the basis of their pedigree. The investment environment has radically changed since then. A whole new breed of entrepreneurs now occupy front ranking positions in their respective fields. Many of the old business houses which had the foresight to embrace change, have restructured, re-focused and have flourished. The rest have withered into insignificance. And in their stead, many have emerged who could become future stars in manufacturing, technology or knowledge-based services.

Indeed the investment environment is so attractive that investors are flocking to scores of funds, domestic and international, taking a heavy exposure on the future of these companies. Besides foreign institutional investors and mutual funds, private equity funds, hedge funds and venture capital funds are also taking concentrated bets across companies and segments. Many India-dedicated funds have, and are, being set up. And allocations in existing ones are being ramped up for corporates in south Asia, India and China.

Draper Fisher recently announced plans for setting up a \$200 million fund for start-ups. Timothy Draper, founder of Draper Fisher Jurveston, a Silicon Valley venture fund, on his first exploratory visit to the country in October went on record to say that he was adopting a contrarian approach. "Now that everyone's crowding in China I have to go someplace different. And that place is India." Draper is also contemplating to set up an office in India. Draper is well known for funding Sabeer Bhatia of Hotmail, the free internet e-mail service which was subsequently sold to Microsoft for over \$400 million.

There are several other VCs which are rushing to India. Unlike Draper, they are not contrarians but are willing to bet on the India growth story. Among them is West Bridge Capital Partners, a Mauritius based company focusing on IT and BPO businesses and having offices in Silicon Valley and Bangalore. It recently procured subscriptions to its second India VC fund of \$200 million.

WestBridge, along with Sequoia Capital Partners, took up a minority stake in Indiatimes.com, a leading internet news



STILL CHERRY PICKING: Raja Kumar of UTI Ventures Fund

portal belonging to the Bennet Coleman Group, publishers of *The Times of India*, *The Economic Times* and several other newspapers. The two funds collectively contributed \$36 million.

Then there is Henderson Private Capital of Henderson Global Partners which has an existing exposure to Indian companies and is targeting \$400 million in its second New Asia Pacific Fund-II.

The reason for the buoyancy in private equity flows towards India is not difficult to fathom. UTI Ventures Fund has launched a second fund — India Ascent Fund — where it hopes to get around \$200 million by end of this year. This fund will focus on industries and companies in India which are either globally competitive or address the growing domestic consumer demand. Says Raja Kumar, MD and CEO, "Our deal flow has been extremely good and we are still cherry picking." He adds that the India fancy is not recent. "It is just that the gears have changed and more

money is coming in, a manifestation of the confidence developed by global investors in India, in a year that has witnessed unprecedented fund raising. You will also remember that this has been a good year globally for fund raising and it is natural that larger sums of money are being targeted towards India and China".

Apart from fresh exposure being taken by small and medium funds, the big boys in the business, like Carlyle and Blackstone, are also stepping up their investments and exposure to India by hiring top talent to man their new offices being set up. The 20 year old Blackstone group, currently managing over \$14 billion across 87 countries, opened an office in Mumbai in May. At the time of appointing Akhil Gupta as senior managing director, Stephen A. Schwarzman, Chairman and CEO of The Blackstone Group, stated, "We believe that India has enormous potential and that foreign direct investment can play a significant role in supporting the country's eco-

India Beckons: Recent funds proposed/launched

Carlyle	New Buyout Fund	\$1 bn
Blackstone	India Dedicated Fund	\$1 bn
Draper Fisher Jurveston	Venture Cap Fund	\$200 mn
Henderson Pvt Capital	New Asia Pacific Fund	\$400 mn
WestBridge Capital Partners	2nd fund Planned	\$200 mn
ICICI Ventures	ICICI Property Fund	\$250 mn
UTI Ventures	2nd fund Planned	\$200 mn
IDFC Asset Management	IDFC Pvt Fund II	\$300 mn
HDFC Realty Fund	HDFC Realty Fund	\$200 mn

Source: Industry estimates

Recent landmark deals

Fund	Investment	Amt Inv.	Nature of Activity
3i	Nimbus Communications	\$45 mn	Media Content Provider
ICICI Ventures	Refractory business of ACC	\$60 mn	Refractory
Sequoia Capital + WestBridge	Indiatimes.com	\$36 mn	Web media and content
General Atlantic	Jubilant Organosys	\$24 mn	Healthcare
IDFC Pvt Fund	Gujarat Pipavav	\$28 mn	Ports
Gen Atlantic European Inv	NDTV	\$26 mn	Media and Content
Newbridge Capital	Shriram Holdings	\$100 mn	Truck and equip.funding

Recent Exits

Warburg Pincus	5.4% stake in Bharti Televentures	Vodafone	\$810 mn
Citigroup Ven Cap Fund	41% stake in i-Flex Solutions	Oracle	\$593 mn

Source: Industry estimates



DIVERSITY OF ENTERPRISES TO INVEST IN: Dhananjay Mungale

conomic growth. For our part, we have allocated up to \$1 billion for investment in India and will, in due course, be raising a dedicated fund for long term continued investment in the region.”

The Carlyle Group has also opened a new office in Mumbai in August to further support their two teams focussing on growth capital and buyout deals. Rajeev Gupta, who was earlier the joint managing director of India’s largest investment banking company, DSP Merrill Lynch, has taken over as MD of the Carlyle India Buyout Team. The two Carlyle teams will be drawing on the resources of three separate funds aggregating \$1 billion. Another country specific fund is reportedly being put in place by the group.

