

# Private Equity

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Director, MOPE

## **AGENDA**

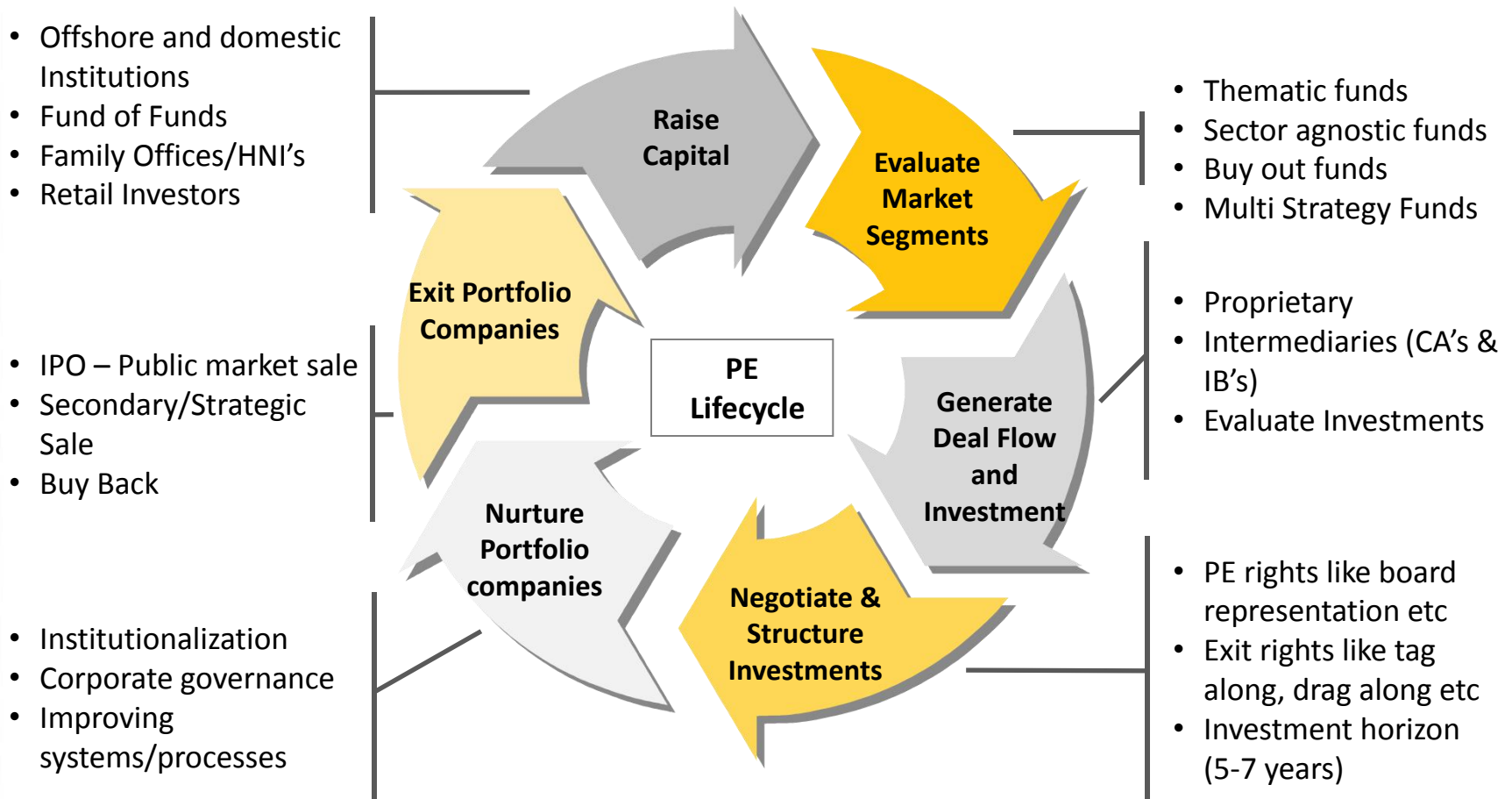
- **PE-Overview**
- **Why Private Equity**
- **PE-India**
- **Conclusion**

## MOTILAL OSWAL PRIVATE EQUITY

- MOPE Investment Advisors Private Limited (“MOPE”) currently manages and / or advises four funds with combined corpus of Rs. 2,200 cr
  - India Business Excellence Fund-I (“IBEF-I”), a 2007 vintage Rs.550 cr fund
    - 13 investment across 11 sectors
    - Have partially exited from 2 companies
  - India Business Excellence Fund-II (“IBEF-II”), a 2011 vintage Rs.950 cr fund
    - Fund raised from marquee global Institutional investors
    - Already made six investments
  - Actively deploying capital in growth opportunities
  - India Realty Excellence Fund (“IREF-I”), a 2008 vintage Rs.200 cr fund
    - 7 investments in Mumbai, Bangalore and Pune
  - India Realty Excellence Fund (“IREF-II”), a 2013 vintage Rs.500 cr fund
- Awarded ‘Best Growth Capital Investor 2012’ by Venture Intelligence, a leading provider of information on private equity in India. Awardees for this award are chosen by a jury panel consisting exclusively of institutional investors

## PRIVATE EQUITY - AN OVERVIEW

**Private Equity** refers to the equity capital raised by companies, mostly unlisted, from Private/ Institutional Investors.



# INDIAN PE STORY

## Pre 1995

### 1984:

- ICICI decides to allocate funds for VC Activity

### 1986:

- ICICI launches first VC
- Fund to encourage start ups

### 1988:

- TDICI set up (now ICICI ventures)
- First guidelines issued in 1988

### 1989:

- Regional funds APIDC, GVCL and Canara VC set up.
- First private equity fund setup Credit Capital venture Fund (India) Ltd by Lazard and ADB.

## 1995-2000

### 1995:

- Overseas investments in VC Funds permitted with tax Incentives
- VC funds allowed to be formed other than banks and financial Institutions.

### 1996:

- SEBI issues VC Fund Guidelines.

