IVCA

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Reporting on Indian Private Equity and Venture Capital

2018

Conclave Highlights

IVCA
INDIAN PRIVATE EQUITY & VENTURE CAPITAL ASSOCIATION

Promoting Private Capital EcoSystem

RIPE

Edited by:
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CHAIRMAN'S NOTE

Dear IVCA Members,

I would like to thank all of you for supporting and participating in IVCA's 7th Annual Conclave held in Mumbai, which included more than 200 PE/VC investors, domestic and foreign limited partners, among other attendees. I would also thank the members for their active engagement during IVCA's 1st Executive Council elections. Over 70% votes were cast with EY flawlessly managing the voting process.

The Conclave plays a vital role for the industry to come together and discuss the opportunities, challenges and issues of mutual importance with their peers and policymakers. I congratulate the IVCA team led by Rajat for organising the Conclave and the impressive line-up of panel discussions and keynote sessions.

IVCA is at the forefront of policy advocacy and continuously working towards creating a favourable environment for all the stakeholders. We have recently seen significant favourable regulatory changes relating to AIFs on the following fronts: 1) Holding periods for unlisted shares to be eligible for long-term tax treatment, 2) Clarity on tax characterisation as capital gains, 3) IPO lock-up exemption and 4) Bank investments in AIFs.

GST is one aspect which IVCA is rigorously working on with the objective of on-shoring offshore pools and encouraging the development of a vibrant fund management ecosystem onshore. The first major move proposed is to exempt the dollar/foreign capital AIF pool from GST applicability given services rendered to these dollar pools should be deemed as exports. This is currently a key impediment for dollar funds to bring fund management operations onshore into India. Secondly, we have proposed adequate clarity that carried interest be treated as long-term capital gains and exempted from GST as they are uncertain rewards for taking market risks with risks higher than common equity. We have also suggested that the management fee paid to AIFs be capitalised as cost of improvement, while computing the investor's tax liability on AIF income.

Creating larger domestic limited partner base remains on the top of the agenda and IVCA plans to conduct training and education initiatives to potential limited partners to showcase the significance of the AIF asset class and provide the decision makers with the right set of knowledge, tools, and other resources. This can help unlock domestic sources of capital funds as well for Indian GPs.

In order to have a focused approach to every matter that concerns the industry, IVCA has formed various sector councils, namely: 1) LP Council, 2) Real Estate & Infra Council, 3) Credit Council, 4) VC Council, 5) CAT III Council and 6) Regulatory Affairs (RA) Committee. All these councils are led by highly experienced industry professionals and with specific charters. We also have a Regulatory Affairs Committee that includes, amongst others, the CFOs of our member organisations.

I once again thank you for your support and hope all of you will participate in IVCA initiatives to further strengthen the private equity and venture capital ecosystem.

Please do not hesitate to reach out to me with any suggestions/comments/queries.

Sincerely,

Padmanabh (Paddy) Sinha
Chairman, IVCA
paddy.sinha@ivca.in

PRESIDENT'S NOTE

Dear IVCA Members,

Thank you everyone for participating and making the 7th IVCA Annual Conclave a success. As a member-based organisation, we derive our strength from your support on every occasion.

As part of our policy advocacy efforts, we have been very active and engaging SEBI, DEA, MoF, IRDA, GST Council and relevant regulators, policymakers and ministries on a regular basis. The RIPE magazine has a list of representations submitted in FY'19 to date.

Currently, IVCA's membership stands at 144 members, which includes 129 PE/VC Funds and 15 Knowledge Partners. Subsequent to the strong start to 2018 in terms of investment and fundraising, we have noticed an added enthusiasm and interest in our interactions with many existing and first-time funds.

We have published the events calendar for 2018-19 in the IVCA website and have an interesting line-up of sector-focused events and masterclasses. We urge all the members to actively participate in the events and networking sessions and avail full benefits of the membership.

We are in the process of revamping our website, which will host the IVCA Industry Center (IIC). It will be the focal point for all AIF industry data in India and will also have PE/VC reports, sectoral reports, industry monitor, industry kit, regulatory updates and industry case studies.

We are always eager to hear from you and open for suggestions. Please write to me - at rajat.tandon@ivca.in

Sincerely,

Rajat Tandon
President, IVCA

INAUGURAL ADDRESS:
AJAY TYAGI, CHAIRMAN, SEBI

TREMENDOUS GROWTH OPPORTUNITIES FOR AIFs

Alternative investments today are a huge buzz word, not only in India but across the globe. This however, wasn't the case before the financial crisis when alternate assets used to be a significant part of the financial world. The assets industry is bigger than ever. With hedge funds of more than $7.7 trillion managed globally, it is becoming a more important part of the financial system and global economy. Over the years, this industry has grown from a handful of private investors making small investments in companies to one that covers a wide array of assets, and encompasses firms managing and investing trillions of dollars globally. This growth can be traced to a range of factors including regulatory changes, economic cycles, technological developments, changes in investment horizons, and preferences of investors. Emerging economies have created a new global class with assets to investments. This greater access means alternative investments are moving towards becoming the mainstream.

OVER THE YEARS, THIS INDUSTRY HAS GROWN FROM A HANDFUL OF PRIVATE INVESTORS MAKING SMALL INVESTMENTS IN COMPANIES TO ONE THAT COVERS A WIDE ARRAY OF ASSETS, AND ENCOMPASSES FIRMS MANAGING AND INVESTING TRILLIONS OF DOLLARS GLOBALLY

INDIAN SCENARIO BRIEFLY STATED:

The Securities and Exchange Board of India (SEBI) came out with AIF regulations way back in May 2012, as per which they are categorised in three categories. Private equity and venture capitals are playing an important role in Indian economic development. Another interesting trend over the past few years is that corporates and MNCs have been setting up funds to invest in smaller startups. It is expected that cumulative funds raising by these AIFs will surpass Rs 3 lakh crores by financial year 2020, which is really very significant.

Seeing such tremendous growth, there comes a question, what is so exciting about AIFs?

As an investor, AIF is that alternative investment that seeks to profit from investment opportunities through trading strategies that are outside the traditional

'buy and hold' approach. These investments look beyond public market and look at opportunities available in both private and unlisted markets, thus providing a wider choice for investment opportunities. Naturally such investments help diversify, not only the portfolio but also the return streams.

POLICY INITIATIVES TAKEN BY SEBI IN THE AIF SPACE RECENTLY WERE:
One, was Category-III AIF permitted to participate in commodity derivatives in June 2017. The requirements for angel fund were amended in January 2017 to provide flexibility to them in fundraising, investment, and ease of doing business while aligning AIF regulations with current Companies Act.

In June 2017, exemption was granted to Category-II AIFs from open offer obligations under take over court for acquisitions made by them pursuant to NCLT-approved resolution plans under the Insolvency Code 2016. Also, a joint programme of IMF and World Bank: FSAP, i.e., Financial Sector Assessment Programme has noted that SEBI AIF regulations are detailed and extremely robust.

