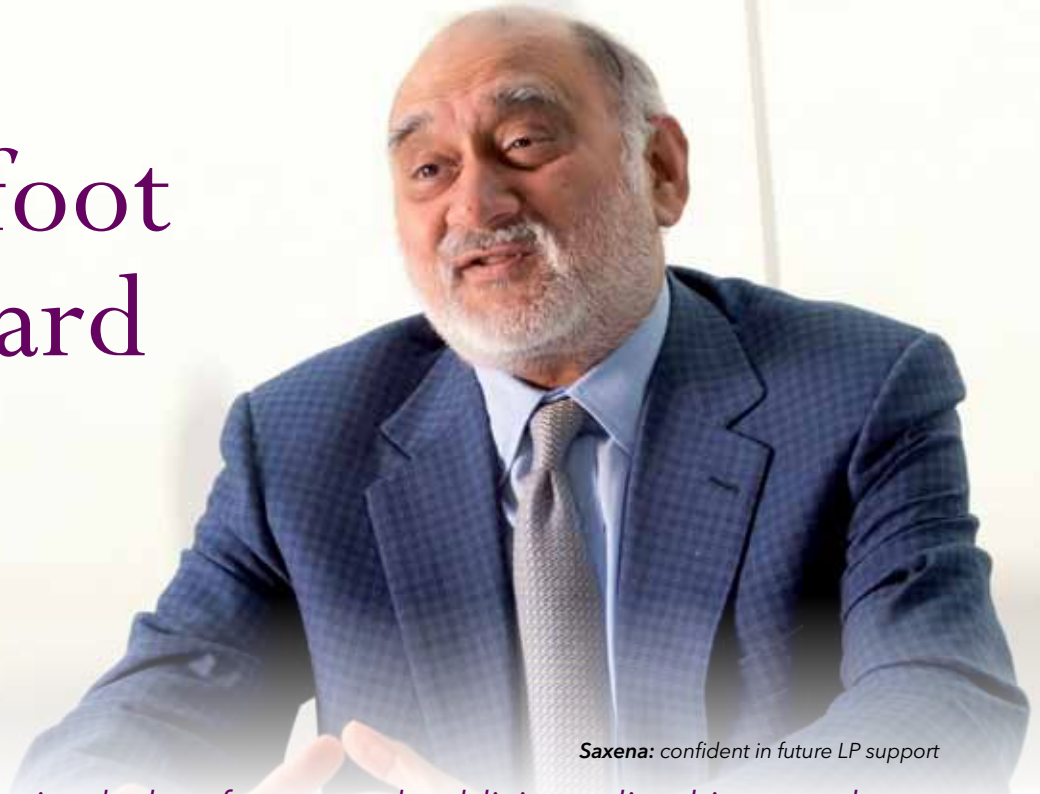


IN FOCUS **PARAG SAXENA** | **NEW SILK ROUTE**

# Best foot forward



*Saxena: confident in future LP support*

*New Silk Route gained a lot of unwanted publicity earlier this year when it emerged that one of its founders was being charged by the SEC in the Galleon insider trading scandal. But co-founder **Parag Saxena** says the growth capital firm has worked to move forward and remind LPs private equity is a team sport. By Christopher Witkowsky*

If the partners at New Silk Route needed evidence that the firm's limited partners were happy with the performance of the fund, a big vote of confidence came in May when close to 100 percent of LPs met a capital call.

The firm had for months been dealing with fallout related to co-founder Rajat Gupta, who was caught up in a wide-ranging insider trading investigation involving hedge fund giant Galleon Group. Gupta was accused in early March by the US Securities and Exchange Commission of sharing confidential information to Galleon's founder Raj Rajaratnam, which the hedge fund executive used to generate \$18 million in illegal profits and loss avoidance. Both had been on Goldman Sachs' board together. Gupta has denied the charges.