### 1999:

- SIDBI capital formed
- Chrys Capital came into existence

### 2000:

- Amendments in 1996 regulations to fuel growth
- Mutual fund (UTI) sets up PE arm, UTI ventures

## 2000-2005

### 2002

- IDFC sets up IDFC PE
- Partial exits of Warburg Pincus in Bharti Airtel

### 2003

- Actis makes one of the First buy out deals – Nitrex chemicals

### 2004

- Investment activity picks' up.
- 6 PE backed companies Patni and Biocon go public!

### 2005

- Start of Broad based
- Investment in non IT industries

## 2005-2007

### Late 2005

- SEBI allows PE investments In real estate

### 2006

- Warburg fully exited Bharti pocketing around \$ 1.5 bn
- Successful IPOs of PE backed companies like Suzlon and HT Media
- ICICI and Actis becomes Active In the buy out arena

### 2007

- India – A Trillion dollar Economy
- Peak PE investments at ~15bn\$

## 2008 onwards

### 2008

- Economic recession hits PE industry In India

### 2009

- Deals pick up
- Next trillion dollar opportunity

### 2010

- Increased activity.
- PE backed SKS Microfinance gets listed

### 2012

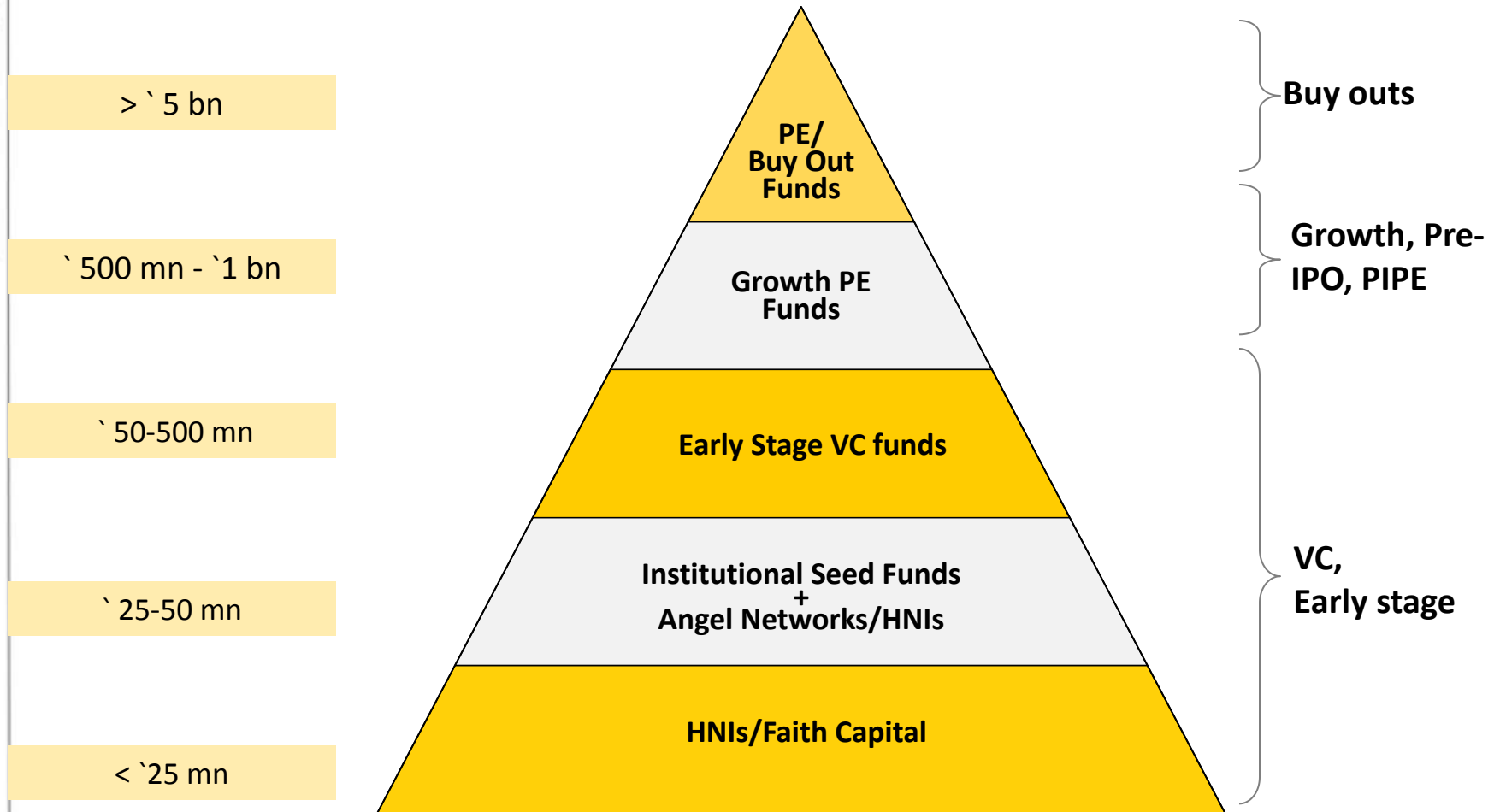
- New AIF regulations

### 2013

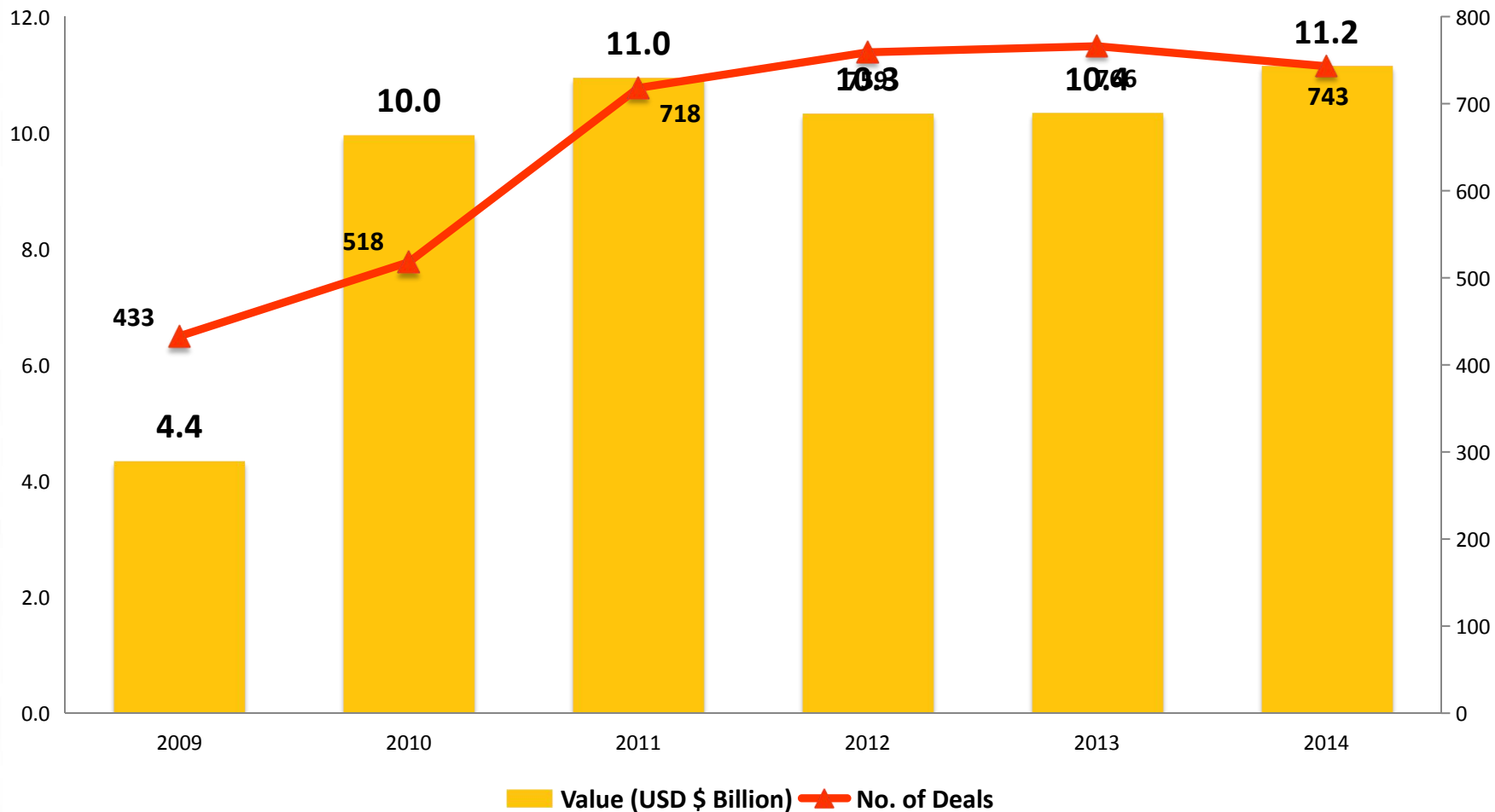
- Spurt in the number of exits worth over \$600mn

