



Confederation of Indian Industry

PRIVATE EQUITY

Enabling Growth in Promising Indian Companies

The Positive Power of Private Equity

ADVISORY



Numerous studies conducted in the US, Canada, Europe and other geographies have demonstrated the positive impact that Private Equity (PE) funding has had on both the companies that they have funded and on the overall economy of the country. Some of the benefits include increase in sales and profitability and growth in employment, amongst others.

Foreword

India survived the recent global financial crisis better than most large economies. GDP growth is expected to be in the range of 7-8 percent per annum for the next couple of years.

Development of infrastructure to support the growth is important and a significant portion of the capital required to fund this growth could come from PE. Hence, PE is being increasingly recognised as an important asset class in India. Besides, 2010 is witnessing a resurgence of PE funding, following decreased deal activity in 2008 and 2009. Thus, it becomes important to assess a key question that is often asked, which is: “can PE firms provide value addition to their portfolio companies in India given that the PE India model is unique and that PE firms are largely minority investors?”

We short-listed a few companies that had received PE funding and interviewed both the PE firms and the company management to get their inputs on the value addition provided by the PE firms and the manner in which PE has impacted their business, besides merely providing capital. Our findings clearly indicate that behind the scenes there have been a broad range of areas that PE firms influence their portfolio companies and bring resultant benefits to the company.

The list of benefits are impressive and include providing advice on business strategy, enhancing corporate governance, helping in brand building, scaling companies domestically and internationally, funding new and innovative business models, and helping professionalise the organisation.

We hope you will find these insights interesting and useful.

We would like to extend our thanks to all the respondents for their time and contribution to this research.



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Foreword from CII

The strong growth of the Indian Economy has been led by the building of many individual business success stories. This has in turn, been fuelled by both the capital market and other forms of investment, from domestic and foreign sources, amounting to approximately USD 350 billion annually. Indeed, as the Indian economy expands to a higher growth rate, it is estimated that investments over USD 1.3 trillion may be required over the next three years.

The Private Equity (PE)/ Venture Capital (VC) industry provided over USD 50 billion of much needed venture, growth and other forms of capital for the growth of Indian companies. Over 1,500 companies have collaborated with PE firms in India so far and have excelled in several key sectors like IT/ITES, Telecommunication, Retail, Infrastructure and Manufacturing. It is estimated

that investments from PE and VC needs to be increased three fold, from a trailing level of USD 10 billion annually, to USD 30 billion.

As is well known, the key difference between PE and other forms of capital is the strong operational discipline and management bandwidth brought in, post investment, to the investee companies. Studies have shown that PE companies in India typically outperform the mean of the Sensex on parameters like profitability, employment generation and innovation by 15-25 percent.

As a result, in order to facilitate the continuing growth of its members from this form of capital also, CII has taken a keen interest in the growth and promotion of the PE and VC industry. The National Committee on PE and VC has a two-pronged agenda of advocacy to regulators and the

Government, and bringing awareness to its members of the benefits.

This publication, in association with KPMG, aims to bring out 17 critical, important and significant case studies of Private Equity industry's strong relationship with Corporate India. This will serve as a useful example of what is possible and inspire more companies with ambitious growth plans to boost their growth in collaboration with PE firms.



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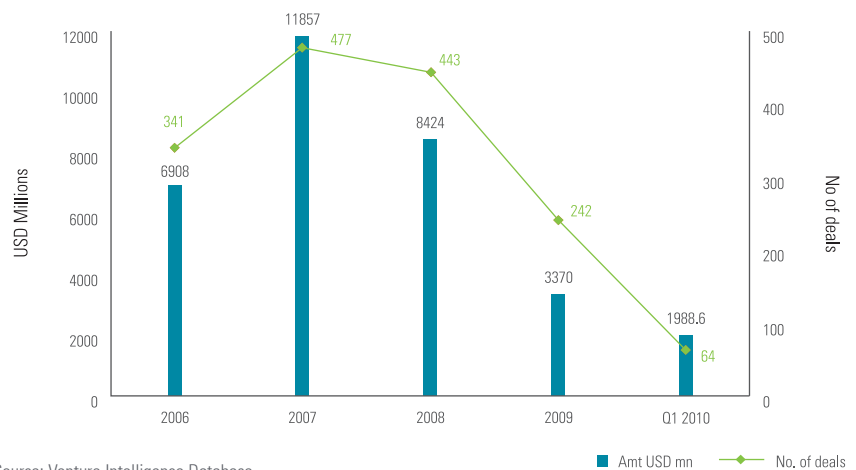
Background^{1,2}

India has a very vibrant Venture Capital (VC) / Private Equity (PE) industry with USD 32.5 billion invested across more than 1500 VC/PE deals from January 2006 till date.

It is estimated that currently there are over 137 domestic and 135 foreign PE fund managers in India.

Over the last three years, VC/PE investments were the equivalent of 33 percent to 72 percent of the total equity raised from primary markets.

PE investment in India



Source: Venture Intelligence Database



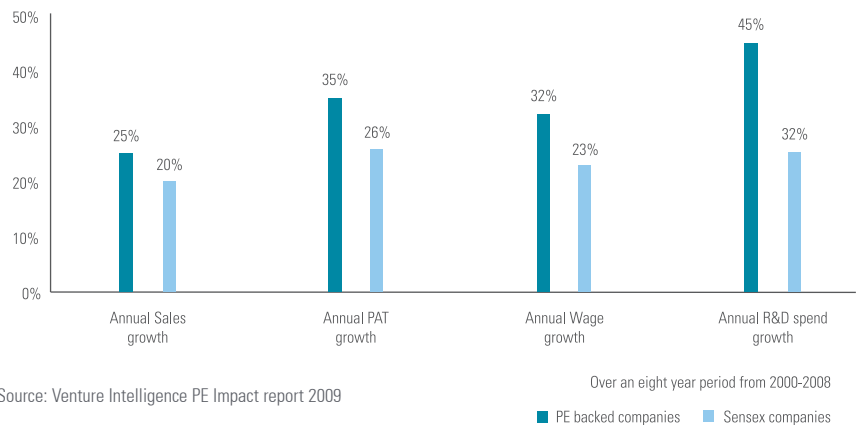
1. Extracted from the CII National Committee on VC/PE Memorandum to SEBI, December 9, 2009, prepared by Bain & Company
2. Data on PE impact includes information from Venture Intelligence's report on Private Equity Impact 2009

Importance of VC/PE investments for Indian companies

Economists estimate that India needs about USD 1.3 trillion dollars of investment over the next three years to sustain a GDP growth of 7-9 percent. This translates to USD 60-100 billion of VC/PE investments requirement over three years, against which industry estimates that PE investments would be in the range of USD 9-10 billion in the year ending December 31, 2010.

A study conducted in 2009 by Venture Intelligence on the impact of PE in India assessed how PE-funded companies have performed vis-à-vis non-PE funded companies in the same industry over eight years from 2000-2008. The study found that PE boosts the Indian economy by creating value for corporate India. This is through higher growth in sales and profitability of PE-funded companies; higher R&D spends which fuels greater innovation, and higher wage payment as compared to non-PE-funded companies. The key findings from the study are presented below.

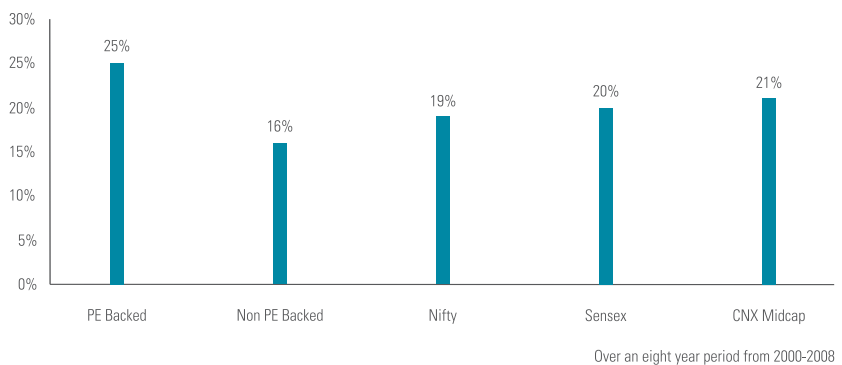
PE-backed companies have performed better than Sensex companies



Source: Venture Intelligence PE Impact report 2009

The following chart shows the annual sales growth of PE-backed companies

Annual Sales Growth

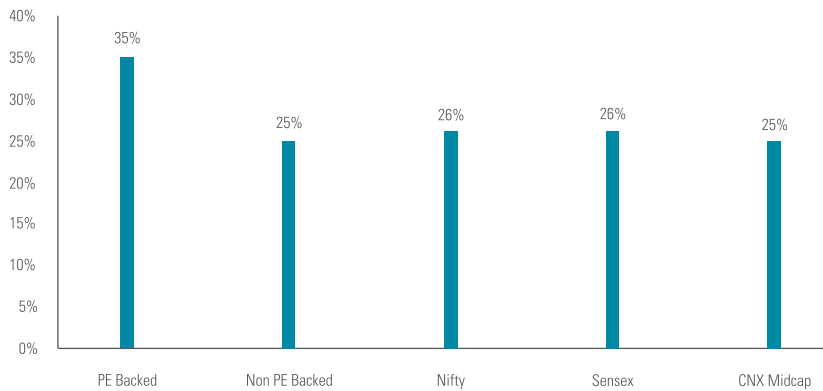


Source: Venture Intelligence PE Impact report 2009

Annual sales of PE-backed companies grew at almost 25 percent, a significantly higher rate than the 16 percent growth rate of non PE-backed companies.

The following chart shows that PE-backed companies are more profitable.

Annual PAT growth



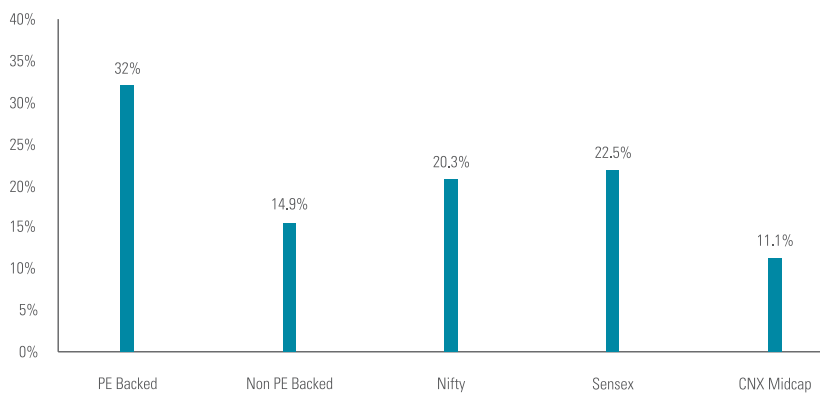
Source: Venture Intelligence PE Impact report 2009

Over an eight year period from 2000-2008

Profit-After-Tax (PAT) of PE-backed companies grew at almost 35 percent, a significantly higher rate than the 25 percent growth rate of non PE-backed companies.