However, there are some regulatory issues which, if addressed, could lead to the betterment of this industry. First and foremost, is the need for including good corporate governance practices in the AIF landscape. Managing the potential conflicts of interest is another related issue that needs to be addressed by the industry. In theory, worries about conflicts of interest between the fund managers and the investors stem from the combination of agency cost in asymmetric information, which characterises any agency relationship, such as the one between the investors and fund managers.

The size of the AIF industry in India is growing and is expected to grow much further. There is however, significant dearth of various informational facets of the industry. There is no central repository of information on AIFs to ascertain information on several aspects in the industry. Adequate and timely availability of information is an important factor in orderly development of any industry, therefore, this is an area where AIF needs to focus on.

There are some other lingering concerns regarding the operation of AIFs. Recent cases where loans have been dispersed through AIF route in violation of extant investment requirements, doesn't reflect well on the sanctity of the industry. Such irregularities will have to be curbed immediately.

Another issue that requires immediate attention relates to propriety of funds sourcing arrangements to check possible money-laundering tendencies. It must be ensured at all costs that AIF routes should not be used to circumvent other laws.

This Conclave is a good platform for the industry to discuss and iron out such concerns. To conclude, I can see tremendous growth opportunities for the AIF industry due to various factors, such as central and various state governments have followed various fund structures and have recognised the importance of the startup ecosystem, global fund managers have started shifting their focus towards India in creating structures under AIF route to raise funds. India can become a talent pool for professionally skilled fund managers which can lead to more financial activities. This can make India a major global pooling location. This is not only a valuable service for portfolio companies but also for the economy as it creates jobs, improves governance, and promotes innovation and economic growth.

It is our combined duty to ensure a vibrant alternate investment culture to facilitate India's economic aspirations and enable it to reach its goal to become the economic superpower of the 21st century. ■

GENDER LENS INVESTING: AN OPPORTUNITY FOR GREATER FINANCIAL RETURNS

Gender equality is attained when men and women enjoy the same rights and opportunities across all sectors of society, including economic participation and decision-making. One of the fast-growing aspects of sustainable investment is gender-lens investing, which integrates gender-based factors, either to improve returns or to promote gender equality. It is of much concern in today's expanding financial sphere. The inclusion of women adds a lot of benefits and enhances a company's outcome significantly. This is a relatively new phenomenon which is evolving with the support and encouragement provided to women to actively lead. Panellists provided some great insights into what must be done to make women a greater part of the investing sector.

SHALAKA JOSHI:
I thought I would start with setting the stage a little bit for what is really gender lens investing and what it is not. Gender lens investing is the use of gender as a category of analysis in investment decision-making. It is a small, very niche but growing market. We have got about $2 billion across 58 funds dedicated to gender lens investing globally. For India, it is really a question --- is this an opportunity for financial returns for us? What does it mean for us as investors? It is expected to grow with growth in emerging markets. It is expected to

VANI KOLA - Managing Director, Kalaari Capital
ANJALI BANSAL - Former Global Partner and Managing Director TPG Pvt. Equity.
BALA DESHPANDE - Senior Managing Director, NEA
SHALAKA JOSHI - Gender Lead – South Asia, IFC (Moderator)

accelerate to about 4.6% in 2018.

Investing in companies with a gender lens can include any combination of the following 4 things:

1. Screening portfolio companies based on gender diversity in leadership or in the workforce.
2. Advancing gender diversity via fund manager selections, where women are represented in investment decision-making.
3. How do you increase access to capital for women entrepreneurs? But how do you also support businesses that generate value by selling products or services that may be targeted to both women and men?
4. Integrating gender into the financial analysis of investments from a risk perspective.

Let me ask you to share an example of an investment that you may have made or that you may have passed on making or a sector you may be interested in that could have fit into any of the definitions of gender lens investment that I just laid out.

VANI KOLA:
Decades ago, when I started as an entrepreneur, my first angel investment came from someone who was a very successful entrepreneur of Indian origin. This was when I was in Silicon Valley. Years later, I asked him what made you invest in me? He said, I saw how driven you were, how passionate you were, and I also know that getting a break in terms of investment is not easy for women, and I thought about my daughter someday, and I do want to do my part in encouraging women to succeed and create role models for her. That was one of the thoughts in investing. Now in a way that is not exactly gender lens investing but I think we all are in one form or the other – a 'special needs' case.

I do not think I particularly use a gender lens to filter companies or to source companies. But having said that - one of the investments that comes to mind is when I saw this young entrepreneur who really understood this sector because she was herself a customer. For this company, maybe for a man to start may be difficult, but she really understood this target group, she had very deep clarity about what she wanted to do in this space. To me, this was a group which is under-served and there is someone who really gets it, and I want to support that. Now did it help that I was also a woman because I could understand the market that she was talking about? Perhaps. The question is do we need more women representation in all genres? That is really the question not because of the question of fairness but because women are half of the world, and

they are the consumers also. If you want to serve them effectively, you must include them.

ANJALI BANSAL:
As a fund manager, the first obligation is to make successful investments behind successful businesses that return the capital that you are obligated to return to your investors. Once that frame is established, then I would like to do away with this unconscious bias. Perhaps the gender lens on investing could well be the removal of that unconscious bias and replace it with a very active conscious, positive bias. There is in a society that unconscious bias of discounting, not because of capability but what a woman is likely to put in in terms of effort and hard work to give you the returns. If we can just remove that lens of unconscious bias is a great start to begin with.

Secondly, the gender lens to investing makes commercial sense. Women are playing a more significant role in decision-making, in the buying behaviour, the consumption of goods and services, which forms a large part of our economies. We are talking a lot about this in the boardrooms, whether it is in startup boardrooms or in big company boardrooms --- why do you want to have women on boards? There are enough studies that show that having diversity in the boardroom and gender as a part of diversity enhances your outcome in corporate performance, not because there is a woman and she is going to be more brilliant, but because having a diverse dialogue by itself leads to better problem-solving and better decision-making. The same parallel comes into investing if you have diverse discussions in your investment committees.

SHALAKA JOSHI:
Bala, do you have an example of any investment perhaps that you could share with us?

BALA DESHPANDE:
A gender lens is important from a perspective of balancing some of the perpetuated beliefs about womenkind. I have been investing for 17 years now and have seen the transition happen from saying that, 'Oh! A woman professional? She should be in HR' to 'Okay, a woman in finance'. Today, there are people who come to me and say, 'Women and Technology?' So, the gender lens does help to at least balance out, ameliorate some of the perpetuated biases that we tend to face. Now whether they are desirable or not? Of course, they are not desirable, but it is a reality that we must deal with. So, I do believe that any lens brings focus and attention and will start highlighting that. As investment managers, as people when we tend to sort, order and box, whether we are consciously doing it, it brings about a lot of focus on that. So, I do like the fact that there is something called gender lens that is happening.