# INDIAN PE FUND STRUCTURE

In INR

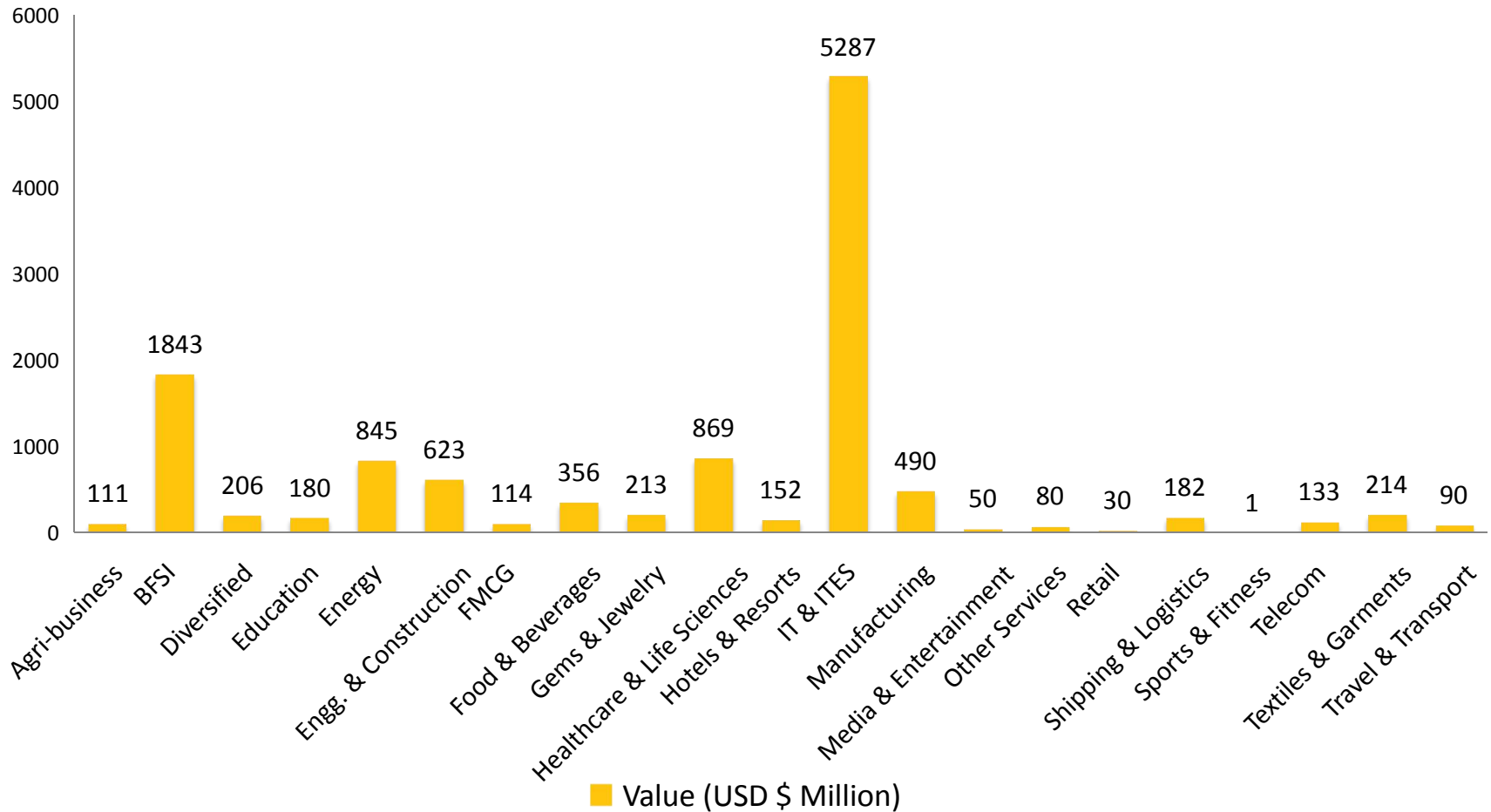


# PRIVATE EQUITY INVESTMENTS - OVERVIEW



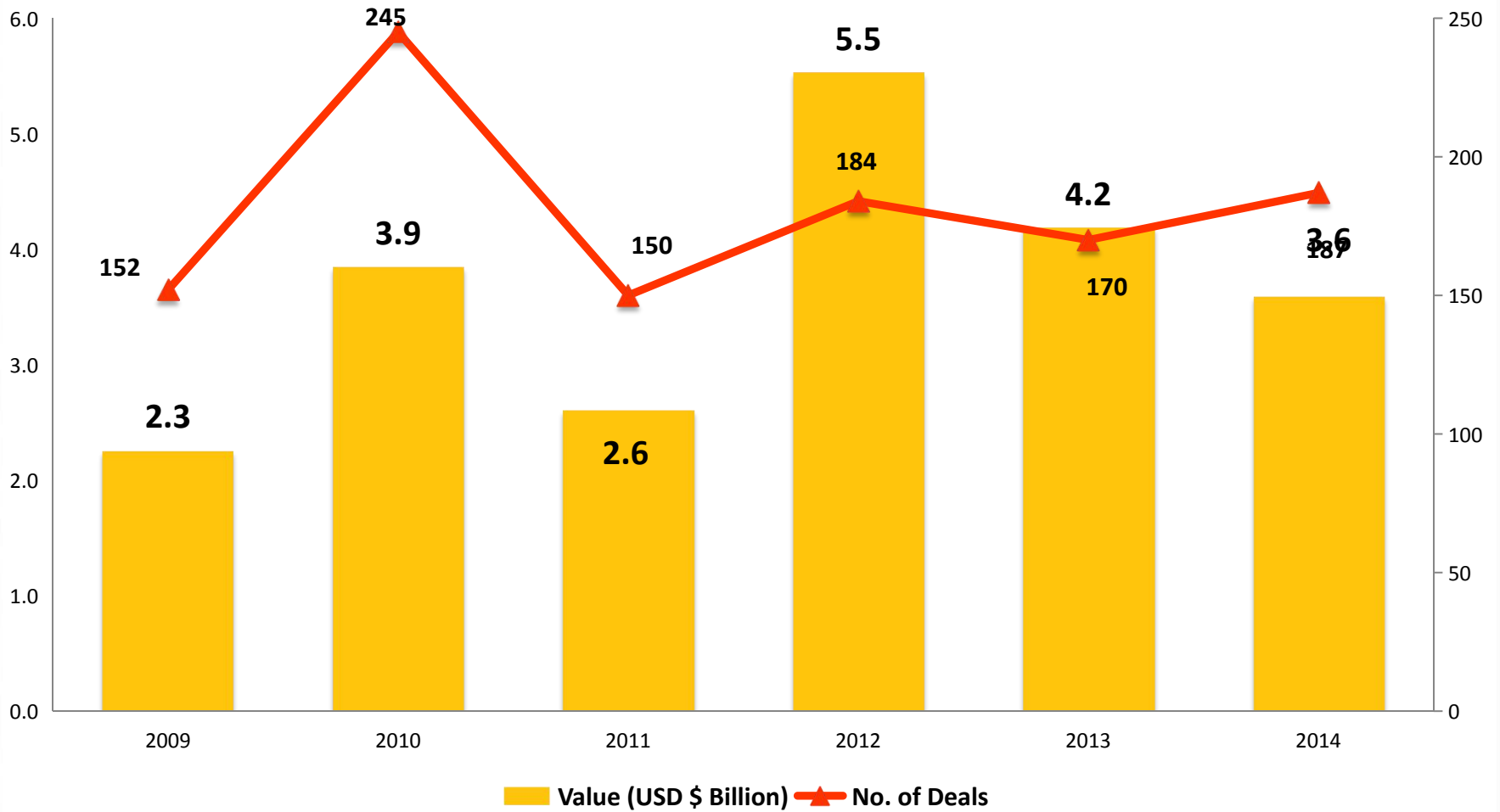
Source: VCC Edge

## PRIVATE EQUITY INVESTMENTS - SECTOR (2014)





# PRIVATE EQUITY EXITS - OVERVIEW



## TOP 10 PRIVATE EQUITY INVESTMENTS - 2014

Target	Date	Buyer(s)	Deal Value (USD \$ mn)	Sub- Industry
Flipkart Pvt. Ltd.	Jul-14	Tiger Global Management, Accel India Venture Fund, Iconiq Capital, MIH Holdings, Morgan Stanley Investment Management Inc., DST Global, GIC Special Investments, Sofina Societe	\$1,000	Internet Retail
Flipkart Pvt. Ltd.	Nov-14	Steadview Capital Master Fund Ltd. ,Tiger Global Management, MIH Holdings, DST Global, The Qatar Investment Authority, GIC Special Investments , Iconiq Capital	\$700	Internet Retail
Jasper Infotech Pvt. Ltd.	Oct-14	BlackRock, Tybourn Capital Management, Temasek Holdings, SoftBank, PI Opportunities Fund I, Myriad Asset Management Ltd.	\$637	Internet Retail
Kotak Mahindra Bank Ltd	May-14	Canada Pension Plan Investment Board	\$374	Diversified Banks
L and T Infrastructure Development Projects Ltd.	Feb-14	Canada Pension Plan Investment Board	\$321	Construction & Engineering
Sutherland Global Services Inc.	Jun-14	TPG Capital Inc.	\$300	Data Processing & Outsourced Services
ANI Technologies Pvt. Ltd.	Oct-14	SoftBank, Tiger Global LP, Steadview Capital Master Fund, Matrix Partners India II LLC	\$210	Internet Software & Services
Flipkart Pvt. Ltd.	May-14	Tiger Global Management, Iconiq Capital, MIH Holdings, DST Global	\$210	Internet Retail