The chart below shows that PE-backed companies creates well paying jobs.

Annual wages growth



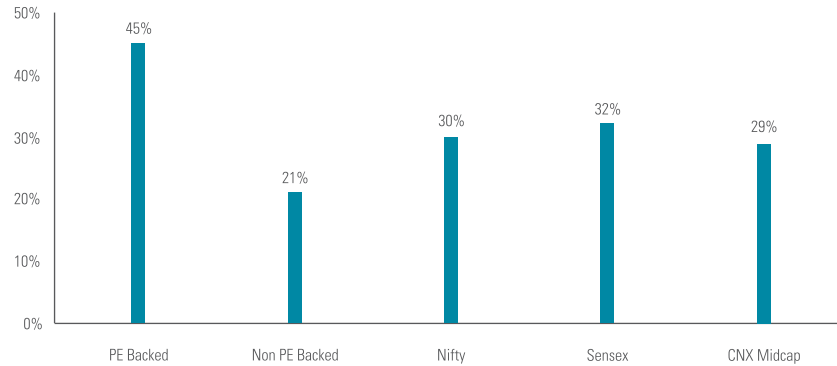
Source: Venture Intelligence PE Impact report 2009

Over an eight year period from 2000-2008

Wages at PE-backed companies grew at a significantly higher rate than at their non PE-backed peers. The growth rate of wages at PE-backed companies was almost thrice that of Midcap index companies and more than twice that of non PE-backed companies.

The chart below shows that PE catalyses innovation in the economy by spending higher on R&D.

Annual R&D growth



Over an eight year period from 2000-2008

Source: Venture Intelligence PE Impact report 2009

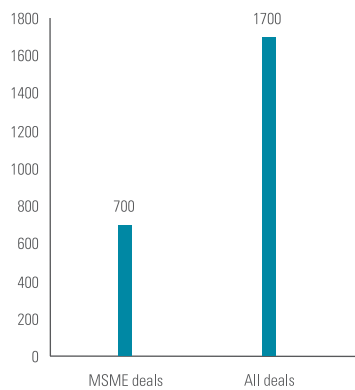
Growth in Research and Development (R&D) investments at PE-backed companies is over twice that of non PE-backed companies.

Importance of the Micro, small and medium enterprise (MSME) segment in India

Micro, small and medium enterprise (MSMEs) account for a significant proportion of listed companies. Forty percent of listed companies have a market capitalisation of less than INR 1.25 billion³ (with the Sensex at more than 17,000). Also about 80 percent of all Bombay Stock Exchange (BSE) listed companies have a turnover of less than INR 1 billion. More than 80 percent of CII members are from the MSME sector. MSMEs are expected to play a critical role in India's growth story and will continue to be a significant target for VC/PE investment going forward.

A significant 70 percent of VC/PE investments in 2008 have been in MSME companies with turnover less than INR 5 billion. Thus the average VC/PE investment deal size over the last three years was INR 700 million (excluding Real Estate / Infrastructure) as against an average deal size of INR 1,700 million across all deals.

Average Deal Size (INR million)



Source: Bain & Company

Thus access to PE funding is important for the growth of the Indian economy. Having established that PE investments are important for India, the next section analyses what PE firms do differently that enables higher performance in their portfolio companies as compared to non PE funded companies and the resultant impact that they have on their portfolio companies.

3. Approximately USD 28.03 million at an exchange rate of INR 44.595/ USD on May 4, 2010

Clearly, the WP-BT deal can claim both company-level and industry impact. A national-level impact may also be claimed since it is likely that the telecom sector's growth would have been lower without BT's presence. However, an equally significant national-level impact could be that BT established a business model imitated in many other sectors – consisting of globalised sourcing of non-core functions and global service provision through strategic partnerships.

Iconic though it is, the WP-BT deal is not typical of PE in India. Most Indian PE investments are considerably smaller in size (2009 average = USD 13.8 million)³. There is also a common misconception that only large well established companies receive or benefit from PE capital. In fact, it is the contrary. In the second section of our report we showcase some companies which benefited from PE capital. While some of these companies are well established names today, it is pertinent to note that they were not in this position when they received PE funding and that without PE funding they may not have transformed.

PE firms also face unique challenges as they are typically minority investors and so bringing changes in management style, trying out new business models, and cutting costs can be difficult to implement and can sometimes lead to conflicts between the promoters and PE investors. Nevertheless, we might expect that, should such changes occur and lead to positive outcomes, it might quickly change the firm and its industry, as was the case with BT and the telecom sector.

The question of national impact in India is a particularly interesting question because, even in developed countries, with large public markets, a large, positive national impact for PE is evident. The survival rate of companies is significantly higher in companies that have received PE. A 2009 study in the US⁴ showed that only 4 percent of startups that did not receive PE (including venture capital) survived beyond 10 years. By contrast, 27 percent of those that received PE lived beyond 10 years.

In developing countries like India, the impact may well be even more significant. There are several reasons. First, is the previously mentioned shortage of most forms of capital for private companies. PE may well be the only form of capital available in scale for the private industry.

Second, the trend towards globalisation as well as the need to create management structures that are locally adapted is a challenge that growing companies in India face. As a result, Indian corporations, as they mature, are unlikely to have the same management structure as the older companies of western nations. The modern corporate structure in Asia and, increasingly in the west (led by Silicon Valley), is built around networks of small and large companies linked by specialised supply-chains rather than the integrated, hierarchical, silo-style corporate structures that still dominate the west. PE can help Indian companies by providing expertise in creating organisations that are both well-positioned for global growth through specialisation in the supply-chain, and adapted to local management talent, ownership structures and needs.

In the following section we analyse the impact of PE and discuss cases of PE's impact on companies.

3. Venture Intelligence data base April 19, 2010

4. Puri, M. and R. Zarutskie, "On the Lifecycle Dynamics of Venture-Capital- and Non-Venture-Capital-Financed Firms," Working Paper, Duke University, 2009

Case studies on the impact of PE

Companies receiving PE potentially benefit in several ways. Some of these, as the table below shows, may be enabled by finance whereas others may be enabled by the presence of reputationally-conscious PE investors. Thus, the capital may be used for scaling up the existing business within its existing domain of products, services and geographies, recapitalising the company (for example, reducing debt, or enabling access to new debt capital and, ultimately, going for an IPO), financing more efficient output, such as through spending on technology or training staff, professionalisation, i.e., bringing in new talent, usually at the executive or senior management levels, developing new products or services with marketing and other support, financing the spinning off of existing product or service lines and acquisitions. To improve the company's reputation with clients, vendors and other financiers, PE investors may also impose non-financial changes, such as new standards of corporate governance, new business models such as re-branding or global JVs, and restructuring into more specialised, or higher-end positions on the value-chain. These are indicated in the table below. The case studies that follow are illustrations of these benefits.

The table below shows the varied and deep impact of PE. Improving the scale of operations is mostly common to every PE investment, justifying our statement at the start of this report that PE is, first and foremost, a financial transaction.

Nevertheless, as the case of the PE investments in Paras Pharmaceuticals indicates - the driver for PE came from recognition by the promoter that it was not cash, but transformational skills that were needed.

Business model changes, corporate governance and professional talent management emerge from the table below as the three most important impacts of PE. Closely following these is the impact of PE on product development and helping find acquisitions or strategic partners. Much less frequent are financial recapitalisations, spin-offs, new technologies and improving efficiency.

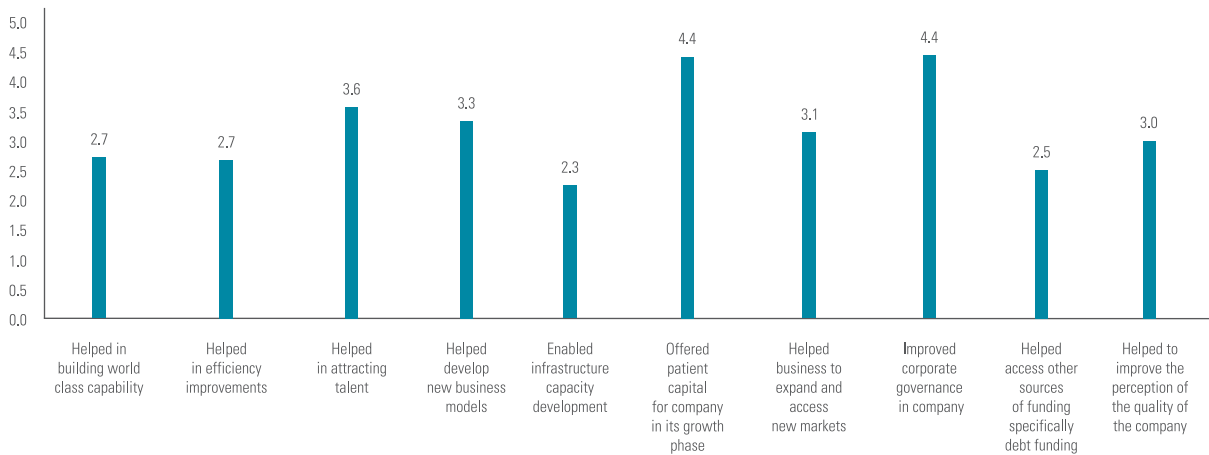
This is indicated by the table below.