I have started seeing a lot of co-founders who are women today. It is a very strong difference that I am seeing in India.

SHALAKA JOSHI:
Maybe I can weigh in there with an example from the IFC, which is as you know the world's largest developing financial institution focussed on emerging markets and the

private sector. We have a 'billion-dollar banking on women' line which is targeted fully towards providing credit and all sorts of financial products that is specific to women entrepreneurs. I think it is a great example of how you can focus on expanding the customer base and filling the impact need around access to finance by working in partnership with our financial institutions and our clients. A question for you along those lines, how do your LPs, and you in turn as GPs, balance financial return with more impact focus mandates, and is gender one of them?

ANJALI BANSAL:
Microfinance done well is a great test case. Even today, if you look at what organisations like Seva and their cooperatives do, there is a big role that gender lens and impact investing can play when you support women-led producer co-operatives. Better risk, better return, all around development impact. So, yes as a GP, I would still apply a lens.

I was with a woman founder who went into a fundraising discussion with her male co-founder. Most of the GPs in the room spoke to the guy, not to her, and eventually one of them turned to her and asked, 'How old are you? Are you married? What does your husband think about this?' And I am sitting there thinking, how does it matter what her husband thinks about this? Some of these good business practices, we need to bring into our industry so that you do not cringe when you hear a male colleague ask questions like that.

BALA DESHPANDE:
When you asked about LPs and how they think about our investing anything especially into inclusion or into impact, I think it is very clear that our mandate is about investing in a time and market context to make superior returns. To that extent, we cannot put that as an investment decision or criteria. But what we like to do is get that as an added benefit.

VANI KOLA:
Financial inclusion could mean women's access to success in the world that I am part of, which is startups funding. And those companies becoming successful whether the woman is CEO or one of the critical co-founders in the business. So, how do you make that happen? For me, it is about how do you ensure that those investments lead to a financial return for our LPs. You know success allows others to be inspired. I want to turn this question --- if we look at this from an inclusion of women's access to success.

WOMEN ARE PLAYING A MORE SIGNIFICANT ROLE IN DECISION-MAKING, IN THE BUYING BEHAVIOUR, THE CONSUMPTION OF GOODS AND SERVICES, WHICH FORMS A LARGE PART OF OUR ECONOMIES

This young woman founder comes to me and says, 'I have this board member who calls me at any time, could be 11 o'clock, could be 12 o'clock (at night) and there is no context or apology for this time of the day and just – what is your sales pipeline? I do not know how to handle this situation.' Maybe that happens with the males also. It has nothing to do with gender but in her case, the gender limitation is because she cannot say - no, this is not okay. So, part of it was really coaching to say you can simply say that this does not work for me. Providing the ability to have these conversations and mentoring is important.

BALA DESHPANDE:
We do try and inculcate in our portfolio companies, inclusion in diversity. It is not always the priority because we are investing in young companies, which are racing for growth and capital etc. but even in simple things like providing flexibility to women so that they can manage both their personal life as well as career.

ANJALI BANSAL:
If most companies operate within the letter of the law itself is a good place to start. What we can do, as investors, is support our entrepreneurs in a stronger, proactive way. Sometimes we must support people to get a good idea or to create a more gender parity-based workplace environment where they are able to attract high-quality women and retain them. It is not a unique problem, every company in the world today is thinking about gender so why shouldn't private equity or VC-backed companies that have private capital also think about it? It is a real weapon in the war for talent. You get better talent, you retain better talent and you can better serve your customers if you are in the consumer space or financial services space because half your buyers are women. ■

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Advised on acquisition of 74% stake in Gland Pharma Limited

USD 1.09 billion

TEMASEK HOLDINGS

Advised on investments in Crompton Consumer, Oberoi Realty, ICICI Prudential, Intas, Glenmark, Manthan, Policybazaar, Staragri and SBI Life Insurance

Over USD 1 billion

Apax PARTNERS

Advised on acquisition of stake in Shriram City Union Finance, Cholamandalam, iGATE Corp and GlobalLogic and exits from iGATE Corp from Apollo Hospitals

Over USD 2.5 billion

Blackstone

Advised on investments in CMS Computers, Jagran Prakashan, Gateway Rail Freight Limited, MTAR and FINO and exit from CMS Info, Gokaldas Exports Limited and MTAR

Over USD 1 billion

THE ABRAAJ GROUP

Advised on acquisition of stake in BigBasket, Quality Care Hospitals and BSR Hospitals

Over USD 500 million

BESSEMER VENTURE PARTNERS

Advised on investments in Snapdeal, Bharat Matrimony, Hungama.com and Arunta Tech

Over USD 100 million

TA Associates

Advised on investments in ACT, Billdesk & Tega Industries

Over USD 500 million

The Phoenix Mills Limited

Advised Island Star Mall Developers Private Limited on investment by Canada Pension Plan Investment Board

Over USD 230 million

TPG

Advised on investment in Landmark Group

Undisclosed Amount

IDFC

Advised on investment in ASG Hospitals Private Limited, buy-out of 100% of First Solar Group in India and exit from Essar Power

Over USD 350 million

Advent International

Advised on investments in Quest Global and Quality Care India Ltd

USD 200 million

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KEYNOTE ADDRESS:
R. AMALORPAVANATHAN, DEPUTY MANAGING DIRECTOR, NABARD

IMPACT OF INFRASTRUCTURE
FINANCING AND ITS RELEVANCE TO RURAL INDIA

First, let me thank the IVCA for having invited me to speak to you on a very important, upcoming, and a very high potential sector that is agri-ventures. I would like to talk about agri-ventures specifically because this is an upcoming industry and a lot of efforts are being made to convert agriculture from the subsistence level to the enterprise levels. There are enterprises coming up in the rural areas, focusing on several aspects of the agriculture sector. NABARD has been trying to promote this by co-funding some of these ventures. Let me admit that we have not done a great job. It is not even 1% of our balance sheet. So, we are trying to go with the government to give a push to the agriculture sector through the development of agricultural enterprises. It must also take the shape of an industry. Several efforts are being made, I will enumerate some of the efforts that the government and we are making to make this happen, wherein it opens a lot of opportunities for venture funding and equity funding.

There are certain constraints, which need to be overcome. You and me together will try to work on these difficulties and constraints through appropriate forums. How is the agriculture venture different from a food venture? Because many times when we talk about agriculture ventures, agriculture and food are combined. The food sector is compost harvest especially urban-oriented, where the people are no more agriculturalists. The food sector is taken by people like you and me who take the ventures in the urban areas developing food chains. That is not what I am talking about. I am going to talk about only agriculture, where up to harvest or up to

the first or second sales, will be thought about. These ventures are very different.