Kalyan Jewellers India Pvt. Ltd.	Aug-14	Warburg Pincus India Pvt. Ltd.	\$198	Apparel, Accessories & Luxury Goods
Intas Pharmaceuticals Ltd	Aug-14	Temasek Holdings Advisors India Pvt. Ltd.	\$160	Pharmaceuticals

Source: VCC Edge

## WHY PRIVATE EQUITY

- PE comes with intelligent capital at the transformation stage of a business and help it achieve accelerated growth
- PE players act as partners to management/promoters sharing risks and rewards equally and not act as mere investors
- PE players actively provide continuous strategic assistance and expertise to
  - Expand management bandwidth by recruiting new resources
  - Help to structure strategic mergers & acquisitions, enter new territories and roll out new ideas
  - Improve corporate governance through active engagement
- Provide a sounding board with independent directors
- Support business growth by not only investing own capital but also assist Portfolio companies to raise further capital
- PE investment establishes a pricing benchmark, which helps companies to get a better valuation at the time of IPO
- PE players help portfolio companies to focus strategically in order to create maximum value

## WHAT A PE FUND LOOKS FOR INTO A COMPANY

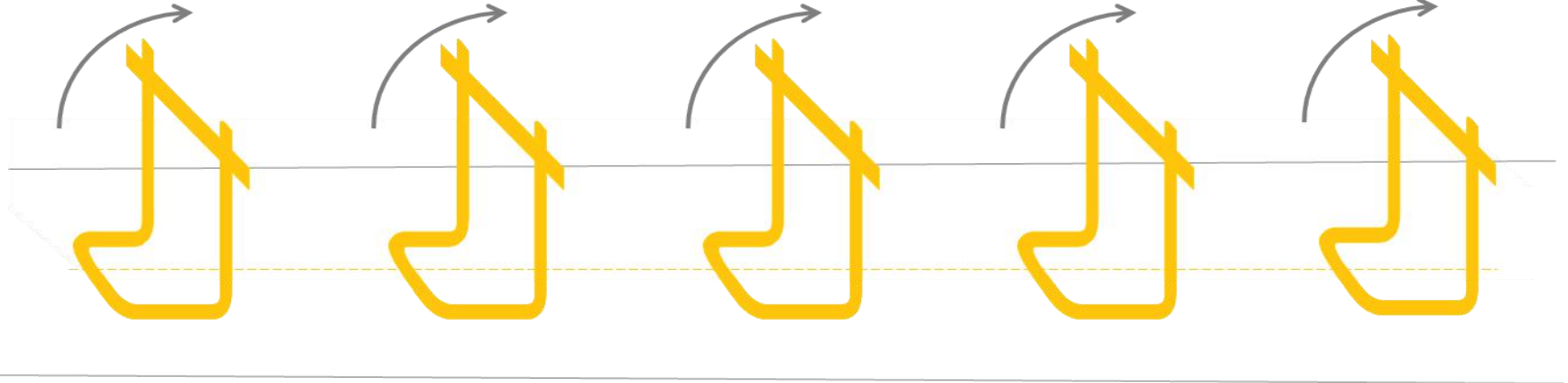
Proven  
Revenue  
Model

Passionate &  
Quality  
Leadership

Capital  
Allocation

Institutional  
Approach

Successful  
Exit



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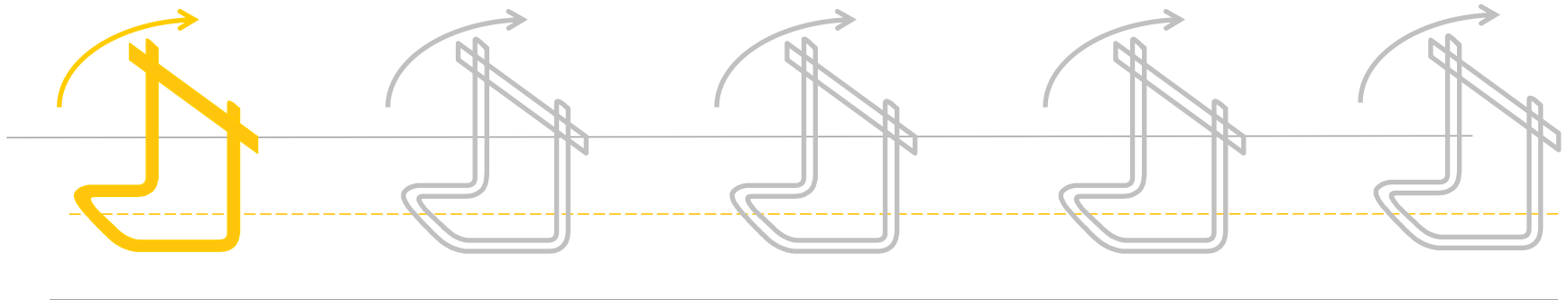
**Proven  
Revenue  
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Capital Allocation