	Scale	Corporate Governance	Financial Recapitalisation	Efficiency	New Technology	Talent Retention & Development	Business Model	Product Development	Spin-off /Sale	Acquisition / Strategic Partners
Ace Refractories	√	√	√	√		√		√	√	
Café Coffee Day	√	√	√							
Daksh	√	√							√	
Glenmark Pharma	√	√								√
GMR Infrastructure	√	√	√				√			
Green Infra						√	√			
Gujarat State Petronet	√	√					√			
Intelenet	√					√	√			√
Manipal Education	√	√					√	√		
Meru Taxi	√	√			√	√	√			
Paras Pharma	√			√		√				
Shringar Films Ltd.						√	√			
Shriram Transport Finance	√	√	√							
WNS	√								√	
Air Deccan		√	√	√			√		√	√
IDFC		√	√			√	√	√		
Naukri.com	√	√	√							

Source: KPMG India Analysis 2010 based on inputs received from PE firms and Management of companies profiled

While the above table demonstrates the varied impact of PE on the cases we studied, the chart following analyses the perception of the investee companies on where they believe PE firms make the most impact. Not surprisingly, improving corporate governance and providing capital for a company in its growth phase were identified as the areas of greatest impact.

PE investment impact over the past few years



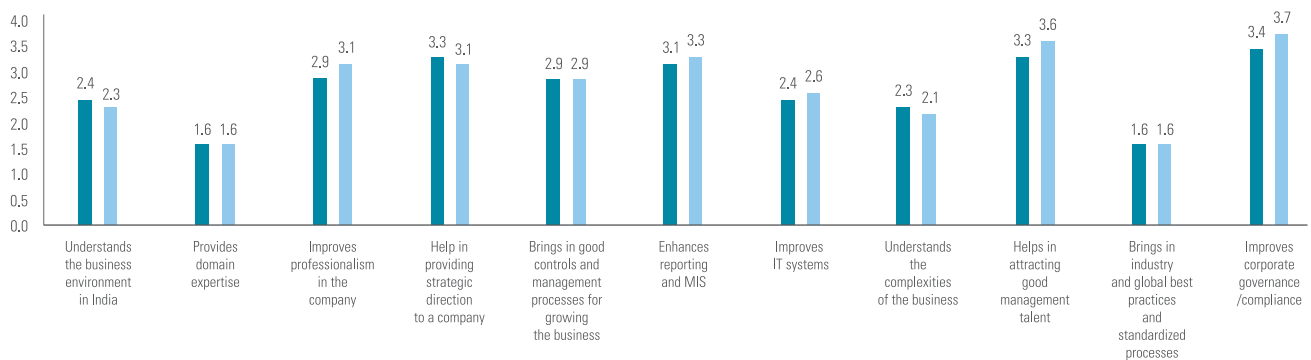
Source: KPMG India Survey of Portfolio Companies 2010

5 is strongly agree, 1 is strongly disagree

These differences in the nature of the influence and the impact arise from the nature of PE investment and the stage of evolution of the investee companies. Most PE investors take a minority equity position. The PE firm is not in control and sits on the Board of Directors and provides strategic inputs. The investee companies are small

and medium enterprises (SMEs) that need advice on how to build an organisation structure, develop a line of management distinct from ownership, improve corporate governance and scale up. Thus, the focus of PE advice is in this direction, as is evident from the chart below:

Perception / expectations of investee firms on PE firms' capabilities



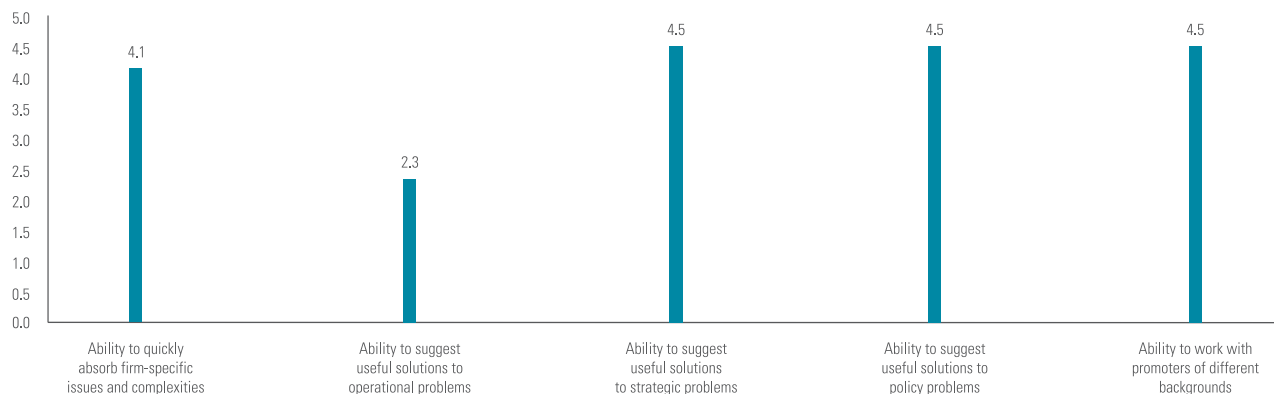
Source: KPMG India Survey of Portfolio Companies 2010

■ Pre-investment ■ Post-investment

5 is strongly agree, 1 is strongly disagree

The chart below analyses the perception of the investee companies on where they believe PE firms add the most value:

Expertise provided by PE funds to their investee companies



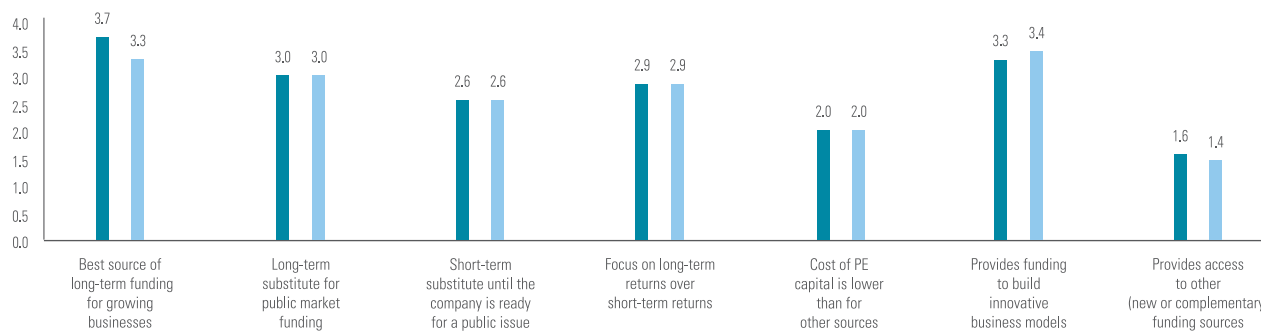
Source: KPMG India Survey of Portfolio Companies 2010

In the chart below, investee companies believe that PE is an excellent source of capital for funding to build new and innovative business models. PE is also seen as the best long term source of funding for growing businesses which confirms the 'staying power' of PE. The other implication of our findings is that what PE does in India

is intended to transform the company and the environment as well. For example, creating a market leader that is professionally run and whose success is based on innovative business models that are likely to transform the industry it operates in. Examples include successes such as Amalgamated Bean Coffee Trading

(also known as Café Coffee Day), Meru Taxi, Shriram Transport Finance and Paras Pharma.

Perception/ expectations from PE funds on Funding



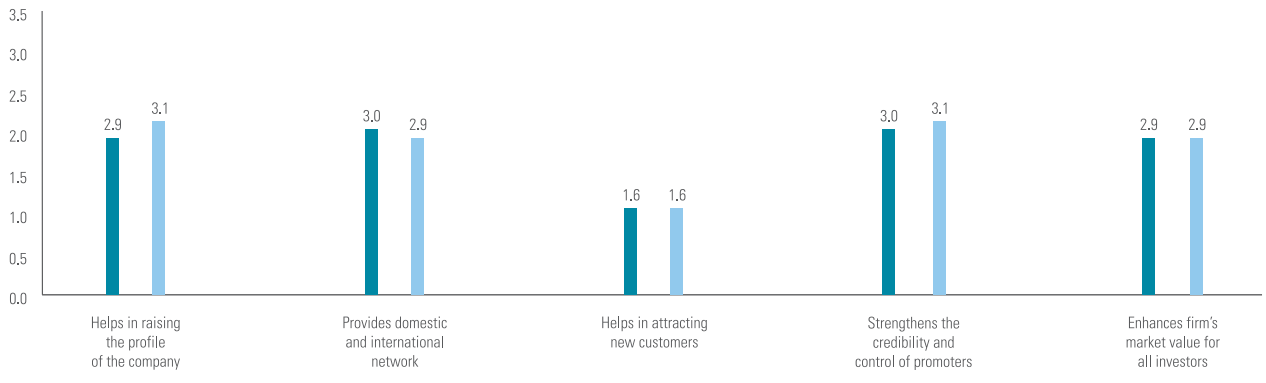
5 is strongly agree, 1 is strongly disagree

■ Pre-investment ■ Post-investment

Source: KPMG India Survey of Portfolio Companies 2010

The chart below shows that PE funding helps raise the profile of the investee company and strengthens the credibility of the promoters (owners). This is particularly useful at the time of making a public issue.

Perception / expectations from PE funds on Customer, profile and brand building



5 is strongly agree, 1 is strongly disagree
 ■ Pre-investment ■ Post-investment

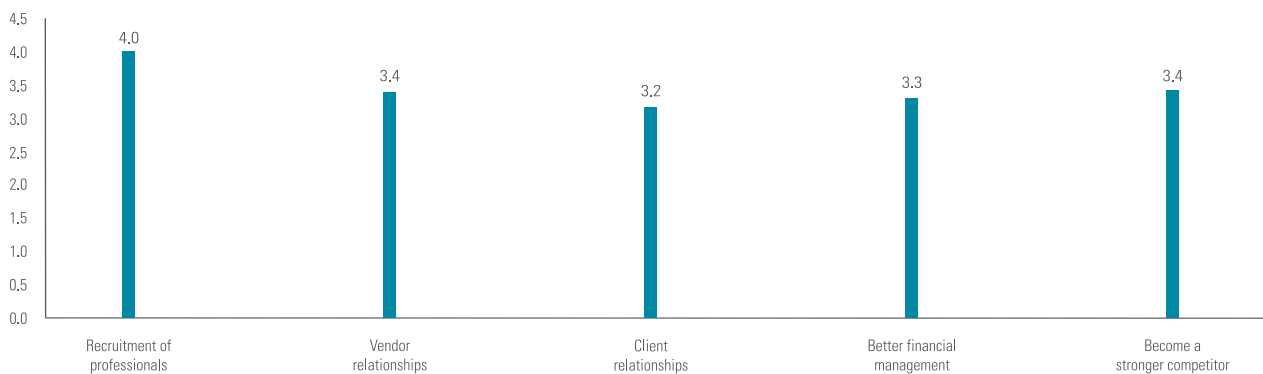
Source: KPMG India Survey of Portfolio Companies 2010

One of the benefits which is little understood of PE investment is enhancement of reputation. The investee companies that need to expand are usually too immature, as noted, to access equity capital from capital markets, and too small to tap debt capital. PE enables a financial

base which allows access to bank finance. But, PE from a reputable firm is worth much more – better terms of finance, better quality of recruitment, better client and vendor relationships and perceptions of better competitiveness.