In the rush to invest in India, it is not just people from finance and investment banking circles who are being drawn in to head private equity operations in the country. Vivek Paul, the high profile CEO who quit IT major Wipro, has now been appointed as managing director of Texas Pacific Group, a \$15 billion fund and is reported to be actively scouting for investments in India.

Quite apart from the lure of business opportunities, what is drawing funds to India is the success of the existing funds. General Atlantic Partners, which has been active for the past five years and has \$10 billion under management, has invested around \$750 million in India and China. It plans to invest roughly \$1 billion in eight to 12 companies in India every year. Past investments include software major Patni Computers, GECIS — a BPO company spun off from the GE group in 2004 in India — and Lenova in China, which purchased IBM’s PC business. Abhay Havaladar, the MD of General Atlantic, had established the India office in 2002.

While each fund has its distinctive investment style, one common underlying objective across all funds is to spot the emerging leaders. The investment mandate is either sector-specific or scheme-specific. Many global institutions, for instance, invest in an existing fund. Unit Trust of India, for instance, successfully manages the India Ascent Fund, a venture capital fund with \$170 million invested in medium-sized software, communications, ITES and life science companies. ICICI Venture Fund, one of India’s largest domestic private



DIVERSITY OF ENTERPRISES: Stepping up exposure to India

funds, has specific sector funds including ICICI Econet, India Advantage Fund, Real Estate fund and so on. General Atlantic generally looks at providers of IT and ITES in companies 'whose growth rates are in excess of the market, generally'.

The investment size may also vary. Some may stagger it over the growth phase of the company. UTI Ventures invested \$2.3 million with TDA Capital Partners in a Chennai-based ITES company Rev IT Systems Pvt Ltd. ICICI Venture Funds, which funds real estate development, took an exposure for funding property development of the pharmaceutical major Glaxo to a builder upward of \$50 million. Earlier, it had tied up with the Oberoi construction group to buy another Glaxo property valued in excess of \$22 million.

"One major draw in favour of India is the diversity of enterprises which span over virtually all sectors," says Dhananjay Mungale a financial expert, who quit his high-profile job at DSP Merrill Lynch to set up his own advisory venture. The breadth of opportunity in India is much higher than places like Indonesia, Malaysia or Taiwan, he says.

Many of the private equity funds tend to seek a place on the board and participate actively in laying down the policy framework to ensure quicker rise of the enterprise. This is especially helpful in case of new economy businesses where traditional assessment by investors may not get the same valuation as may be received from a private equity investor. Again this is helpful in case of an unlisted company. The placement by Indiatimes.com of a small

stake valued at \$36 million with WestBridge Capital and Sequoia Capital will help it in getting some benchmark valuation of its internet portal. This may help it in getting a fair valuation as and when it decides to go in for an IPO.

While IT and ITES tend to attract funds, largely because of the chance of getting multiple growth valuations in a short period, several other sectors are also being examined. Communications is one such sector. 3i, another global firm, which recently appointed Anil Ahuja, formerly with J P Morgan, as MD and co-head for Asia in March 2005, recently invested \$45 million in Nimbus Communications. Nimbus is a media, entertainment and sports content provider, besides providing content to the mobile telecom industry.

It is not only fresh equity offerings which are being snapped by private equity providers. General Atlantic took a near 8 per cent stake in the television media company NDTV from Shyam Cellular Informative Projects at \$26 million. Jubilant Organosys, a pharma manufacturer, recently raised \$25 million in August through a private placement.

Buyouts are also becoming common as new entrants, who feel that they could add more value by buying out the entire enter-

On the Web

The Carlyle Group: www.carlyle.com

The Blackstone Group:
www.blackstone.com

Draper Fisher Jurveston: www.dfj.com

WestBridge: www.wbcp.com

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prise from existing VCs, get into the game. The exit could be through an inbound or an outbound M&A deal. The two biggest ones were the buyout of Citigroup Venture Capital's stake in i-Flex Solutions by Oracle for \$593 million. The biggest one in 2005 was the \$1.56 billion buyout by Essar group company for Hutchinson Essar of promoter Rajeev Chandrasekhar's stake in cellular major BPL Communications.

The sizzling M&A market provides a ready exit to investors at a premium and is also one of the reasons for drawing private capital. In some cases a private equity financier may take over the promoter's stake and warehouse it till such time as he is able to find a suitable buyer. In September 2003 for instance, ICICI Ventures bought out the majority stake in Tata Infomedia, a large commercial printer.

Buoyancy in the stock markets also acts as a confidence booster to companies to raise capital for funding new capacities and expansion, while simultaneously providing good exit points to private investors. Warburg Pincus's realisation of \$1.6 billion, in three stages, through the sale of stake in Bharti Tele-Ventures on its investments of \$300 million made between 1999-2001 is now a part of folk-lore. Citiventure had made similar profits in the sale of its stake in i-Flex to Oracle for \$593 million. More than the actual profits earned it is the ease of exit which is drawing private equity to India.

Venture fund managers are acting as facilitators for change in ownership in the Indian corporate space. By doing that, they are picking the winners of a new breed of entrepreneurs likely to flourish.