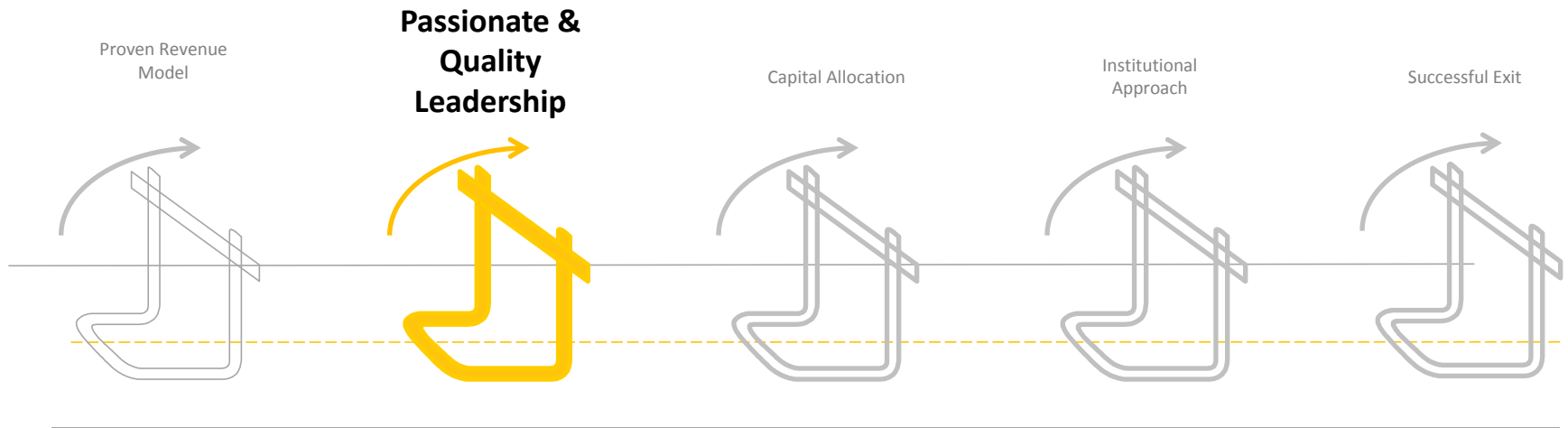
Institutional  
Approach

Successful Exit



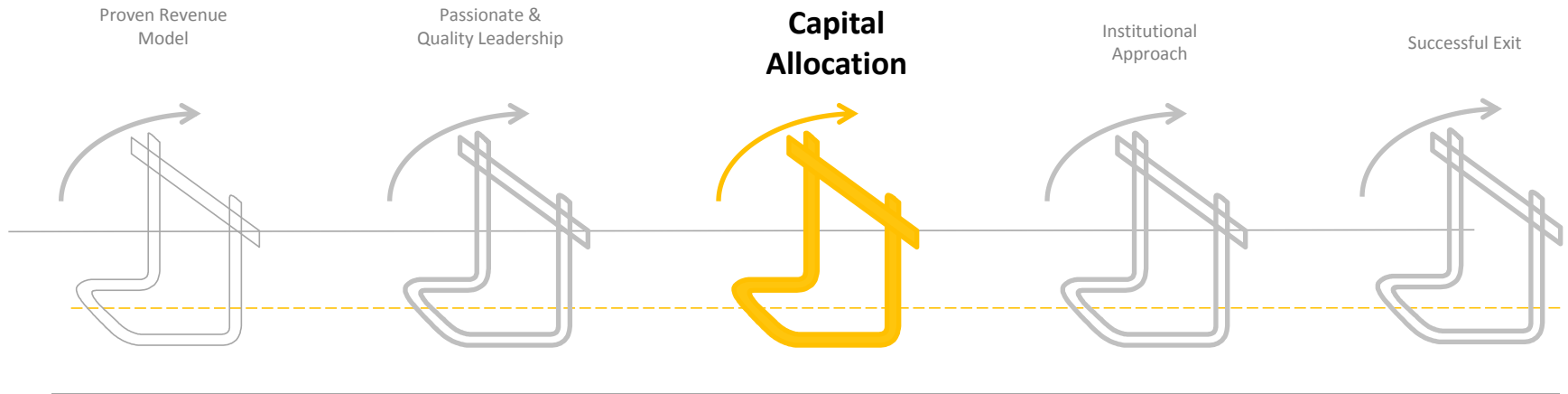
- **Assessment of revenues based on core fundamentals rather than Hypes and Hopes**
- **Businesses with sustainable margins and earnings growth**
- **Scalable businesses**
- **Operating Cash flow generation by the company**
- **Competitive strengths**

## WHAT A PE FUND LOOKS FOR INTO A COMPANY



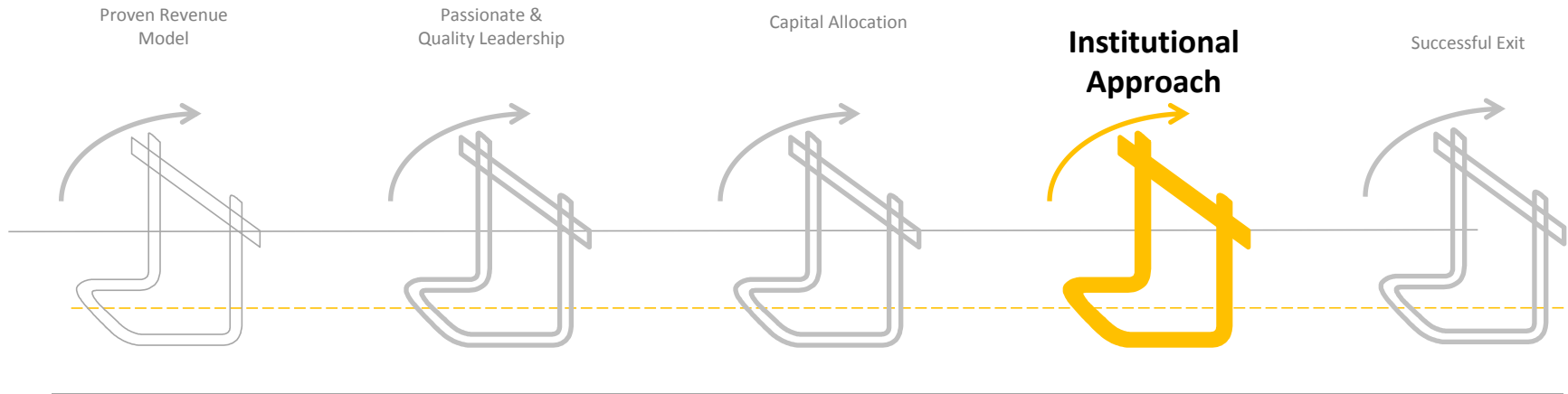
- **Clarity in vision**
- **Execution capability and organization building skills**
- **Superior understanding of businesses**
- **Role model and focused**
- **“Can we work along with management with for the next five years”**
- **End of the day, it is the Leader’s vision and execution which makes the difference between a good and great company**