This is shown in the chart below. It helps explain the attractiveness to investees of reputable PE firms as well as those that are more operationally involved.

Reputational advantages for being known as a PE funded



5 is strongly agree, 1 is strongly disagree

Source: KPMG India Survey of Portfolio Companies 2010





CASE STUDIES¹



¹ All data contained in each of the case studies is based on the inputs received from both the PE firms as well as the Company Managements



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INFRASTRUCTURE COMPANIES

Ace Refractories

Ace Refractories, formerly ACC Refractories, was the refractories division of the cement giant, ACC, and accounted for less than 5 percent of ACC's turnover. While the division was profitable and well-reputed, it was not a focus business of ACC. The pressure to divest increased after the global organisation Holcim acquired a majority shareholding in ACC in 2005.

In 2005, ACC divested the refractory business via a 'slump sale'² to ICICI Ventures for INR 2,570 million³. ICICI Ventures was attracted by Ace's market reputation and technological depth. It saw an opportunity for Ace in the business of supply of turnkey refractory services to India's nascent construction boom, fuelled by growth in economic activities.

ICICI Ventures decided, prior to the takeover, to retain management, but improve incentives for improved performance through the issuance of stock options and improved compensation. As a result, the management turnover was minimal. The management was also challenged to create a new strategic plan for Ace that would create new markets in Southeast Asia and Europe, improve R&D and new product launches, enter into the refractories services business on a turnkey basis, and source raw material from China. Several of these initiatives were extremely successful. This included a ramp-up of new product launches and a rise in exports from INR 200 million to INR 800 million by 2007. During this time, the company's revenue rose from INR 1.8 billion to INR 4.3 billion.

In September 2007, ICICI Ventures sold its holding to Caldeys, the refractory division of French firm Imerys for INR 5,500 million.

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2. A slump sale is defined as the transfer or sale of one or more divisions of a company for a lump sum consideration, as contrasted with the more traditional sale of assets.
 3. The original acquisition was financed by Rs 1000 million of Equity and Rs 1570 million of debt.

Impact of PE on Ace

The most significant effect of the PE investment was that it converted a hitherto relatively neglected division of ACC, accounting for less than 5 percent of ACC's revenue, into a stand-alone company that could grow at a significantly higher rate than it had as a division of ACC. This was accomplished by retaining and providing incentives to management and by focusing on technology, exports and globalising sourcing. As a senior company source noted: "PE enabled the company to optimise its operations and resources. Prior to divesting to ICICI Ventures, Ace accounted for 5 percent of ACC's turnover and received limited managerial attention. Post-divestment, it got 100 percent attention."

At the time when negotiations to sell Ace were ongoing, ICICI Ventures worked closely with the management of Ace to determine its exit strategy. Both PE firms and operating firms were considered as exit options, but ICICI Ventures left it to management to make the final choice, which resulted in a preference for a corporate partner (strategic investor). This was because a buy-out by another PE, however deep-pocketed, was perceived by the management as a short term option given that the PE investor could look to exit in the near future.

When the company was sold to Calderys, ICICI Ventures played a key role in ensuring the continuity of management personnel at Imerys through appropriate performance incentives.⁴

At the time of its acquisition, Ace was India's second largest refractory company, with a market share of around 14 percent. The other companies in the industry were mostly small-scale, lower-technology companies that co-existed with market leaders ACC and Tata Refractories. The creation of Ace improved the competitiveness of its product line, due to new technologies and outsourcing of key supplies. The new entity also focused on identifying areas which would increase revenue such as exports and turnkey projects. Hence, Ace's market share grew and led to an industry that was characterised by larger companies and higher levels of technological sophistication.

4. ICICI Ventures ensured that unvested options were not lost and management continued to be incentivised through pre determined parameters to vest their options post sale to Calderys. Thus, ICICI Ventures ensured that management was not financially adversely affected by its exit from Ace.



INFRASTRUCTURE COMPANIES

Air Deccan

Air Deccan was established in 2003 with the objective of setting up a budget airline, the first of its kind in India. Price sensitivity and the aspirations of the typical Indian consumer were cited to be the main reasons for a budget airline.

Initially, the company's operations revolved around the founder, Captain G. R. Gopinath. Modeled on Southwest Airlines in the U.S. and Ryan Air in Britain, Air Deccan positioned itself as an airline for the masses. Seeking capital for growth, Air Deccan obtained PE investment from ICICI Ventures, which invested USD 30 million in 2004 for a 19 percent equity share. Air Deccan also received PE investment from Capital International, an American PE firm, which, it hoped, would provide a global presence and learning from the operations of similar airlines in other countries.

Both ICICI and Capital International played an active role in formulating strategy. With the PE firms' assistance, Air Deccan appointed a person from Ryan Air to run the business.

The funds were intended to build capacity in a phased manner. Accessing PE funds was critical for being able to raise the much needed debt and to guarantee leases, without which project implementation would have been difficult.

The funds were also used to enhance plane capacity quickly by ordering 60 airbuses on purchase and leased bases. By 2007, Air Deccan flew into 68 cities, as compared with the incumbent, Government owned Indian Airlines coverage of 45 cities.

The high capacity was both an advantage (as it became an attractive acquisition target for Kingfisher) and a disadvantage (as it adversely impacted the company financially due to the economic slowdown and unforeseen spike in fuel cost).

The airline industry began to face significant changes in its operating environment from 2005. Large rises in fuel prices and competition from other budget airlines like Spice Jet, Indigo and Go Air adversely affected Air Deccan's profitability. With ICICI Ventures' assistance, some of the aircraft that had been purchased were re-contracted on a lease basis, thereby improving cash flows.

In 2006, Air Deccan offloaded 25 percent of its equity in an IPO. The IPO took place during a very difficult time for Indian equity markets. Fortunately, with ICICI's support in the form of stepped up funding as well as marketing to other investors, the issue was completed at the offer price. At its peak, the market capitalisation of Air Deccan reached USD 1.1 billion.

By late 2007, the ongoing pressure of competition and lower than expected growth forced Air Deccan into significant losses. In 2008, the company was merged into Kingfisher Airlines, a premium domestic airline. Kingfisher was attracted by Air Deccan's large fleet that enabled Kingfisher to rapidly scale up its operations. Although the initial understanding was that Air Deccan would be the budget brand of Kingfisher, it was later rebranded with the Kingfisher name.

Impact of PE on Air Deccan

The PE investment in Air Deccan brought both operational and fiscal discipline. PE firms helped setup a proper organisation structure and created a formal business plan. The financing enabled Air Deccan to pursue its aggressive business model of running a budget airline.

Impact of PE on the industry

Air Deccan had a big impact on the industry. Its no-frills flights, focus on second-tier cities, and aggressive pricing led to aggressive growth and spurred the entry of comparable budget airlines. Its practices were imitated by established competitors and became part of industry practice. The result was a fall in the average cost of air travel in India. To a significant extent, these new business approaches were enabled by the initial round of funding and the models that were introduced by PE financiers seeking to imitate the success of budget airlines in other countries. Thus, we may conclude that PE significantly impacted the industry.



INFRASTRUCTURE COMPANIES

GMR Infrastructure

GMR Infrastructure is the infrastructure company of the GMR Group, a family-run conglomerate. GMR infrastructure has interests in airports, energy, highways and urban infrastructure. It began operations by setting up power plants and initiating road projects. Management, at the time of the PE investment, was reputed to possess excellent project management skills, having built infrastructure projects on time and within budget.

In March 2004, IDFC PE invested USD 22.5 million for a 15 percent holding in GMR Energy, the energy holding company that IDFC PE and GMR decided to create. This was the first example of aggregating infrastructure SPVs into a corporate structure that facilitated a possible IPO at an earlier date. The funds were used to build the company's third power plant.

At the time of the investment, GMR Infrastructure owned a contract to build a new airport at Hyderabad, but had no prior airport experience. IDFC PE decided to partner with GMR to bid for the restructuring of the Delhi and Mumbai airports. This would be the second investment of IDFC PE in the GMR Group. IDFC PE helped bring in Fraport as a strategic partner for the bid. This was the first time that a PE fund participated directly in a bid for an infrastructure project. Key executives from Manchester airport and Cranfield University were signed on as professionals to help prepare the bid.

GMR Infrastructure went public in 2006 and IDFC PE played a key role in the pricing of the IPO. IDFC PE sold its investment in GMR Energy for a stake in GMR Infrastructure before the IPO.

Impact of PE on GMR Infrastructure

IDFC PE focused its efforts on improving corporate governance, brand building, helping the company access strategic partners and advisors that would help it win and execute projects, and helping the company build domain knowledge in new sectors of entry. It also assisted with the pricing of the IPO.

The management of GMR Infrastructure notes that it benefited greatly from the PE investment. As a senior executive noted: "IDFC PE investment was not an investment but a relationship which resulted in a harmonious value-added partnership."

The management notes that the company's growth rates were substantially higher after PE funding, with an impact of at least 10 percent additional revenue growth per annum.

According to the management, PE fulfilled their expectation of being helpful during a phase when the company was not ready for public equity, rather than being a substitute for public market funding.

Interestingly, IDFC PE decided to invest in GMR Energy because the investee's model of building infrastructure agglomerations rather than stand-alone investments in particular sectors made sense. This deal thus showed how infrastructure investing in India can be structured to suit PE.



INFRASTRUCTURE COMPANIES

Green Infra

Green Infra was set up in 2008 with the aim of building a renewable energy portfolio comprising wind, solar, biomass and small hydel projects. As of June 2009, a 24 MW wind farm was in operation in Tamil Nadu. Shortly thereafter in September 2009, the company acquired the wind assets of BP Energy India, a unit of the petroleum giant, BP, thus adding another 100 MW wind capacity and taking its total generating capacity to 124 MW. Green Infra aims to become a 1,000 MW company within the next five years.