Now, what are all these ventures that are coming within this agriculture sector? The new breed that has been gaining momentum only very recently in the last 5 years or so. NABARD has organised almost 2300 agri-producer companies of its own and there are about 3000 companies organised by the various sectors including big companies like Mahindra and Mahindra. But there are two distinct differences between these agriculture producer companies, which are registered as a producer company. There is only room for the producers; there is no room for the other people including venture capital to equity --- this is one of the limitations. We need to take a different instrument; we cannot go straight away to equity. At the same time, the people who have invested in equities and farmers and therefore, because they are eligible for income tax concession as an individual and as a group also, they should be entitled to take the benefit of agricultural income. Therefore, in this budget, you must have seen the Finance Minister (Arun Jaitley) announce income tax exemption for producer companies for up to 5 years.

This is a dichotomy now. If you allow the product capital into that then that income will also be exempted but there are ways of going around that. We have been telling this, so they can distribute bonus to the participants who are the people supplying raw materials to the company or participating in the business of the company apart from the financial participation. They can be given a bonus in the name of additional prices, additional bonus prices etc. where a certain amount of benefits can be ploughed to them instead of pure dividend part of it. So, the dividend can be taxable, but the bonus cannot be taxable.

NABARD HAS ORGANISED ALMOST 2300 AGRI-PRODUCER COMPANIES OF ITS OWN AND THERE ARE ABOUT 3000 COMPANIES ORGANISED BY THE VARIOUS SECTORS

We need to work on this together with the IVCA and NABARD. We do need to work on this area where we can talk to the government about the ways of going about it.

Second, is the special features of agri-ventures. Agri-ventures are basically some educated people including the software people and NRIs coming back (to India) and wanting to give back to society by developing modern agriculture. They start organising these people and enrolling them into a kind of a company and register them as a company. And in the process, there are two types of investments that happen --- there is one common investment creating common infrastructure, marketing etc. The second, is there must be individual investment also by the farmers so that they can produce what you want to supply in the market. So, there are two types of investments that are happening. When the enterprise level investments can be taken care of by venture capitalists, the individual investments are still left out. So, how do we leverage the banking system or any other system, where we can ensure there is an individual level investment that is also happening. For example, this year the government has announced a micro-irrigation fund of about Rs 2000 crores. This must go to the individuals but if these individuals are also part of the enterprises then you can see much more productivity.

Likewise, there are several announcements that have happened which is individual-oriented, and another is enterprise-oriented. Unless these two are going together, you cannot see much return on the investments. The next one is, lots of supporting infrastructure which has been developed. NABARD alone has financed almost 2.3 million kilometres of rural roads. Rural roads in the whole of economic investment, gives the highest multiplier effect. One road gives you lots of opportunity for education, hospitals, markets, imports, transport, logistics. Initially when NABARD was financing rural roads, there was a lot of pressure for us to finance irrigation. Then we told them that better than irrigation is a road, which is going to bring prosperity to the rural areas. Therefore, the road was given in addition to the employment. These are all the indirect benefits that we get. The entire market and the land price goes up; the marketability goes up, etc. Ultimately it gives more than 6x of the normal Re 1 investment every year.

Similarly, we are investing a lot in irrigation investment. NABARD alone is investing Rs 1.2 lakh crore in this. We have already

crossed about one-fourth of it, we are going to go further on this. Where does this investment go? There was no productivity for most of the investment, which has happened earlier. The dam is there, but water is not supplied. Sometimes supply lines are there in the farms, but the dam is not ready. So likewise, there are many things lingering. We have taken over about 99-100 projects and then together we are financing them. NABARD has the track record of delivering 95% completion of the projects compared to earlier 47% of government-owned projects. Because of that, the government has entrusted this work to NABARD so that we see that the project is completed in every respect.

Similarly, in the dairy infrastructure, all these machines and processes are obsolete. We need a modern dairy plant. Close to 500 dairy products are manufactured in Australia, we are not even 50. Only 47-48 products you are producing out of milk. There is so much potential that is available. For that, milk supply and processing capacity must go up. The government of India has instituted a separate fund with NABARD for dairy infrastructure, but this is also going to be aimed at the enterprises, which are the dairy processing enterprises. This is another area which is emerging. Dairy processing enterprises will come but milk supply must happen.

Similarly, fisheries --- now the market development infrastructure fund has been announced. You must have seen the small market yards which are not up to the mark. Now we are in the process of creating an e-National Agriculture Market, which is an integrated market. But before integration, there must be infrastructure at the ground level. So, these are the things we are doing now; the infrastructure is being developed in the agriculture and logistics sector. You can see along with the enterprises there will be a lot of scope for logistics, storage, handling of commodities, trans-shipment, etc. In 3-5 years, you will see long trucks that are going to take commodities from one place to another that cannot enter the city. You need a trans-shipment somewhere. Have you seen any trans-shipment near the cities? Hardly any are there. Maybe Mumbai or Bengaluru have but nowhere else can you see the trans-shipment centres where the bulk agriculture commodities are repackaged into small commodities moved into the cities. So, these are the things that are going to emerge, and this is going to come into the private sector. The government sector cannot handle it; it is going to come from the private sector. Also, are only two major players in the warehouse infrastructure. Only these two are big players but a lot more needs to be done. They are creating electronically-generated, digitised warehouse receipts which are easy to finance and is a guaranteed instrument. Today, warehouse receipt finance is not happening because there is no credibility for the receipts that you're given. Once it is given a unique number and is issued by an accredited agency, it will gain momentum. There are some companies coming into this.

There are umpteen number of opportunities emerging, but I would like to tell you about some of the challenges. It is not the enterprise alone; it is the people who work as suppliers that also need to be integrated into this. This is not easy and there are certain legal things that need to be addressed. All the benefits going to the company is not flowing to the individual producers. What is going to the producers are not going to the company. How do we balance this?

The exit is not going to be easy with the current situation. You cannot sell the shares even if you are investing in equity. You cannot sell it outside because you must sell it to the producer only. So, there are issues related to the exit routes. In processing companies, there is no issue, but in the producer companies, there are still some issues. That is why you can find lots of NBFCs getting into this. For example, Mahindra and Mahindra is doing for all the tractors. Aavishkaar is also working in this space.

We need to find via media how to reach out to the enterprises apart from the individuals. We must put together a system in place where we can integrate the farmers and the enterprises. It is happening in the crop husbandry areas; a lot of natural fertilizer, pesticides, and biopesticide companies are coming in. These are all the new areas which are coming in, but there is nobody financing.

For a regular venture capitalist, it is a very new thing. The biopesticide person has a small lab; there are cages, he breeds the insects, puts it in a plastic bag and sells it. But where is the asset in this? So, these are all the things that we need to cope up with. We must understand the dynamics of the new generation technology. If you go to the Internet of Things, people are using drones, sensor-operated for precision farming systems. Precision farming is emerging and there are many people getting into this especially the educated ones, the NRIs, HNIs, etc. They say we will enter this. None of them are farmers, but they want to get into this kind of enterprise. Many of them are very successful because they look at it as a business. To appraise these kinds of projects, to understand these kinds of projects and then take them on board for financing and look for an exit, is not easy. We need to work on this.