## WHAT A PE FUND LOOKS FOR INTO A COMPANY



- Properly planned investment
- ROI based investment evaluation
- Investment to generate long term value
- Strategic view of every money spent
- Ability to en-cash/exit any investment

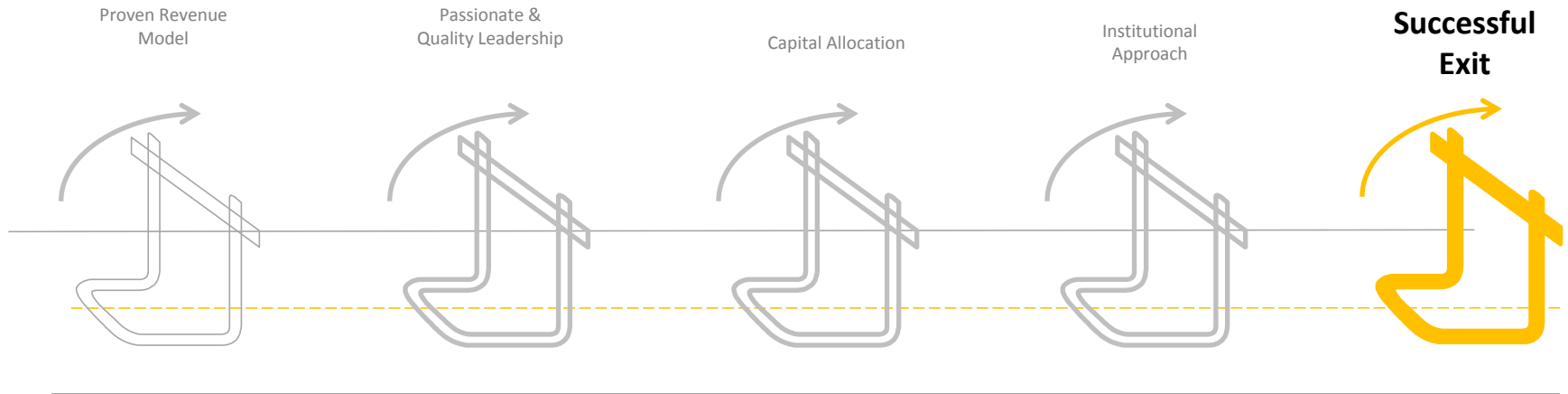
## WHAT A PE FUND LOOKS FOR INTO A COMPANY



- **Ability to embrace change**
- **Promote Institutionalization**
- **Qualified CXOs**
- **Second level leadership and efficient delegation of powers**
- **Appointment of reputable auditors**
- **Adoption of efficient systems and procedures**



## WHAT A PE FUND LOOKS FOR INTO A COMPANY



- **IPO-ability of the company after 3-5 years.**
  - **“Does the company have a story which can be sold in the public market”**
- **Secondary sale to different private equity:**
  - **“Will the company be an interest to other PE players”**
- **Strategic sale**
  - **“Does the company’s technological capabilities / market presence / niche products or services attract industry majors to acquire the company”**