Green Infra is 100 percent owned by funds managed by IDFC PE, whose rationale for investment was the creation of a leading renewable energy company, supported by key drivers including the need for energy

security beyond fossil fuel, volatile oil prices and an increased focus on environmental issues. The government's interest in clean technology, exemplified by the national solar mission, recent initiatives in LED lighting and interest in carbon trading, suggest that the opportunities for companies like Green Infra could be significant.

IDFC PE and the management of Green Infra are focused on value creation over the long-term, reflecting their commitment to build a company with a long-term perspective on renewable energy. Considerable managerial autonomy has been given to the management to undertake pioneering initiatives in the sector.

Impact of PE on Green Infra

The building up of credible professional relationships was greatly facilitated by IDFC PE – this helped in recruitment, banking relationships and access to professional services.

IDFC PE's experience in deal structuring helps when Green Infra undertakes inorganic growth initiatives, as in the recent acquisition of BP's wind energy portfolio. IDFC PE also helps with deal flow, thanks to their national presence, a relationship with the state, and stature.

By analysing growth opportunities and the inherent risk return tradeoffs in the same way as entrepreneur-led businesses, IDFC PE has demonstrated that control of the portfolio company can generate meaningful benefits and help the company deliver on ambitious growth targets.



INFRASTRUCTURE COMPANIES

Gujarat State Petronet Limited (GSPL)

GSPL operates a gas pipeline in the state of Gujarat on an open access basis, with premium clients such as Essar Steel, Torrent Power and Reliance Industries. It is a subsidiary of the state-owned Gujarat State Petroleum Corporation (GSPC), a company involved in the complete petroleum supply-chain from exploration to production, transmission and distribution. In 2004, GSPC sought outside investment, particularly from PE or strategic investors, in order to get access to long term funds for accelerated roll-out of the then existing 200 km of the pipeline network, to enhance corporate governance, and to validate the common carrier model of operation.

IDFC PE, invested INR 900 million in 2004 for a 20.6 percent holding. This investment, was made at a time of considerable regulatory uncertainty – the Supreme Court of India squashed the Gujarat Gas Act and made the pipeline regulation a subject matter of Government of India. The company was holding discussions with some domestic and international strategic investor and with PE investors, who were reluctant to invest because of this uncertainty. IDFC PE took a decision based on the demand – supply mismatch for gas in Gujarat and the urgent need to connect the new supply sources like Petronet LNG and Shell LNG terminals.

It was IDFC PE's first investment in a state-owned enterprise. IDFC PE's investment in GSPL is a good example of a Public Private Partnership, where the role of the public sector is not just a facilitator but an active owner manager and where private capital can bring in significant value addition and the investment can also be eventually rewarding.

IDFC PE's holding was partly diluted just after the IPO of 2006 and the remainder between 2007 and 2009.

Impact of PE on GSPL

Post investment, IDFC PE played a significant role in re-working the business plan and funding plan of GSPL. IDFC PE worked closely with GSPL in bringing in the next round of PE investments which included IDBI and Axis Bank. IDFC PE hand held the company through the entire IPO process and made it one of the successful IPOs of 2006. IDFC PE also helped strengthen the Board and its presence helped facilitate building credible professional relationships including a partnership with the Government of Andhra Pradesh for a possible pipeline network in the state.



CONSUMER COMPANIES

Amalgamated Bean Coffee Trading (Café Coffee Day)

Café Coffee Day is a large coffee retailer, with activities from procurement and processing to retailing. The company which was earlier Amalgamated Bean Coffee Trading, obtained PE funding of INR 900 million (USD 20 million) in 2006 from Sequoia Capital, for a 10 percent investment. The funds were used to expand the company's retail presence in India and Europe, resulting in a rise in café outlets from 480 in 2007 to over 900 by 2010. The company's revenue rose over this period from INR 3.5 billion to INR 6 billion and the employment base to 12,000 persons. The company has since spelled out aggressive plans with a budget of INR 17 billion to expand its retail outlets, and build up the plantation business in coffee as well as bananas.

In making the PE investment, Sequoia was attracted by the capacities of the company's founder, its professional management and the growing Indian market for lifestyle services.

Impact of PE on Café Coffee Day

The primary impact of the PE investment was operational. First, the PE funding enabled the company to hold on to market leadership through expansion and provision of value-added services such as Wi-Fi. It is well-ahead of its competitors; as of March 2010, its nearest competitor, Barista, is estimated to run 200 outlets⁵, i.e., less than 25 percent of Café Coffee Day.

Second, the PE investors played a role in improving corporate governance and helping to recruit the CEO. Third, they helped the management think through alternative revenue streams to complement the core business model of selling coffee. For instance, the in-store partnership with DSN, a signage company, to explore greater media income, was facilitated by Sequoia.

Another key impact was that Sequoia encouraged the company to think in much larger terms than it had previously. This was possible because they were able to visualise the company's success in relation to initiatives like Starbucks that had succeeded in the US and, later, in other countries. Sequoia had the experience of helping companies in other contexts think in similar terms, including companies they had earlier invested in, such as Google and Cisco.

Sequoia Capital, also facilitated introductions to other PE investors in the subsequent rounds. Being in a capital intensive business, it was important for the company to be able to access deep-pocketed large global organisation PE investors in later rounds. Sequoia also helped improve the credibility of the company in the eyes of such investors.

5. <http://www.barista.co.in/users/worldwide.aspx>



CONSUMER COMPANIES

Meru Taxi

(earlier known as V Link Pvt. Ltd.)

V-Link, the operator of Meru Taxis, began as a Mumbai-based operator of taxicabs in 2006. Prior to Meru's launch, cabs could not be reserved over the phone. The company owned a license from the state to operate radio taxis, but lacked funds for expansion.

The PE firm, IVF, invested INR 2 billion in V-Link in 2006, and took a majority holding, enabling the introduction of the Meru brand. Apart from enabling scale, IVF brought in professionals. IVF facilitated the recruitment process, attracting high-end talent from reputed companies, including global organisations. It also created the franchising model based on a study of similar systems globally, focused on air-conditioned cabs fitted with high technology, including data terminals and GPS systems in each Meru cab. IVF also helped V-Link raise debt to purchase vehicles, standing in as guarantor.

Meru expanded by enrolling franchisees from the existing owners of taxi licenses. The company also added operations in Hyderabad, Delhi and Bangalore. By March 2010, the company operated over 4,000 cabs, with plans to expand to 10,000, thus consolidating its position as the largest taxicab operator in India.

For better comfort of the passengers and to keep up with the changing times Meru has been upgrading its technology regularly. Recently, the company installed an Oracle ERP system, implemented by Accenture, which makes Meru Cabs the first radio cabs service company in the world to implement ERP systems.

As recognition of the pro-active and holistic approach to IT adoption and the seamless alignment of IT with the business strategy, Meru Cabs once again won 'NASSCOM-CNBC IT User Award 2009' for the second time in a row.

Impact of PE on Meru

IVF's investment in Meru was unusual for PE because of the relatively early stage at which funds were committed. The taking of a majority holding was also not typical of India, though more akin to the western model. The difference with the western model was that the management of Meru was retained and strengthened. Thus, Meru was a test-bed of two new business ideas: whether investing in an idea at such an early stage made sense; and whether control the of existing management by the PE firm would work.

The impact on Meru is evident. The Meru brand has become synonymous with air-conditioned radio taxis. Without PE investment, the company's professionalisation and development trajectory would undoubtedly be slower; technological sophistication would likely have been lower, as well. The combination of these two factors is that Meru is not just the largest taxicab operator in India, but its most technologically sophisticated.

Impact of PE on the industry

Meru took considerable risk in creating the Meru brand. This is because the cost to users is regulated by the state and does not differ between taxicabs. Meru relied on achieving a certain scale of operations that would justify the extra costs of air-conditioning and IT-enabled services.

Having succeeded in this effort, Meru's impact on the industry is becoming evident in the shift to me-too services offered by individual operators and the rise of competing franchises.



CONSUMER COMPANIES

Naukri.com

(part of Info Edge India)

Naukri is a job search site along the lines of monster.com and similar sites in other countries. Among specialised job search sites, it controlled 90 percent of the Internet job search market at the time of the PE investment, and remains, as of 2010, the industry's dominant company.

Naukri began in 1997 and by the year 2000-01, the company's revenue was only about USD 0.2 million. ICICI Ventures invested USD 2 million in 2000 just before the Internet bubble burst. The company achieved high growth rates subsequently, with revenue of USD 60 million for the financial year ended March 2009. As of March 2010, it employs 1200 persons.

ICICI Ventures' investment was akin to a venture capital investment rather than PE, given the early stage of the company. However, the PE firm – unlike a typical VC investor – played a relatively passive role in operational decisions and focused its interventions on strategic decisions, particularly relating to corporate governance and financial discipline. ICICI Ventures also played a role in dissuading the company from diversifying beyond the dotcom classified business – otherwise, management represents that they might have entered the capital hungry travel business.

ICICI Ventures remained an investor till the IPO in 2007, when the company raised new capital of INR 1,703 million. During this time, it helped raise a second round of private funding through a secondary purchase by Sheralo Ventures and Kleiner Perkins.

Impact of PE on Naukri

ICICI Ventures was a preferred investor for the founders of Naukri at a time when the Internet bubble was at its peak and the company had received several expressions of interest from investment banks, including multinational firms. The decision to go with ICICI Ventures turned out to be fortuitous: while stock markets declined sharply the world over, including India, the deep-pocketed PE firm was willing to be a patient investor and provide strategic support covering a range of functions from corporate governance to financial discipline, and to business focus.

Management ascribes its phenomenal growth (from INR 0.25 million to INR 2,700 million in 11 years) to PE funding without which it probably would have been significantly smaller company (probably around INR 50 million).⁶

As a result, Naukri continues to dominate the market and is a profitable company.

Impact of PE on the industry

Naukri's competition consists primarily of the Indian arm of monster.com and an affiliate of the leading publisher, the Times group of companies. Other media firms run smaller job sites. The PE investment enabled Naukri to set the standard for digital service in job search. However, it does not appear to have led to a rash of imitators funded by PE or VC – perhaps this is a sign of acceptance of Naukri's dominance.

6. Management interview, 31 March 2010



CONSUMER COMPANIES

Shringar Films Ltd

(Fame India)

Shringar Group (Shringar) operates in the public entertainment industry and is engaged in two principal lines of business – the Distribution business and the Exhibition business through its 2 entities Shringar Cinemas Limited and Shringar Films Limited (a 100 percent subsidiary of Shringar Cinemas Limited).