I request the IVCA --- we will have joint programmes on how to educate both the financing fraternity as well as the enterprises themselves. The challenges are quite a few and I hope with the given thrust, we should be able to overcome this together and see that there is a revolution happening in the rural side. I hope together we can make it happen. Once again, I thank IVCA for the wonderful opportunity. ■

WE ARE IN THE PROCESS OF CREATING AN E-NATIONAL AGRICULTURE MARKET, WHICH IS AN INTEGRATED MARKET. BUT BEFORE INTEGRATION, THERE MUST BE INFRASTRUCTURE AT THE GROUND LEVEL

HARSH SINGHAL, Director, Growth Markets, CDPQ
DEVINJIT SINGH, Managing Director, Carlyle
RALPH KEITEL, Principal Investment Officer, IFC
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GEOFFREY LOVE, Wellcome Trust, UK
SIDDHARTH SHAH, Partner, Khaitan & Co. (Moderator)

HOW OPTIMISTIC ARE LIMITED PARTNERS ON THE INDIA STORY?

Listening to the LPs is a crucial exercise because they write the cheques! It is very important to get their perspective on how they view India as an asset class. Eminent speakers converged on the IVCA platform to share their views and experiences on how they have fared in India as an investor. The panellists also ranked the optimism of LPs about India as an asset class on a scale of 1 to 10. The relative performance of India as an asset class compared to other emerging markets became an important aspect to ponder upon. The pressure faced by GPs and how they tackle it forms a different approach. Betting big on the 'India Story' is completely dependent on the outlook of various GPs and LPs across the world. Panellists shared their views on this pivotal topic.

SIDDHARTH SHAH:
So how optimistic are LPs about India on a scale of 1 to 10?

GEOFFREY LOVE:
When I am in my office in London, I am probably at 3 and when I am in Mumbai, Bengaluru, Delhi I am about a 10. You just get swept up in the optimism and the potential. I think institutionally; we are at 6.

GAURAV KAPOOR:
For us in terms of optimism, it is clearly at 7. That could very easily go down to a 4 if certain things are not met in the next 1 year.

HARSH SINGHAL:
I think we will be around 7.5 in terms of our optimism. But we are watching a few things very closely including how the macro economy environment is playing out.

RALPH KEITEL:
Among LPs, there is a lot more optimism around India now than a few years ago. For IFC, I do think that India is one of the most attractive emerging market investment opportunities. For me, it is somewhere between 7 and 8 right now.

DEVINJIT SINGH:
The needle is probably somewhere in the 8 to 9 range. The view on India has gone as low as probably 2 or 3 at periods of time and rewound over the last decade or so.

SIDDHARTH SHAH:
The tone seems to be ranging from cautiously optimistic to optimistic, which I think is great news. I would like to ask the two DFIs (on the panel) for their

perspective on how they have seen India evolve as an asset class.

GAURAV KAPOOR:
This is a relatively new asset class compared to what it is in the western markets. It has done very well but is still way below its potential in terms of what India needs and where this asset class can play a role. If you look at it on a per capita basis, India is 1/20th of where the UK is in terms of fundraising, 1/10th in terms of the investment money that is going in, 1/100th in terms of the exits that are being able to be offered to people. It is very scary for an LP to be stuck in an asset class long-term unable to exit.

We are very bullish because we see that the government is finally becoming an active partner in supporting this ecosystem. We are doing our bit to work with Government of India to bring in more money and open more avenues for getting that money to the investors and entrepreneurs who really need it, because absorptive potential I can tell you is still a big concern to us.

RALPH KEITEL:
Obviously, a market as large as India for an organisation like IFC that only invests in emerging markets, is a huge investment potential. Not all our funds that we have invested in the past, particularly in the post-peak years (2007-2008), have performed as well as we would have liked. But the reality is very optimistic, not just for an institution like IFC, but LPs are optimistic for several reasons. There are very favourable demographics; there is a lot of very positive sentiment post-Narendra Modi's election and a lot of it is very justified. The government has implemented a lot of regulatory forums. Every year, IFC publishes 'Doing Business Report'. While India has done several positive things like the Bankruptcy law; there is still a lot of work that needs to be done for India to move up the rank on the doing business. But there are a lot of very positive things that have happened. There is strong GDP growth, inflation has come down, the currency appears more stable now, you are seeing the earlier emergence of a middle class which tends to translate into more purchasing power.

> THERE ARE VERY FAVOURABLE DEMOGRAPHICS, THERE IS A LOT OF VERY POSITIVE SENTIMENT POST NARENDRA MODI'S ELECTION AND A LOT OF IT IS VERY JUSTIFIED

SIDDHARTH SHAH:
From a historic perspective do you think the performance of Indian GPs for the DFIs is satisfactory, moderately satisfactory or unsatisfactory?

GAURAV KAPOOR:
There are some parts of the world where 96% of LPs think that it has met or exceeded expectations. We are at least 40 points below that in India.

RALPH KEITEL:
It is very quick to get to an imbalance between the demand and supply for capital available. If LPs give too much money to GPs, it will translate into a higher price since. Regarding pricing, low price does not make a bad deal any better. But the high price makes a good deal worse. We are all in this together --- LPs and GPs. But I think a lot of the GPs have learnt the lessons and are more disciplined when it comes to pricing and better at creating value.

SIDDHARTH SHAH:
The Canadians have been path-breakers in the last few years as the big supporter of India as an asset class and have committed in terms of time, effort and resources. It would be great to get a perspective.

HARSH SINGHAL:
All the Canadian investors are quite positive about India. Economic growth, strong demographics, the level of transparency in the reporting standards, and how the government makes regulations, are reasons. If you compare it to other emerging markets, we are far ahead. As a Canadian investor, democratic values are very important for us and that is another thing which is playing a very a big role in us being committed to India. We were one of the early movers in the distressed asset investing space. We partnered with ARC way back before the Indian Bankruptcy Code came into existence. Every day, the government comes out with regulations with the right intent, which has very positively surprised

us. India really stands out for Canadian investors.

Having said that, there are things which we keep watching that worries us a little bit. The differential in growth and the valuation premium which India commands is a calculation which we do every time and it keeps us a little bit cautious. My colleague sitting in Canada sees India as a very complicated country in terms of regulations. They also see regulations change very fast without giving enough forewarning. Those are the things which we have to watch out for.

SIDDHARTH SHAH:
Devinjit, for all LPs it is really about India generating the returns as expected and I think those returns are only crystallized when you have exits. We have seen a good trend of the Indian market providing exits.

DEVINJIT SINGH:
People have learnt from the exit challenges that investors who invested in the earlier vintages faced. The overall improvement in the capital markets in the last 2 or 3 years has provided a real avenue of exits through the IPO markets in addition to the private market or the trade sales. The value chain getting more established is providing another avenue for exits. There are still areas where some of the legacy investments partly due to a combination of either lack of structuring, poor choice of partner, and the adverse impact of regulations in some sectors. Those are issues that are still being worked through, but if you look at the younger vintages in the last 5 to 7 years, the exit records, as well as the velocity, has generally improved very dramatically.