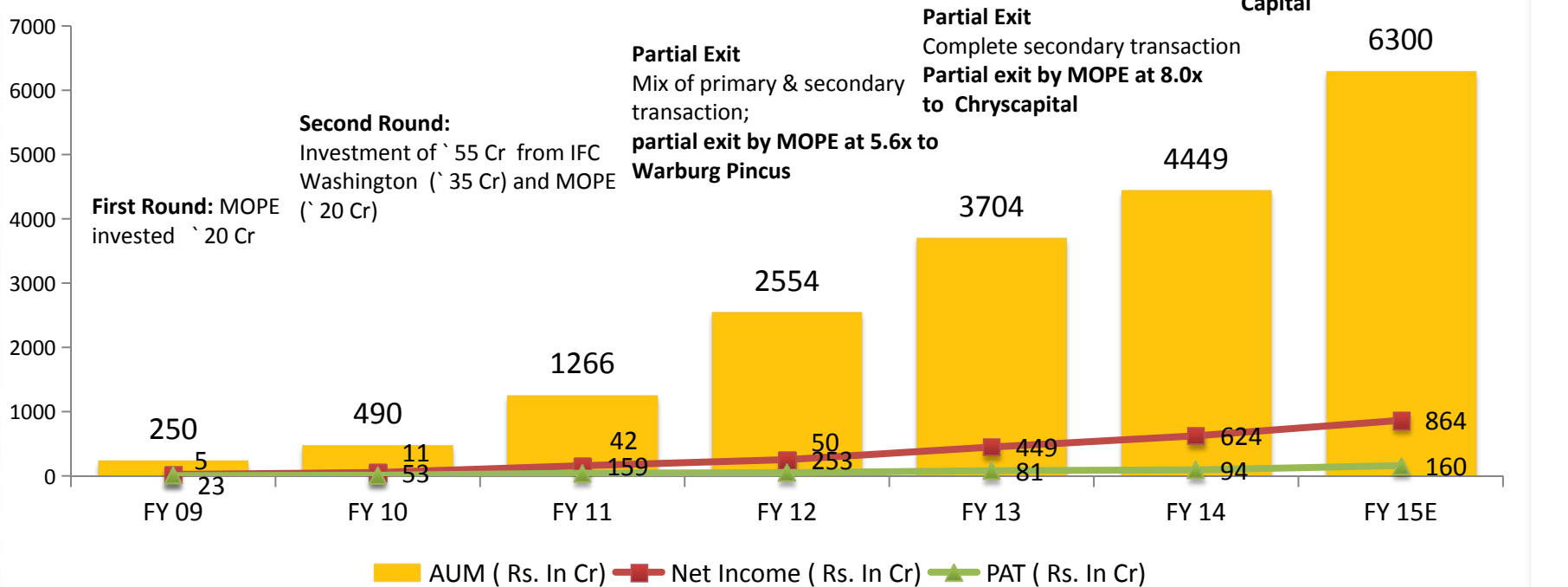
## INDIAN PE - EXIT PATTERNS

- The success of the decade old Indian Private Equity story can be judged by the returns it has been able to generate for its investors.
- A lot of investments dating back to 2007, the landmark year of PE investments, have matured for realization and are waiting to be liquidated.
- The pressure to show exits (and deliver returns) continues to mount on fund managers as LPs have become even more skeptical of the Indian growth story and the overall investment environment.
- Capital markets almost non-existent for small to medium sized companies as the public market investors looks for certain size
- This has resulted into other options such as strategic and secondary sale options taking the centre stage.
- What has made matters worse (read higher return expectations) is the deprecating rupee that's over 35% cheaper (as against the USD) today than it was in 2007 when the investments were made.

## CONCLUSION

- **Strong market fundamentals make India an attractive destination for PE investment .**
- **Private equity has emerged as an important asset class (*\$85 bn already invested*) that can play critical role in enterprise value creation**
- **Indian PE market is set to reach a more mature phase of development with average deal size increasing and number of buy outs growing at a faster rate than the acquisitions of small minority stakes**
- **Breadth and Depth increasing more as more and more Fund Managers become active.**
- **Increasing awareness of the concept of Private Equity amongst SMEs will give thrust to the industry**
- **Reach of PE spreading to tier II and tier III cities like Baroda, Nagpur, Cochin etc**

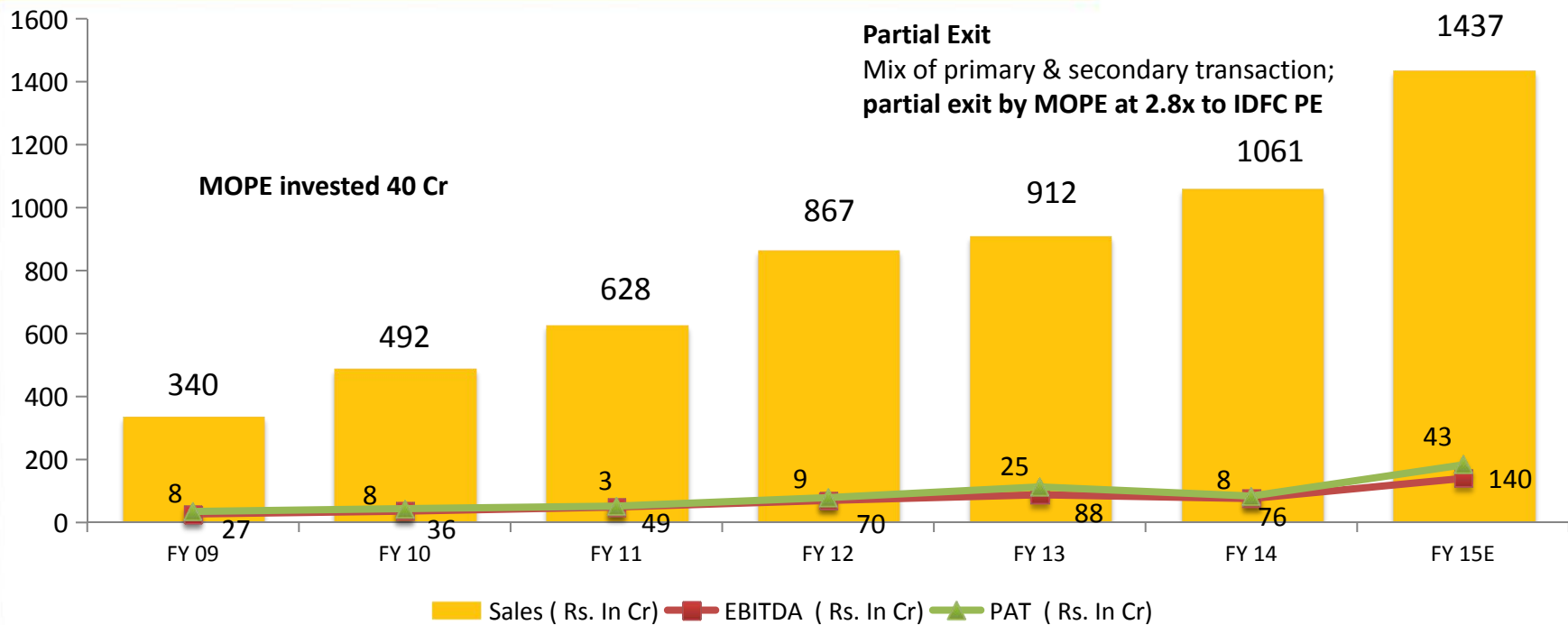
## CASE STUDY – AU FINANCIERS



## ANALYSIS

- Sizeable transaction for Warburg Pincus , Chrys Capital & Kedaara Capital
- Huge headroom for growth in future
- Good corporate governance practices in place
- Right size for an IPO;

## CASE STUDY – PARAG MILKFOODS



### ANALYSIS

- Opportunity for IDFC PE to invest in domestic consumption theme
- Reached adequate size for an IPO

**THANK  
YOU**

**Q&A**

## CONTACT

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