Shringar Films was started by two now-legendary distributors, Shyam Shroff and Balakrishna Shroff in 1975 as a movie distribution company for the western region, which predominantly covers Mumbai. Distribution is the wholesale part of releasing completed films. Distributors purchase film rights from production houses and then offer the films to cinema hall owners, termed exhibitors, for release to the public.

In 1997, Shringar entered the exhibition business by entering into cinema hall management contracts. De-risking the business profile was the objective of this decision. Film distribution is a risky business with low overall rates of return. Although distribution rights are often acquired on an agreed commission based on ticket sales, some distribution contracts may include an upfront 'minimum guarantee' in which revenue realisation is contingent on the movie's performance in cinema halls. The exhibition business tends to be the safer aspect of the business, with predictable revenues.

In 2001, the company decided to invest in movie halls, especially in a new model for India, the multiplex. For this it needed substantial debt finance. It considered various financing options and finally contracted with the PE firm, IVF, for an equity investment. The promoter's choice of PE was influenced by the need to raise the company's equity base in order to raise the guaranteed debt finance. Bank lenders were more likely to view new equity favourably if it came from a reputed PE firm rather than friends and relatives. At the time of the PE investment, the exhibition business constituted approximately 17 percent of Shringar's gross revenues. These revenues came from eight cinema halls under management contracts for periods ranging between one to two years. Shringar was also, at the time, developing a five-screen multiplex in a JV.

IVF's interest in Fame India was the size of the entertainment industry in India, one of the world's largest. In 1999, Indian produced over 800 films a year, with an estimated 5 billion admissions generating ticket sales of about USD 3.3 billion. The industry was fragmented and short of professional expertise. The exhibition and distribution businesses were mostly run separately, whereas Fame's promoters combined these capacities, with the potential for synergies.

IVF invested INR 300 million for a 35 percent holding in the Shringar Group. Its funds were used in the exhibition segment of Shringar's business, subsequently renamed as Fame India. This enabled Fame's rapid expansion of its exhibition business.

IVF sold its investment in 2005 in a private placement.

Impact of PE on Shringar

Prior to Shringar's entry, the exhibition business was dominated by family-owned single-screen theaters with monopolistic control over their local 'territory'. The exhibition business was also reputed to face substantial cash leakages in order to evade taxes. Shringar's promoters foresaw the trend away from large, single-screen movie halls to multiplexes and pioneered the shift using finance raised through the PE investment.

IVF also helped the company transform from a family-run enterprise to a professionally managed one. The senior professionals hired included a Chief Operations Officer, a Chief Marketing Officer and the heads of the Legal and HR functions. Over 20 such professionals were recruited from Novartis, Star TV, Accor and the Taj Group.

IVF also helped formulate the business model, MIS and the cash management system.

During the tenure of the PE investment, the Shringar Group's consolidated revenues rose from INR 233 million in 2001-02 to INR 614.5 million in 2005-06, a rise of 164 percent, while EBITDA rose from INR 8.4 million to INR 74 million during the same period, a rise of 781 percent.

Impact of PE on the industry

The shift to multiplexes was pioneered by Shringar and PVR. Shringar's entry was enabled by PE. Further, when the company migrated from the printed ticket system to online and automated printing, they had to educate the regulators that there was no risk of cash leakage and relevant taxes would be paid as all tickets were being accounted for.





HEALTHCARE COMPANIES

Glenmark Pharmaceuticals

Glenmark Pharmaceuticals in 2002 was primarily a mid-sized branded generics player in the highly fragmented Indian market. It was led by the visionary and ambitious Glen Saldanha who aspired to build India's first innovator drug company with a pipeline of New Chemicals Entities (NCE), i.e., patentable rather than generic drugs. The PE firm, Actis, invested in Glenmark following its IPO in 2001, acquiring a 14 percent holding via a convertible debenture issued in 2002. Actis took a major risk investing in a company conducting NCE research, as this was untried in the Indian market and also because Indian companies were not recognised for their NCE capabilities.

Glenmark's success in developing a pipeline of NCE drugs, in building the US generics business and in distinguishing itself in the Indian branded market enabled it to perform well and Actis exited in 2005 and 2006 through secondary market sales.

Impact of PE on Glenmark

Actis aided in Glenmark's professionalisation of management and achieving high standards of corporate governance. It introduced a Non Executive Director with international capital market expertise thereby broadening the experience of the board of directors. The Glenmark board now had what was previously missing - expertise in law, cross-border investing, and international banking. Actis helped the company expand internationally specifically by advising on the valuation of acquisitions made by the company.

Not unlike other Indian mid-cap listed companies, the strengths of Glenmark were relatively unknown to the equity markets. In fact the company lacked proper analyst coverage that is critical for investors to discern good value companies from the

8,000+ listed on Indian equity markets. Actis helped Glenmark in its image-building with the financial community, by using its relationships with investment bankers to initiate analyst coverage from reputed investment banks. Actis formulated a liquidity action plan that improved liquidity in the Glenmark stock by 10 times thereby enabling retail and institutional investors to participate in the success story of the company. (A liquid market in a company's stock is vital for growing companies that will have capital requirements from time-to-time.) Well researched and liquid companies can then easily plan to go to public markets for raising the capital to sustain their rapid growth.

Although Glenmark is yet to develop its own patented drugs as of 2010, the company, through the credibility provided by Actis, is recognised for its research.



HEALTHCARE COMPANIES

Paras Pharmaceuticals

Paras Pharmaceuticals is one of India's leading OTC healthcare and personal care companies, with a track record of introducing successful branded products. Its two leading brands, *MOOV* (a pain relieving ointment) and *D'Cold* (a cough syrup) are both in the top 10 OTC brands in India. Personal care products are among the fastest growing consumer segments with a growth rate in recent years at 14 percent. Paras has grown faster and expects to grow by 25 percent in FY 2010-2011.

Actis, a PE firm, invested USD 42 million in 2006 for a minority stake, raising it to a majority shareholding in 2008, which they continue to hold.

Actis' rationale for the initial investment was based on Paras' ability to create strong brands in niche, fast-growing areas. They were impressed with the company's ability to compete effectively against global organisations with innovative products; for example, the success of *MOOV* in a market dominated by market leader *Iodex* (a Glaxo brand).

Actis' view of Paras noted above is shared by its promoters. As a key company insider commented: "A company goes through three stages: incubation, implementing the initial vision and professionalisation." At the second stage, the team needs to be willing to take risks and follow the founder's vision. Professionals are likely to be too risk-averse to do so as failure would hurt their long-term career prospects. At the third stage, once the vision has been implemented, professionals need to take charge.

It was at that third stage that Paras sought Actis as a PE investor to enable the transformation to a professionally-run company. In fact, the money was the minor part of the transaction in a sense, since it was used primarily to buy out the promoter's holding rather than to be infused into the company (the company was already cash rich). Paras required the PE firm to possess a deep understanding of the industry as well as understand the company, both of which Actis possessed. As a company insider notes: "PE is expensive money: it should only be used if it comes with other benefits."

PE backing provided the company credibility as a professionally run-organisation and there was an influx of younger, highly-trained talent that replaced family recruits. Paras' recruitment of the best quality professionals led to positive impacts on operational management with a greater focus on efficiency, tighter financial controls, brand leveraging and an improved marketing and distribution strategy.

The transformation of Paras from a family-run to professional company faced the challenges of cultural transformation and was not a simple task but accomplished by focusing on these key areas and showed clear results. EBITDA margins rose from 20 percent prior to PE funding to about 30 percent afterwards. Subsequent to the Actis investment, the company has also expanded internationally, especially in the Middle East and North Africa.

Impact of PE on Paras

As is evident from the above, Actis's impact was transformative in the sense of changing how the company was run, while being supportive of a quality that was already ingrained, that of conceptualising and developing a range of high-margin products that could successfully compete with large players, many of which are global organisations. Actis achieved its transformation by getting to know the company, and then bringing in talent in selected areas that were critical for raising margins and enabling the efficient introduction of new products, while retaining the innovative core intact. Among the many positive effects was a change in practice in procurement, governance and reporting, thus enabling a stronger brand being built. As a result, revenue growth rates rose to 40 percent and gross margins rose by 10 percent. Actis also supported the strategic shift in sales and distribution networks; as well as international expansion.

Critically, Actis was able to bring in a sophisticated board support through a domain expert and bring on board a prominent business leader (who is their advisor) as an advisor to the company.

Impact of PE on the industry

The investment shows that a domestic company can succeed while competing with global organisations. Although there are other successful examples, such as Dabur, Paras is a special case of achieving this through professionalising a family-run firm in a credible way, with a majority of non-family ownership, while retaining the benefits of incorporating the initial promoters into the core management structure.





IT ENABLED SERVICES

Daksh (Now IBM Daksh)

Daksh was started by professional entrepreneurs in 2000 to provide Internet support to overseas clients. It was initially funded by USD 2 million from both angel and venture capital investors, including Actis (in its earlier form as a part of CDC)⁷. By 2002, it had entered voice services and expanded, using USD 29 million in PE from Citigroup Venture Capital International (CVCI) and General Atlantic Partners (GAP). The Indian BPO industry was then just starting out on the path of what was to be five years of 60 percent annual industry growth. Using its enhanced financial strength, Daksh expanded and quickly emerged as a market leader.

In 2004, global services leader IBM, looking to scale up quickly in voice services, purchased Daksh. Since then, Daksh has expanded further in scale and entered the transactions processing business, with 14 India-based service delivery centers and two global service delivery centers in the Philippines. As of 2010, there are more than 30,000 employees associated with the company, compared with 6,000 in 2004.⁸

Impact of PE on Daksh

(1) The avenues to raise capital at the time were extremely limited given the newness of the industry, limited tangible assets and the shortage of risk capital to fund recruitment and marketing. So PE provided the much-needed initial capital to the promoters

(2) BPO and voice engagements were invariably long-term commitments, leading to clients needing reassurance around the longevity of the company. Since Daksh's clients were all in developed countries, it needed to convince them of its reliability as an ongoing concern. Daksh, in competition with larger, global names in the business, benefited greatly from the credibility of PE investors like Actis, CVCI and GAP – it was able to bank on their credibility as stakeholders and also access clients through their network. Of course, this was bolstered by the professional standards of reporting and governance insisted on by the PE investors. PE investors also helped them think through new business models, such as plans for inorganic growth and geographies for expansion; and influenced board composition towards more strategic thinkers

(3) PE helped Daksh through its acquisition by IBM. The acquirer, IBM, was familiar with GAP, which participated in the negotiations leading up to the acquisition.