New Silk Route, founded in 2006 by Gupta and Parag Saxena, has been working to invest its debut \$1.25 billion fund mainly in India and the Middle East. The news that Gupta, who was chairman of the firm, was potentially in trouble with US regulators came as a surprise and shock to the firm's management, who faced the

immediate task of formulating a cohesive message for LPs.

Suddenly, their job became not just about finding the best investments, but about reassuring and shoring up a base of LPs that consisted of large institutions experienced in the asset class and not in the mood to deal with scandal, especially in an uncertain economic environment.

At a recent meeting in the firm's New York office Saxena declines to discuss Gupta's case in any detail, but says he and other firm principals reached out to LPs when the SEC charges were made public. About a week after the SEC filed charges against him, Gupta decided to take a leave of absence. New Silk Route's partners immediately set about getting in touch with LPs to let them know about the situation.

"We reminded LPs that this had nothing to do with New Silk Route ... it had to do with Rajat's board memberships with Goldman Sachs," Saxena says in a recent exclusive interview with *PE Asia*. "LPs want to know, 'what does this mean for me?' On that front, 'in terms of your investment', we told them, 'there is



➔ absolutely no change'. Our deal flow is as strong; our team, with more than 25 people and 10 partners is a deep one."

As weeks wore on and LPs were able to digest the news about Gupta, the firm made sure to "get something written into their hands", in terms of updates on the situation, and the leaders met with the LP advisory board for in-depth discussions about Gupta as well as more routine updates about the firm and its portfolio companies.

The discussions haven't stopped, either. The firm continues to keep LPs apprised of new developments and answering questions from investors who want more information. One LP that wished to remain anonymous said they were updated "promptly" about the situation, by phone, then mail and then through the advisory meeting. "We are confident that the leadership will overcome the challenges," the LP says.

The real test as far as LP support for New Silk Route came in May, when the firm issued a capital call that was met by almost 100 percent of investors. "I'm comfortable from a fund point of view . . . that was a vote of confidence, the check in the mail has actually shown up," Saxena says.

There was another encouraging demonstration as well. New Silk Route had two LPs that had to sell their interests in its debut fund on the secondaries market because of the economic downturn. One of the LPs that had to sell was the bankrupt investment bank Lehman Brothers, which held a \$125 million original commitment. According to Saxena, the process of getting the commitment "out of Lehman" and through the bankruptcy court took a long time. New Silk Route offered the stake to its existing LPs earlier this year and within two weeks of marketing the fund interest, had firm interest in about \$90 million of it.

The secondaries sale was set to close 28 February, which unfortunately was the day before the SEC charged Gupta, Saxena says. The firm's lawyers advised it not to close the secondary transaction as a result. "Our lawyers said, 'don't close just now, give them

some time to digest the situation. I don't want someone coming back to us saying, 'I made a dumb decision or you didn't give me time to think,'" Saxena says.

When the firm made the aforementioned May capital call, one of the LPs that had agreed to buy a portion of Lehman's LP interest contacted the firm and asked why its capital call was so small, thinking it had doubled its commitment. The firm explained to the LP that it was allowing more time before closing the transaction for the LP to consider the Gupta situation. The LP came back shortly and said they still wanted to buy the fund interest.

"It was gratifying to see someone who had some time to think about it, a very professionally run organisation, that said, 'we still want to do it'", Saxena says about the secondary purchase.

#### A TEAM SPORT

As Gupta's legal issues are not resolved, his role at New Silk Route remains uncertain. He is not on the investment committee anymore, and he is not in daily communications with other partners, Saxena says. He did not serve on any portfolio company boards and he was not the originator of any of the firm's 14 portfolio company investments, Saxena says.

The point the firm tries to stress with its limited partners is that even with the absence of Gupta, New Silk Route has a strong stable of talented investment managers, each focusing on different aspects of the market, who are able to guide the firm's strategy.

"Rajat [Gupta] is sui generis, there's no one else quite like him on the planet. He's extremely smart, he has an unbelievable Rolodex. If I went to the South Pole, I could call Rajat, and if he didn't know someone directly he'd call someone who did," Saxena says. "It's very unfortunate the situation he's in. At the same time, we have 25 people who do different things, 10 other partners who bring deals to the table."