SIDDHARTH SHAH:
Have you been facing any pressure otherwise on the commercials as a GP?

DEVINJIT SINGH:
That also goes through its cycles and waxes and wanes in terms of the relationship between LPs and GPs like ourselves. It has probably settled at a comfortable point. I do not think that has been many issues about the performance fees. Most LPs are happy to participate in performance fees where funds have generated returns on behalf of their respective investors. There has been push back on transaction and management fees and all of those are now at a point where the interest of LPs and GPs are reasonably well-aligned. The GP industry is seeing record-breaking asset mobilization or fund mobilization in the last year which is at the all-time highest.

RALPH KEITEL:
The single most important thing that we LPs have seen over the last 2-3 years is that money is coming back from India in a meaningful number. The fact that cash is now coming back is a game changer for many LPs.

SIDDHARTH SHAH:
How do you compare India as an asset class

THE DIFFERENTIAL IN GROWTH AND THE VALUATION PREMIUM WHICH INDIA COMMANDS IS A CALCULATION WHICH WE DO EVERY TIME AND IT KEEPS US A LITTLE BIT CAUTIOUS

to other emerging markets?

GEOFFREY LOVE:
Compared to all our venture capital funds on a global basis, based on money that we have had back, they are rock bottom. For us, the frustration is getting liquidity.

RALPH KEITEL:
The performance of our India portfolio has not been great in comparison to Southeast Asia or East Asia. In China, we have outstanding vintages and outstanding GPs. By comparison in Asia, India does not score well. Globally as emerging markets, India is sort of at the bottom of the table. Latin American Africa have also done better for us.

SIDDHARTH SHAH:
The public market seems to have outperformed venture capital and you see more allocation from your end going down that path?

GEOFFREY LOVE:
Potentially, because we have solved the issues of liquidity, fees, control and risk. If we can get our excess returns from public markets. Fine, we will do that.

GAURAV KAPOOR:
Infrastructure will continue to be a big play for us. There is so much opportunity in urban, in some of those sectors related to infrastructure. We are very bullish about infrastructure, startups, sectors where technology is yet to come, for example, in manufacturing.

We must create better product segmentation. Our job as a government is to look at our capital and how it can catalyse the wider pool of capital coming alongside that.

On how to win over LPs, there are 5 Ts that one looks at --- third-party perspective, track record, talent, transparency, and transaction.

HARSH SINGHAL:
We look at what is the level of transparency, what are the kind of entrepreneurs we will be dealing with in that sector and what is the headway for growth. We are a very conservative investor, so the kind of regulatory environment which exists in that sector also plays a big role in deciding whether we would fund there.

The financial services industry excites us right now. The other sector from a long-term perspective, which excites a lot is infrastructure.

RALPH KEITEL:
For an organisation like IFC obviously getting an adequate return for the risk that we take is only half of the story. The other half for us, in a market like India, is obviously the impact that we can achieve with what we do. There are several strategically important sectors for us in India --- whether it is infrastructure, healthcare, education, agri business, housing, financial services that means providing access for financing for the poor --- these are all strategically very important sectors and we are very focused on them. We are very keen on venture capital and supporting new industries and the transformation to a modern economy. ■

India Focus + Tata Advantage

Tata is India's largest and most diversified industrial grouping. Founded in 1868, the group has a long history of creating and nurturing businesses. The Tata group is made up of over 100 independent operating companies of which 29 are publicly listed and which together have an aggregate market capitalization of ~USD 130 billion (as at 31 March 2017). During the financial year 2016-17, the total revenue of Tata companies, was ~USD 100 billion. Tata is one of India's most trusted and highly respected business houses and is India's best recognised brand. Tata Capital's private equity franchise benefits from this privilege and builds on the group's "leadership with trust" credo in supporting its investee companies.

Tata Opportunities Fund - Highlights

- The Tata Opportunities Fund (TOF) is the flagship private equity fund comprising ~USD 600 million of third party capital and invests in market leading businesses centered on India
- Unique and exclusive private equity fund that will make equity investments principally into proprietary deal situations leveraging Tata's wide network and resources
- TOF's differentiated strategy has achieved good traction and to date has committed ~USD 440 million across eight companies. The current investments include high growth sectors including consumer, financial services, industrial, infrastructure, services and technology.
- Each of TOF's portfolio companies have strong governance, a focused strategy, large scale (5 out of 8 with over USD 1 billion in revenues) often market leadership (5/8), clearly defined exit rights and is with a top Indian/global corporate brand
- Follow-on fund of similar scale and strategy has been launched.

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TATA OPPORTUNITIES FUND

BUILDING AND SCALING BUSINESSES IN INDIA: STRENGTHS & CHALLENGES

Scalability is one of the most important factors for entrepreneurs and investors to consider. A key difference between a startup and a scaleup is the nature of the chief challenge faced by the business. While a startup's main task is to find a repeatable scalable business model, a scaleup's primary hurdle is the growth of the already identified business model while maintaining operational control. Successful business growth depends on a scalable business model that will increase profits over time by growing revenue while avoiding cost increases. What goes on in the mind of the investor? Panellists discussed the various pros and cons of building and scaling enterprise in India.

SHRIJA AGRAWAL:
Yogesh, as part of your entrepreneurial journey, you also debunked two major myths, first - Indian companies cannot build global brands and secondly, that India cannot be a manufacturing hub. How did you debunk both these myths and convert challenges into opportunities?

YOGESH MAHANSARIA:
It takes a long time to build global brands, which is why we made the two acquisitions that we did --- buying Alliance Tire in Israel and buying GPX out of bankruptcy in the US. These acquisitions were done with the insight that if we started afresh and tried to build a global brand, it would take a very long time. We were in a bit of a hurry, so we found it easier to buy than to build. Of course, once we bought these brands, we continued investing in them year after year. For a tyre company to spend 2% of its revenues on brand-building is quite unheard of especially when it is something like farm tyres or construction tyres, which are not really consumer-facing products. But we bought brands with good heritage. We continued to invest in these brands year after year and that gave us a very strong position. The second question that you asked about, India as a manufacturing hub, I have personally been very optimistic and upbeat about India as a manufacturing

STEFAN LENNHAMMER - Chairman, Truecaller
MOHIT TANDON - Co-Founder and CSO, Delhivery
YOGESH MAHANSARIA - Founder and Director, Mahansaria Industrial Ventures Private Limited
GOPAL JAIN - Managing Partner, Gaja Capital
REHAN YAR KHAN - Co-Founder and Managing Partner, Orios VP
NIREN SHAH - Managing Director, NVP
SHRIJA AGRAWAL - National Deals Editor, Mint (Moderator)

location for the last many years. We have a growing population, so we certainly enjoy the demographic dividend. We add the population size of a small European country every year. You can think of that as a negative or you can think of that as a positive and if you think of it as a positive that means that you have a young and plentiful workforce available to you. I think infrastructure has really developed in India over the last couple of decades. I think it is a very positive and healthy environment in which you can develop a strong and sustainable manufacturing business in India.