Impact of PE on the industry

Daksh, Genpact, Spectramind and WNS were among the earliest entrants in the BPO space. PE had a role to play in all four firms – in the case of Daksh and Spectramind in their growth and acquisition phases, and, in the case of Genpact and WNS, in their spin-offs from GE and British Airways (BA). These four firms helped define the BPO industry by establishing scalability and maturity to a sector, which earlier was a small-scale business both in the US and India.

7. Amazon.com was an early client, facilitated by an angel investor
8. Promoter interview, 2 Feb 2010



IT ENABLED SERVICES

Intelenet

Intelenet began as a 50:50 JV between HDFC and TCS in 2000, with management support from HDFC. It offered a range of BPO services, including transactions processing and call center services in selected verticals, including insurance and other financial services.

TCS later decided that they would exit the BPO business as it was not a core business for TCS, whose activities were primarily in the IT services businesses. At that time, Barclays, the British bank, was looking to set up a captive BPO; Barclays' interest in a quick start sparked their interest in Intelenet. TCS subsequently sold its holding in Intelenet to HDFC, making Intelenet a 50:50 JV between Barclays and HDFC.

By 2007, Intelenet was not realising its full potential as the company was not investing in growth and primarily focused on serving its two owners and largest clients: Barclays and HDFC. Eager to jumpstart growth, the management partnered with Blackstone, one of the world's largest PE firms to lead a management buy-out (MBO) of Intelenet.

This was the first prominent and successful MBO in India, whereby PE invested in a majority stake in the company. Blackstone did not offer specific BPO expertise, but instead offered an understanding of the requirements for outsourced IT-enabled services from a client perspective, deep pockets to finance both organic and inorganic growth, access to Blackstone's portfolio companies, and geographical reach.

Impact of PE on Intelenet

Intelenet was completely transformed by Blackstone's approach to scale the company to global standards and use network power to draw more businesses to Intelenet. Blackstone injected the board of Intelenet with committed full-time members and five off-shoring experts who focused on improving quality and efficiencies. The newly incentivised and empowered management, sophisticated management practices such as the '360 degrees' marketing program, high incentives for good performance (stock options equaled 20 percent of equity compared with a more traditional 5 percent), integration into and support from other firms in the Blackstone network (these currently account for 22 percent of revenue, not yet including a newly minted seven-year USD 250 million contract from a single client), and tight, transparent controls by Blackstone helped Intelenet achieve its goal of global-quality sophistication. Blackstone also accelerated inorganic growth in helping Intelenet to acquire Upstream – a global business process outsourcing company and FirstInfo, the services arm of UK rail operator FirstGroup, which is responsible for customer management, ticket issuing and back-office processing.

From 2007 to 2010, the company almost tripled in revenue. As of April 2010, Intelenet employs 31,000 employees compared with 8,500 at the time of the Blackstone acquisition. This growth is despite rising

competition and the global economic downturn. Intelenet remains a corner store for Blackstone's India portfolio. As a senior executive noted: "Apart from investing in the Company, Blackstone provided significant value addition through access to their portfolio companies and their knowledge of customer needs."

Impact of PE on the industry

Intelenet began at a time when the BPO industry was growing at 60 percent per annum. Subsequently, the industry matured and growth rates declined. There was a risk that Intelenet would have been marginalised with the establishment of sophisticated global players. The few Indian companies that offered similar levels of sophistication – TCS, Wipro and Infosys, primarily – realised that BPO was not a strategic fit for their core engineering strengths. Blackstone's acquisition of Intelenet offered the first opportunity for a domestically managed company to establish itself as a global BPO firm. Of course, the case of WNS is somewhat similar, but the difference is that the PE financier introduced its own management team into WNS. Blackstone's India operations have played a key role in helping Intelenet transition into a Global BPO firm. If the model succeeds, it will likely have a significant strategic impact on many of the other large domestic BPO firms that are struggling to succeed.



IT ENABLED SERVICES

WNS Global Services Pvt. Ltd.

WNS, a leading global BPO services provider, was a fully-owned subsidiary of British Airways (BA) until 2002. It had earlier been created into a shared service centre from BA's inhouse operations. The carving-out process began in 2000 when BA undertook a strategic review exercise to evaluate its future strategy with regards to its BPO operations. Warburg Pincus (WP) approached BA to create a platform from which an India-centric BPO business could be established. At that time, the business employed 1,400 persons in India. In May 2002, WP invested into the business for a 64 percent holding.

BA continued as an important client following WNS's transformation. The investment by WP enabled WNS to acquire related capabilities as well as high-growth acquisitions. In order to enter new verticals and acquire proprietary technology, WP supported WNS to make nine strategic acquisitions in the insurance, knowledge management, mortgage, analytics, F&A processing and other areas.

WP took WNS public on the NYSE in July 2006, making it one of the first Indian BPOs to be listed on the NYSE. This listing provided WNS access to an additional source of capital to fuel a new phase of growth as well as enhancing the company's credibility with customers. WNS's most recent acquisition was Aviva Global Services, the back office operations of Aviva plc, in July 2008, which led to the company's first multi-year USD 1 billion contract.

As of 2010, the company's primary BPO verticals are Travel and Leisure, Banking and Financial Services, Insurance, Transportation, Healthcare, Consumer goods, Retail and Professional Services. WNS has 24 operating companies in 13 countries, and employs over 21,000 people servicing over 220 clients from a network of 21 global delivery centres.

Impact of PE on WNS

WP identified the initial carve-out from BA and created the core management team. The WP funding enabled a highly professional, strategically-focused team leverage a strong brand-name into new verticals and geographies. WP's support included access to acquisitions for inorganic growth. WP support was also vital to WNS's listing on the NYSE. The benefit to WNS of the PE investment was to create a global strategy, attract senior talent, construct an appropriate compensation structure and professional board, as well as providing equity for acquisitions and hands on support. Warburg Pincus also utilised its network to the benefit of WNS's business development efforts. To emphasise its commitment to building durable businesses, WP remains a majority shareholder even after eight years.

Impact of PE on the industry

As we noted for Daksh, WNS was among the earliest entrants in BPO. It very quickly became the largest company in the industry, being widely viewed as one of the most professionally run independent companies, along with Daksh and Spectramind, among others. Companies like WNS thus played an important role in distinguishing BPO as an industry that, like a few others (software and IT services being the main exception), could develop global quality at high-ends of the value-chain in India.



EDUCATION

Manipal Universal Learning (MUL)

Manipal Education, a provider of higher education services, runs a 600 acre flagship campus in Manipal, in the state of Karnataka. It also runs campuses in India and internationally, with over 20,000 students enrolled. Manipal is one of the few deemed university systems in India, thus placing it at the leading edge of higher education in India. Its rapid growth in recent years has occurred in an unusually high-growth environment for professional higher education, which in turn is driven by rising turnout of secondary-level students with a growing interest in professional degrees such as medicine and engineering.

PE firms do not invest directly in colleges and universities, since degree-granting institutions in India must officially be non-profit entities. However, the sector offers opportunities for profit-seeking investments in allied services such as facilities management, after-hours instruction and non-degree vocational training. A corporate structure under Manipal Universal Learning (MUL), a company which consisted of distance education, testing services, Professional and Skills Education (PSE) and overseas campuses, facilitated the PE investment.

At the time of the PE investment, the Manipal brand was already well regarded in university education. MUL's nascent PSE program was cognisant of the need to raise vocational training from its status as low-skilled training to one that is respected because of the quality of training, internships and placement opportunities offered.

In 2006, an IDFC-led PE consortium, that included the American PE firm Capital International, invested USD 70 million in MUL. Thereafter, City & Guilds, a large British provider of PSE, was introduced to MUL by IDFC PE. This led to their JV, targeting the unfulfilled demand for vocational education in India.

MUL, at the time, was considering expanding overseas. The Board, which included independent directors and nominee directors from IDFC PE and Capital International helped MUL implement its overseas expansion strategy. This led ultimately to MUL's purchase of a medical school in Antigua in 2008.

IDFC PE also facilitated an improvement in the standards of corporate governance of MUL.

More recently, Premji Invest, a PE fund, invested approximately USD 50 million in MUL in March 2010. The funds will be used to expand instructional services.

Impact of PE on MUL

PSE receives considerable attention these days in India. Some large developed countries' for-profit vocational training providers such as Pearson and the above-noted City & Guilds entered India over the past few years in alliance with domestic firms.

MUL Education could leverage Manipal's long-established brand name in non-profit medical and professional education into for-profit areas such as PSE with the infusion and strategic support of PE.

Thus, the IDFC PE investment had two primary effects: first, enabling the access to City & Guild and second, the Group, historically run by family members, was able to swiftly expand its professional management team. IDFC PE introduced the current CEO of MUL to the promoters.

The other PE investor in the initial consortium, the Capital Group, also provided more than just equity capital. It independently carried out assessment of the US student loan market which provided valuable inputs and resulted in further support to MUL in designing its student loan programme for students in Antigua.

With the help of PE investors, MUL was able to renegotiate the acquisitions price of the Antigua campus from the originally agreed upon price immediately before the economic crisis in the US.

Impact of PE on the industry

Higher education, a recent growth leader in India, is a difficult field for PE investment owing to the legal requirement that providers of degree-granting institutions are not permitted to earn profit. It is estimated that, despite the industry's growth rate in technical fields of over 40 percent per annum between 2005 and 2009, PE investments are less than USD 300 million.⁹ PE has, therefore, looked to fund ancillary services that leverage brand names. Given the newness of the private higher education sector, MUL's success in using PE funds to finance for-profit services established a paradigm that was earlier set for the K-12 sector by Educomp.



9. Industry estimate, March 2010



FINANCE

IDFC

IDFC was created by the national government in 1997 to facilitate private capital's involvement in large infrastructure projects. The government was concerned that infrastructure was stagnant due to unclear regulations and overlapping state authority structures. IDFC was intended to identify, nurture and develop bankable projects, and create innovative instruments and markets that would facilitate public-private partnerships. Thus, IDFC had both a policy and business mandate. It was intended that ultimately, IDFC be owned by private interests.