Gupta, the former head of McKinsey & Co and politically well connected via involvement with various advisory boards and

foundations, took on more of a high-level strategy role at the firm, helping out with names and contacts when needed, and spending time shaping the firm's direction going forward. "In that sense, he was like Rafa Nadal, he had all aspects of the game; but this is a team sport, different players can take up different parts, which is what has happened," Saxena says. "It's not a tennis singles game, it's a basketball game."

As with any key-man issues, LPs will have a big say in Gupta's future with the firm. First, it will depend on the resolution of the case against him,

and whether he is exonerated, given a minimum punishment or faces something more extreme.

In the meantime, the firm will continue moving forward, even expanding into other investment areas when opportunities arise. In March New Silk Route added Supratim Bose to its management team to build a medical devices-focused platform. Supratim was a 28-year veteran of Johnson & Johnson, where he worked as group chairman of the medical devices and diagnostics group for Asia.

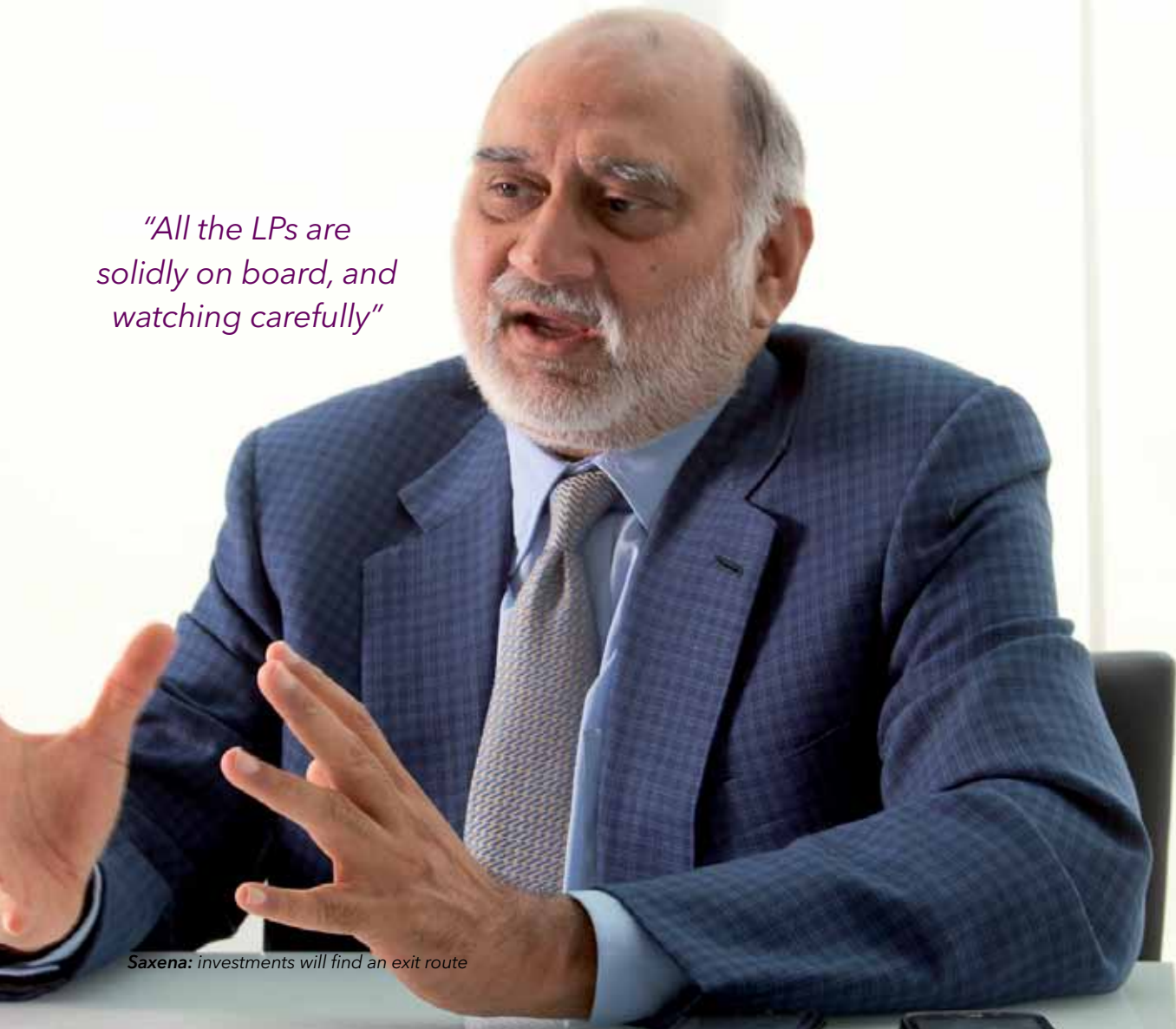
Other partners include Jacob Kurian, who brought experience in the consumer and retail sector; Vivek Sett, who worked in telecom and manufacturing; Darius Pandole, who had been in Indian private equity since the early days of the industry in the 1990s, helping run a fund sponsored by George Soros; and Anand Dorairaj, who came from Citi where he worked as head of mergers and acquisitions and a senior emerging markets specialist. Also, Sanjeev Chachondia brought strong telecom and transportation-related experience.

