

## INVESTING

# More than growth

*Today there are Indian companies that are no longer defined by their home market. Some local GPs are now starting to help them go further, faster*



**Sinha:** Indian companies are in it for the long haul



**Radhakrishnan:** the more restrained, the better



**Pauly:** it's no longer all about service industries

A growing number of Indian companies are pursuing a development plan that doesn't depend wholly on domestic growth and a benign local operating environment. No longer your classic growth economy SMEs, they are wanting to position themselves as India-headquartered but internationally active businesses. They also often have had a new generation of owner/drivers take the helm, have products and services that credibly compete in the global market and have attitudes to governance, ownership and investment aligned with international norms. It's no surprise therefore that these companies are seen as compelling partners for private equity and it's also no surprise that a GP which has these very principles in its own DNA is already investing in them.

Tata group is a multi-faceted corporation made up of 93 operating companies in seven business sectors [including consumer products, chemicals and engineering] based in 40 countries and with clients in a hundred more. Many in India see it as the country's leading corporate brand. For others, it is the firm that bought prestige auto manufacturer Jaguar Land Rover [JLR] from Ford in 2008 and turned it from a marginal business into a buoyant one: one with revenues for 2013 of £15.8 billion [up 17%YoY] and pre-tax profits of £1.67 billion [up 11%]. Tata has helped dispel the preconception that an Indian company could not make a positive difference to a global business like JLR. Besides confounding these skeptics, this investment also illustrates that opening theme: today there are Indian companies ready, willing and able to participate in global markets.

Sat within Tata is financial services provider Tata Capital which, amongst a host of products and services, manages a suite

of venture capital and private equity funds. The largest of these is the Tata Opportunities Fund [TOF] which closed a \$600 million fund in March 2013. It's run by three partners, Padmanabh [Paddy] Sinha formally at heavyweight institutional investor Temasek Holdings who is Managing Partner, Bobby Pauly who came from in-house consultancy Tata Strategic Management Group and Gautham Radhakrishnan who has previously spent time with both Actis and Warburg Pincus.

This more-than-local theme resonates with the team at TOF: "Indian companies who buy international companies are in it for the long haul," says Sinha, "they're looking for the technology, the markets, the customer relationships and are thinking about creating long term, transformational value."

So far the fund has invested in three companies, the first two having been originated from within the Tata Group: India's largest budget hotel chain, Ginger Hotels and market leading pay-TV platform Tata Sky which is a joint venture with 21st Century Fox [formerly part of News Corporation]. The third investment is in Indian auto-components manufacturer Varroc [see box]. It is this investment that provides further evidence of how private equity can help advance the growth of an ambitious, globally connected Indian company that is also, significantly, not in the IT or BPO sectors. Says Pauly: "It's no longer all about service industries when talking about India, it's about India as a manufacturing hub now too."

The fact that TOF was able to close on such a sizeable amount of capital at a time when many investors had markedly cooled on India caught the eye of many. Competitor GPs grumbled that TOF was simply a device for Tata to warehouse various non-core assets as its new chairman, Cyrus

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Mistry, worked to rationalize and refinance what had become too prolix and diffuse a portfolio of companies. Others though could see that having one of India's leading corporations act as your cornerstone whilst connecting you with a readymade network of advisers and service providers [from consultancy to capital] made huge sense.

The team are quick to point out that they are not a captive though. Says Sinha: “we have the institutional sponsorship but we have an entrepreneurial decision making process – with other, international [private equity] firms you encounter layers of decision making which slows things down. Not here. We don't straight jacket ourselves in terms of our investment thesis, so we will not simply look at companies that are symmetrical with parts of the Tata group, but we will want to leverage the values that people associate with the group.”

Although the private equity story in India has by tradition been defined by venture and growth investing, with the vast majority of transactions being minority investments, this is now changing. And this is where TOF sees considerable opportunity. Comments Sinha: “There should be more capital coming in to a country like India but it needs to be measured.” Adds Radhakrishnan: “The more restrained people are to committing to this market, the better. We don't want to see another wall of money again arrive here.” ■

#### INDIAN BUT INTERNATIONAL



Varroc Group, headquartered in Aurangabad in Maharashtra state, is an engineering company that specialises in providing an array of components for both two and four wheeled vehicle manufacturers with clients including Ford, Honda, GM, JLR, Tata and Bajaj. It was set up in 1990 by Tarang Jain who remains as CEO and the business now has revenues of over \$1.2 billion. In March 2012 the group bought the lighting business of Visteon the erstwhile auto-parts division of Ford Motor Co., for \$92 million which effectively doubled turnover whilst also extending the network of factories to include Mexico, the Czech Republic, China as well as India. It now employs over 10,000 people.

In April 2014, TOF acquired a significant minority stake in holding company Varroc Engineering for US\$50m having rapidly advanced the discussion from concept, diligence through to completion thanks to the fund's ability to plug in to what the TOF team refer to as “the Tata ecosystem.” Given Tata's auto manufacturing know-how [and prior engagement with Ford through the JLR purchase], TOF could call upon a range of experts and expertise both to shape their assessment of the company and map a business plan to share with the Varroc management.

This included deploying one of TOF's two current senior advisers, Prakash Telang, the former CEO of Tata Motors on the deal. This level of engagement meant that TOF could steer the conversation towards exclusivity and a structure that suited them: initially Varroc were contemplating selling a stake in only a part of the business and it was only after TOF explained that this would not work from their side did the proposal come to rest on investing into one combined entity.

It's clear that the Varroc management were attracted to the prospect of being able to connect via TOF to the whole Tata network whilst the US\$50m also helped them not only pay down some debt post-Visteon but also to continue the firm's international expansion. “Varroc is interesting,” confirms Radhakrishnan, “because it has deliberately chosen to balance the Indian part of its business with a global part.”

This is a company that intends to grow alongside its clients across all markets whilst applying the two decades of hard-won knowledge that resides in its management team. And the exit for TOF? “The exit will be a listing which – depending on conditions – could happen in three years' time,” says Sinha. ■