IDFC initially faced several challenges. Competing public sector financial institutions and competing financial institutions (both amongst themselves as well as with IDFC) controlled the board of IDFC. The world recession of the early 2000's, government pressure on IDFC to supply capital, slow progress in regulatory reform in infrastructure – all these combined to reduce the effectiveness of IDFC in fulfilling its varied mandates. IDFC's mandates also occasionally overlapped and competed with each other – such as influencing policy while taking a pro-business stance.

At this point, IFC and Actis (in its earlier form as a part of CDC) invested USD 35 million in the initial rounds along with other investors, while the rest was owned by the government. Other PE investors included GIC, ADB, IFCI, IDBI, ICICI, Morgan Stanley, LIC, SBI and Deutsche Bank.

The PE funds were involved right from the beginning in goal-setting, recruiting professionals, setting corporate governance standards and market development. They also helped strategise the company toward its ultimate goal of private control. Later, they played a role in facilitating the company's IPO.

Impact of PE on IDFC

PE provided the much needed patient capital supporting the company through its initial difficult years and remained invested in the company for nearly 10 years. A significant impact of PE was the establishment of high appraisal standards. This is because some of the PE nominees have been on the Board and also served as Executive Committee (Ex-Co) members from the point of inception until today. Ex-Co approved all transactions over a certain threshold and the PE nominees were actively engaged with senior management in evaluation of loan proposals. This helped in containment of Non Performing Assets (NPA). The PE investors also encouraged IDFC to establish an environment department since they were aware that most of the projects that IDFC would finance would require environmental clearances.

PE investors played a role in identifying the current senior management, including the MD, and in developing remuneration and recruitment strategies. Hiring the current

senior management has been a critical factor in taking IDFC towards its IPO and beyond. PE investors also played a part in determining the timing of the IPO.

Impact of PE on the industry

The establishment of best practices in appraisal standards and designing concession agreements set industry standards, and IDFC's influence on policy formulation has since had a wide impact on the infrastructure industry.



FINANCE

Shriram Transport Finance

Shriram Transport Finance (STF), India's largest commercial vehicle finance company, was established in 1979. As of March 2010, the company runs 479 branches and service centers offering finance for purchasing commercial vehicles, including trucks, three-wheelers and tractors. The company also offers ancillary services, including working capital and a co-branded credit card. The company has been consistently profitable for several years. For the financial year ended March 2009, STF's revenue was INR 36.9 billion and PBT was INR 2.9 billion. It employed 12,500 persons. The company has been quoted on the stock exchanges for several decades. As of March 2010, its market capitalisation was INR 91.6 billion.

The truck financing business at the time, and even as of 2010, was fragmented and high-cost due to the risks and transactions costs of lending to unorganised, single-truck owners. STF catered to this market but was also beginning to access the organised borrowers that were coming into play as the trucking business became more organised in India. These factors had enabled STF to perform well in a regulatory environment that was significantly more favourable to banks than to NBFCs. However, the company was undercapitalised at the time of receiving the PE investment.

The company subsequently received multiple rounds of PE investment. In 2005, PE firm Chrys Capital invested USD 30 million for a 17 percent holding in STF. It exited in 2008-09.

Global PE major TPG invested USD 100 million in 2006 and, as of 2010, remains an active investor. TPG was interested in the financial sector in India, but the banking regulations prevented it from buying a large holding in a regulated bank. TPG was attracted by STF's stability in terms of customers and credit-ratings, in the midst of the NBFC meltdown at the time. STF further attracted TPG because of its reputation of integrity, efficient management and customer loyalty.

The first PE funds were used by STF to integrate its regional operations and control them from its home base in Tamil Nadu, as well as to consider international expansion. The second round of investing, from TPG, brought in high standards of credit evaluation and corporate governance. TPG's portfolio of Asian finance firms, such as First Bank, Korea, provided it with the experience to establish these stronger standards. These were needed as the management was largely promoter-dominated, which made credit rating agencies and investors somewhat cautious. Also, their securitisation business was relatively undeveloped.

Helped by better practices, STF's portfolio, which was at USD 1 billion in assets when TPG invested, had risen to USD 6.5 billion by 2010.

Impact of PE on STF

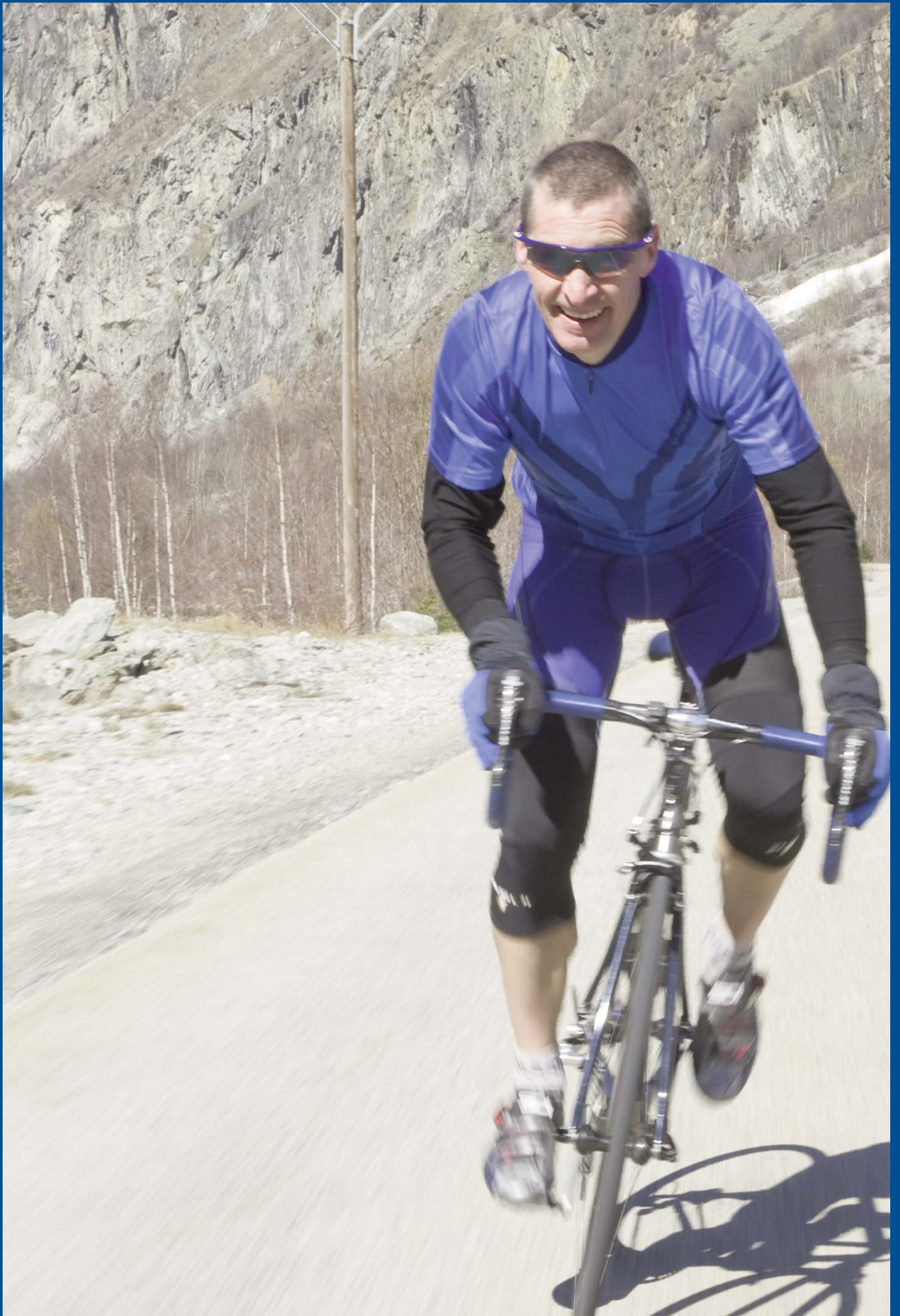
PE initially enabled a national strategy, when Chrys Capital invested in STF. Till then, STF's four regional entities operated independently. Thus, in the words of a company insider: "Chrys Capital provided capital during the growth phase of STF"

TPG's investment transformed the company through better internal management practices and corporate governance. The same insider notes that, where Chrys Capital enabled growth, TPG "added value". TPG helped in improving the credit rating of the company and developing the company's securitization business. TPG, therefore, is an example of a PE investor with deep pockets and experience in running financial firms in Asia and elsewhere bringing these advantages to STF.¹⁰

Impact of PE on the industry

STF is the country's largest player in commercial vehicle finance. The primary impact of the PE investment on the industry was to begin the transformation of the business from a fragmented, money-lender dependent business to a more organised business.

10. STF's credit rating also was beneficially impacted by the presence of TPG as an investor.



Conclusion

This report began with the question about the transformational impact of PE on firms and industries. To analyse this, we studied 17 companies that were funded by PE. While PE is, first and foremost, a financial transaction, usually (but, interestingly, not always intended to finance expansion), we found that the three most important, transformational impacts of PE are on business model changes, corporate governance and professional talent management. Closely following these is the impact of PE on product development and helping find acquisitions or strategic partners. Less frequent are financial recapitalisations, spin-offs, new technologies and improving efficiency.

The report demonstrates that PE capital is 'smart money' and that PE firms meaningfully contribute towards the growth and success of their investee companies, despite being typically minority shareholders. There is a fine balance that they need to maintain because as minority shareholders, they cannot dictate; rather they have to influence and convince the majority shareholders (typically the promoter) that their ideas make sense and will ultimately help in growing and transforming the business.

The areas of contribution are not surprising. The portfolio companies are typically SMEs. These companies are closely managed and to transform and grow they need a separate line of professional management to be created. New management helps bring in

new business ideas and models. High standards of corporate governance have typically not been an area of focus by such companies until the PE investment.

More PE firms in India are realising the importance of this role. The slowdown in 2009 impacted the business performance of their portfolio companies. At that time PE firms identified deviations from agreed business plans as the single biggest challenge that they faced post investment¹.

In response, several PE firms are adopting the western model and are now building separate operating teams to support their portfolio companies. This should bring increasing benefits to the portfolio companies and help further demonstrate to the Indian business community that PE capital, although expensive, is indeed 'smart money'.



1. KPMG survey 'Reshaping for future success', 2009



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