

'The question is how much venture capital India can absorb'

Aarati Krishnan

"In India, if you do anything reasonably well, success is a given", says Mr Parag Saxena, CEO and Founding General Partner of the private equity firm New Silk Route Partners.

New Silk Route is a leading Asia-focused growth capital firm founded in 2006 with \$1.4 billion under management, 70 per cent of this invested in India. With infectious enthusiasm, Mr Saxena talks about how the

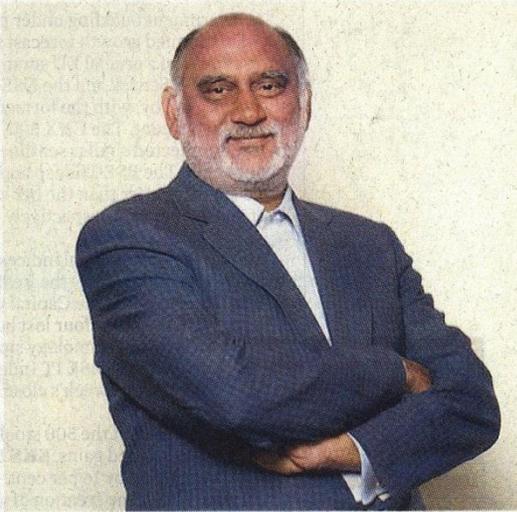
INTERVIEW

private equity firm is no sleeping partner in the ventures it invests in. New Silk Route's India portfolio includes companies like Café Coffee Day, 9X Media and Ascend Telecom Infra.

Private equity firms always complain that, in India, they can't seem to agree with promoters on valuations. After the market fall, so you think valuations are today attractive in India?

No, I don't think valuations are attractive in India. It is hard to do deals here. At New Silk Route, we look at valuations in this way: we actively look for businesses to which we can add value. When we approach a promoter, this helps us to say: "We may not offer the highest price, but we can help your business grow." Every now and then, an entrepreneur will value that and enter into a deal with us. That's quite enough as we are looking for just 3-4 deals a year. We generally don't invest in already listed companies. If at all we do, we look to leverage the expertise of our partners. And we look to acquire stakes that are almost equal to the promoter.

If you invest only in sectors where you have in-house



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expertise, how do you maximise the return potential? What about education or healthcare which most PE funds rave about?

How this works is...We do deep dives into sectors where we have the expertise. In healthcare for example, we decided that we could add value in generics, with a focus on injectable generics. We decided to look for companies that had not obtained FDA approvals in the West. We made this investment where the promoter actually chose us for this value addition.

Leveraging on our team members who have experi-

ence with global drug makers such as Bayer and Schering Plough, we have already obtained FDA approvals for their plants, from the US, Europe and Korea.

We have also invested in a cellular tower company because, that is an area where many of us including me, have experience. We started with 200 towers and grew it to a 1,000. While we did that, we did our best to reduce costs and improve profitability. Now we have a 1,000 towers with 60 per cent EBIDTA margins, even as most others are operating at 40 per cent.

There is a lot of hype about the consumer story in India.

What are some of the areas in this space that you find very exciting?

E-commerce is certainly one of them. We have done many transactions there globally. In our US Fund, we are indirect investors in Groupm, Zynga and Facebook. We are direct investors in several social networking companies. We own 80 per cent of 9X media and have found that they have done an incredible job of turning around the company. The application of E Commerce as a delivery mechanism for music, movies and books — all of it looks exciting.

The increasing adoption of smartphones gives rise to a large number of software companies which work on the backbone of smartphones.

It is possible to transplant business models and ideas from the other markets into India with a few modifications. India isn't all that different. Culture and tradition may be different. However, consumers are seeking the same things the world over — good food, companionship, efficient ways of travelling, short waiting times. If you give someone an iPhone they delight in it. No matter if they are in sub-Saharan Africa.

That apart, one area that excites us in India is restaurants. There are so few national chains in India? Why is there no national Udipi chain? For now, nothing matches Coffee Day's footprint, at over 1000 stores. In Coffee Day,

we would like to improve the food quality and menu. That will automatically lift the footfalls and revenues.

How many exits have you made since you came to India, given that primary markets have been so choppy?

We have made no exits since we've come. In fact, private equity investors in India who started in 2007-08 have generally had less than 1 exit and have given back less than five per cent of the capital they have raised. That is not a great trend. In our case, we do want to return capital. With the stock market looking like this, we have two options. We can offload either complete or partial stakes to other strategic investors or PE firms. The other possibility is to go public in other markets such as Hong Kong, Singapore or Nasdaq.

On the fund-raising side, do investors have appetite for Indian businesses today?

How does India compare to China on that front?

If you look at the biggest sources of money for private equity, it is mostly pension funds, sovereign wealth funds as well as other sources of long-term money such as insurance companies.

Those investors are global and are looking for growth. What they are seeing today is a slowing US and a short-term contraction in Europe. BRIC countries are attractive on that score, but the problem is with the size of these markets.

In a good year like 2007, \$913 billion was the sum raised by PE funds globally. Now if you look to put even five per cent of that in India, that is \$45 billion, you become the biggest investor. So the question is how much can India absorb without impacting prices?

Today a sum such as \$4-5 billion can be deployed in India over 3-4 years. Fund raising is also a function of the track record of individual managers. Today there are 100s of funds in India and all of them cannot survive.