#### GROWTH IN THE PORTFOLIO

One concern about India in general is that exits can be hard to come by, and New Silk Route has not yet had a major exit. Saxena points to growth in the fund's underlying portfolio companies as proof of the fund's expected positive performance.

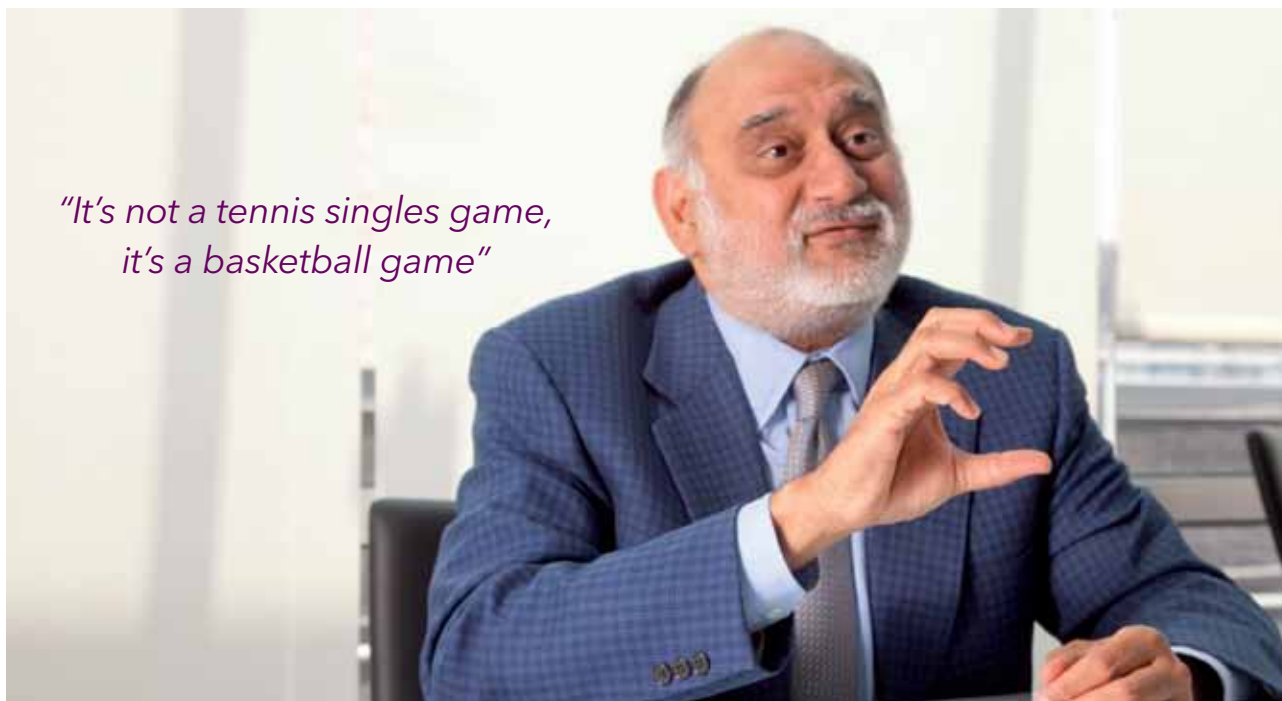
"If revenues are growing, if EBITDA is growing, then you will get a good return at some point," Saxena says. "The capital markets won't shut down forever, and if they do, you'll see some other phenomenon." Referring to the thriving secondary market for sales of private