SHRIJA AGRAWAL:
But tell me one thing Yogesh, in your entire journey did it not strike you that you are seeding majority to an investor?

YOGESH MAHANSARIA:
No, we did not really. When we started over in 2006 after our family separation, we had two choices; we could restrict ourselves to the capital we had and build a small business, or we could partner with a private equity fund and aspire to build a global world-class business, and that is what excited us and we were fortunate to have two wonderful partnerships with Warburg and KKR where each supplemented each other's strengths.

SHRIJA AGRAWAL:
Stefan, your company is a unique company, you had genesis in Sweden. It is not an Indian company but 60% of your user base is in India. So, how did you manage to do that especially keeping in mind that your customer acquisition cost is zero?

IT IS A VERY POSITIVE AND HEALTHY ENVIRONMENT IN WHICH YOU CAN DEVELOP A STRONG AND SUSTAINABLE MANUFACTURING BUSINESS IN INDIA

STEFAN LENNHAMMER:
We released a beta version in late 2009-early 2010. We realized that we got 10,000 downloads in a week and we started to dig into the data and really understand why it is happening. What was the reason for people downloading the app? Everything that we have done is driven by our consumers and how they want to see our product grow. It actually took off in Lebanon in the Middle East and then it grew over to India. So, coming from a small country like Sweden having only 10 million inhabitants, it is also part of our nature to be very entrepreneur-driven. Over the last 5 years, at least

10 unicorns have been sent out of Stockholm like Skype, Spotify, etc.

SHRIJA AGRAWAL:
Mohit, while you are scaling up, how do you constantly remind yourself that trimming the fat is also part of scaling up?

MOHIT TANDON:
Capital is only attracted to a company if it is actually showing some efficiency or value. It is very important for startups, or even companies which are scaled up, to continue to spend the money that they have raised efficiently. Now you may spend more or less depending on the scale of your business, how fast are you growing, what is the type of market that you are in, etc. You have to invest in building up the basic infrastructure, but your unit economics should turn positive after 1 or 2 years, which happened in our case also. Then you look at more consumer-driven companies where you are trying to change consumer behaviour for a billion people. That is something which will take time and money and you have to spend more to do that. So, different companies at different stages have to invest differently amounts of money but what you need to focus on is how efficiently are you actually spending that money. For us, if I go back and look at our journey and what worked for us, it is a very simple thing - that we never raised more money than what we needed. We raised enough to make sure we grow what we planned and slightly more than what we actually expected. But that actually made us and our teams very frugal in

how we were spending money.

SHRIJA AGRAWAL:
Niren, could you give some case studies and substantiate the scale-up challenge for us?

NIREN SHAH:
Our focus has been growth and I would say, sort of late venture or early growth. We like to come in at a stage where a company has got its product-market fit. We are actually helping these guys scale up and take it all the way to an exit. We do not want to come in very early when the company is finding its feet and coming in at low valuations. Typically, our cheque sizes will be between $10 to 25 million.

We have a strong focus on portfolio building. Out of the 35 companies we have, we have had about 13 exits and in each and every one of those exits, we played a very pivotal role in some way or the other day, whether it is strategy-wise or it is hiring some important components of the team. On Pepperfry, we found very quickly that online and offline furniture was the big main stay. We were pivotal in helping Pepperfry exit some of the other businesses, which were nice to have, like apparel where we saw from an outsider perspective that there is really no margin left. We also helped them in building a great second level team. Getting into strategic areas as their own big item logistics, that was something which we did. We were instrumental in helping them in the last four rounds including the one which has just come in. We were very keen that we get to unit economics profitability contribution margin positive, in the first one and a half years itself.

CAPITAL IS ONLY ATTRACTED TO A COMPANY IF IT IS ACTUALLY SHOWING SOME EFFICIENCY OR A VALUE. IT IS VERY IMPORTANT FOR STARTUPS, OR EVEN COMPANIES WHICH ARE SCALED UP, TO CONTINUE TO SPEND THE MONEY THAT THEY HAVE RAISED EFFICIENTLY

SHRIJA AGRAWAL:
But that is not really applicable for all your consumer internet companies. Right?

NIREN SHAH:
Yes. But even if you take a company like Swiggy, we got many investors but the contribution margin positivity came in literally 12 months after we came in.

And we worked very closely with these companies because honestly if you cannot break even on a contribution margin

basis, there will always be questions on whether this business is viable or not. In something like RBL, we spent a lot of time trying to explain to them what was going on and we were actually very negative microfinance. So, before we put in our money we had a whole lot of discussions on where this was going and whether there was space for another private sector bank, which was little more agri, little more tech-driven, little more SME-driven rather than just being MFI-driven. We sort of helped them in that area.

SHRIJA AGRAWAL:
Rehan, you actually did 70% to the first Ola angel funding round. How does that one startup stand out against the others?

REHAN YAR KHAN:
The Ola story is an interesting one and it is less spectacular than it sounds. I had met RedBus about 1-1.5 years earlier and thanks to RedBus, I got acquainted with the ground transportation space. For better or for worse, I ended up passing up on RedBus. What I learnt was that in fleets you need to turn the asset around a lot. When I met these guys (Ola), and this was pre-Uber, they were never a copy of Uber. I had done back of the envelope calculation that would be tens of millions of rides a day as a potential market. These guys were both from computer science and that told me that when you scaled up the business, you could run a dynamic demand-side and dynamic supply-side. That struck me; they could manage at scale and could turn this asset around, which was a big issue which Meru was having when I met them. What has been typical to my investing is that I, or we as a firm, always check out the industry in great detail before we invest.

SHRIJA AGRAWAL:
Gopal, can you give some examples from your portfolio and substantiate for us the scale-up challenge?

GOPAL JAIN:
My learning from the last 20 years of doing what I am doing is that the key to creating alpha lies within us, which is the private equity firm. If you want to create alpha, what you have to do is to bring portfolio management to the centre of the firm. What we have done at Gaja Capital, very deliberately over the last 20 years, is to build a very high touch, high engagement portfolio management model, which is at the centre of our investing. It is easier said than done. In order to do this, we have a team of 18 people. We are 12 full-time professionals and 6 retained advisors. We have a three-level framework on value-add and for each of these levels of value-add, you need a different set of skills. We have put together a team, assembled a team that can deliver these three levels of value-add. For this, you need experienced governors, people who have seen companies that are CXO level. The second level of the framework is where we provide business expertise, sectoral expertise. The third level of value-add is where you actually get involved in the operating aspects of business and for that you need the horizontal operating capability. The one thing common across companies that we engage with is that they all are ambitious, they all have great entrepreneurs, they all have the market opportunity, but they need help, they need something more than capital. Our ability to help them is a function of our own capability.