*"All the LPs are solidly on board, and watching carefully"*



*Saxena: investments will find an exit route*

*"It's not a tennis singles game,  
it's a basketball game"*



interests in social media companies like Facebook, Saxena says: "Look at Facebook – people who want liquidity will find other sources."

One example of growth in the portfolio is a company called Ascend that owns antennae towers for wireless data. The company makes money through 10-year tenancy contracts with large telephone companies to place wireless equipment on the towers.

"You need towers for communications to take place, you need towers for data," Saxena says. "The demand for data will escalate, the digital age will surely transport itself to India and that will further drive demand for antennae, and antennae reside on towers."

New Silk Route started with the acquisition of a company, Ascend, that owned 200 towers. The firm added to the investment, bolstering the holdings to 1,000 towers, and recently signed a merger agreement to acquire a company that is three times the size of Ascend. The acquisition will expand the number of towers Ascend owns to 4,000. The firm plans on adding another 1,000 towers to the company, at which time Ascend believes wireless technology in India should be where it is today in more developed countries.

While the company has not had an exit

yet, "that will manifest itself in an excellent return for people eventually", Saxena says. "You need '4G' services and that's being rolled out now, the licenses have been auctioned. It's widely expected that 4G (WiMax or LTE) will start to kick in in early 2012. We're hoping then we'll have a great opportunity to sell our company or have an exit in a different form."

#### LOOKING AHEAD

New Silk Route was formed to seize on the free market opportunity in India that began to emerge in the 1990s and exploded in the 2000s. The firm was built around a superstar cast of professionals that came with experience in some key markets in India, and perhaps most importantly, understood Indian private equity and knew people in power. Saxena, for example, prior to founding NSR in 2006, spent 28 years working for INVESCO Private Capital, and has served on advisory boards to the Indian government on foreign direct investment and venture capital.

The firm has invested relatively quickly since closing its debut fund, and believes it is positioned for some strong exits, including a company called Ortel, a cable operator and broadband service provider, which is expected to file an initial public offering later this year. New Silk Route also has built

exposure to India's mortgage market through a company called Destimoney, which the firm expects will tap into the fast-growing demand for home ownership in the country.

The firm anticipates coming back to market to raise its second fund in 2013, but wants to have at least three "significant" liquidity events before asking investors for more money, Saxena says.

Ultimately, LPs are expected to stand with the firm or abandon it based not on Gupta's SEC troubles, but on the performance of the firm as a whole. Still, Saxena acknowledges the scandal could affect future LP decisions.

"All the LPs are solidly on board, and watching carefully," Saxena says. "At NSR, it's business as usual. The question before us is, 'In 2013, when we go out to raise a fund, do they sign up or not?' They may not sign up because India is not interesting or they are upset by the Rajat issue. However, I believe that if we keep our focus on performance, strategy and our very special team, we should be in good shape.

"What I say to myself every morning is, 'If I was an LP, what would I want you to do?' The answer lies in unrelenting focus on execution. Eventually, we must pass the test of 'show me the money' when the LP asks that question," Saxena says. ■