IF YOU WANT TO CREATE ALPHA, WHAT YOU HAVE TO DO IS TO BRING PORTFOLIO MANAGEMENT TO THE CENTRE OF THE FIRM

I think a very good example is EuroKids. Our model high touches where we work across all three levels. This March 31, EuroKids completed 5 years of our investing. In 5 years of investing, we have grown in the top line 3.5x and the bottom-line 8x. We own a controlling position in the company and we have added value, whether it is governance and MIS, or taking decisions on what areas of education EuroKids should focus on.

SHRIJA AGRAWAL:
Stefan, you had Wednesdays to spend with your Truecaller team in Sweden. You were helping them clean up the office, serving coffee and everything. So, are you that kind of an investor?

STEFAN LENNHAMMER:
It goes back to my own nature of being an entrepreneur myself and building my own company and realising what kind of needs there are in different kinds of development stages of the journey that you are supposed to do together. When you are very young and just founded, you have to do what has to be the most efficient. You have to clean the office because that needs to be done as well but that is where you start.

SHRIJA AGRAWAL:
Yogesh, you were saying that when you went out raising money, you would not actually get an investor to say, 'take my money, burn it.' Perhaps the playbook has kind of changed now.

YOGESH MAHANSARIA:
Personally, as an entrepreneur, I would not want to be in a situation where I need to raise capital even every year to keep growing my business or burning or so on. Having said that, in certain cases, the burn can have strategic reasons. But I would be willing to believe much more in burn as a strategy if I see companies move from burning to actually making money. I think globally the firms that are burning money whether it is Uber or Flipkart in India are a long way from being able to make that switch.

SHRIJA AGRAWAL:
Mohit, from a Delhivery point of view, what is your burn rate like?

MOHIT TANDON:
If we are profitable, we just invest in technology and training. That is the burn that we have.

SHRIJA AGRAWAL:
Yogesh, your take on too many companies burning dollar VC money. Is that the new rule- book?

YOGESH MAHANSARIA:
As an entrepreneur I would not be comfortable with that as a strategy and I would want to see some of these companies move from burning money to making money in order to get more conviction in that model. ■

[Day 2]

BUYOUTS, EXITS & M&A: GAUGING THE INDIAN MARKET

ASHLEY MENEZES
Partner, Chrys Capital Advisors

GAUTAM GODE
Co-Founder and Managing Director, Samara Capital

VISHAL TULSYAN
MD & CEO, Motilal Oswal PE

SUNIL THAKUR
Director and COO, Quadria Capital

UDAI DHAWAN
Managing Director and India Head, Standard Chartered Private Equity

ABHISHEK GUHA
Partner (Corporate), Shardul Amarchand Mangaldas & Co.

AMIT GUPTA
Partner, New Quest Capital (Moderator)

The Indian market has become very vibrant; the canvases have widened the avenues have increased. The IPO market has especially become very lucrative. But on the other side, we are seeing many more new structures emerging. Buyback, which was completely absent in this geography, has come into play and a lot of good and mediocre assets that are being taken out to buybacks are being seen. The last two to-three years have been very positive for exits and there are various forms of exit modes that have emerged that are helping private equity players.

Various aspects such as the kind of exits, exits in India versus the rest of the world, different alternative liquidities, etc. were touched upon during the panel discussion. The panel also spoke about buyouts, buyout deals, and the kind of exits from buyouts.

AMIT GUPTA:
Vishal, what kind of exits have you seen in the last few years and how have they been?

VISHAL TULSYAN:
In the last few years, the stock markets have done exceedingly well, which did create a lot of exit opportunities for many of the funds. We have had very positive experience in the last two years. We, as a fund, feel that at the end of the day, if the underlying investment does well, the growth projections pan out the way we expect. At all points in time, you will find exit opportunities.

AMIT GUPTA:
Ashley, you have just delivered an amazing non-IPO exit. It will be good to hear from you on different types of exit that you have seen and how have you seen the landscape change in the last decade or so?

ASHLEY MENEZES:
The landscape has changed for the better. Till three or four years ago, we only had 50 investments and only under 10 per cent of those were financial sponsors buying us out. But now in the last three-four years, we have probably done half of the deals where another private equity fund has bought us out, which is where the market should move to. Overall, exit is ultimately an IPO if it is an IPO-able story or a strategic exit. A trade sale is an intermediate step towards that path.

AMIT GUPTA:
Udai, how do you see the exit in India as compared to the rest of the regions?

UDAI DHAWAN:
In the last 12 months alone in India, we have seen $500 million of exit. I was surprised to see that while $22 billion dollars of investment is coming, there is only $6 billion of exit. We seem to be celebrating but these numbers are actually really small. But yes, two-three years ago, the mood was very different and it is a bit happier now.

I feel we are privileged that we are an emerging markets' fund, which play multiple emerging markets. These exits in emerging markets are always a step function; there is never a linear curve. The way we look at it is that if China is doing

well and there is an opportunity to exit in China and if India is down, then we can exit in China. This is how we look at it and it has been very helpful for us. We do not have to necessarily bank upon one emerging market, and generally if you try five or six emerging markets, things broadly play out over a 5-year period. Right now, obviously, India is the flavour of the season and that is why India is taking out most of the exits.

AMIT GUPTA:
Sunil, do you think different alternative liquidities are a good source of creating exits?

SUNIL THAKUR:
The other panellists have mentioned that the market has become very vibrant, especially the IPO market becoming very lucrative. But on the other side, we are seeing many more structures coming into play. Buyback which was completely absent in this geography, has come into play and we are seeing a lot of good and mediocre assets that are being taken out to buybacks. There are new structures coming to the market, especially in the last two years. The past two-three years have been very positive for exits and there are various forms of exit modes that have come into play, which is helping private equity players like us. If you see the quantum of deployment that is happening, the primary capital is going in as against secondary, so there is a lot of secondary happening. So, trade scale, buyback, IPO, and strategic scale, all of them are acting in sync and that is good for the industry.

IN THE LAST FEW YEARS, THE STOCK MARKETS HAVE DONE EXCEEDINGLY WELL, WHICH DID CREATE LOT OF EXIT OPPORTUNITIES FOR MANY OF THE FUNDS

AMIT GUPTA:
Abhishek, it will be good to hear some of the regulations around some of the buybacks.

Should investors be concerned that it is valid, exercisable, lawful?

ABHISHEK GUHA:
There has been some development in terms of judicial proceedings over the last 1.5 years in put options but still it is not free from doubt as an effective way of making an exit. A trade sale followed by an IPO is still preferred, given the uncertainty that is shrouded around enforcement of these options. But some positive developments have also happened in the past 1.5 years.

Notably, there has been some judicial precedence that has been set up by the Delhi High Court, in the case of Shakti Nath, Unitech case or Tata Docomo.

To summarise, if a put option is in the nature of claiming damages as opposed to providing an assured return, it is being looked at favourably, and the court has said that damages are payable. Put options should also not be open-ended and should not be triggered by a certain event not happening or according to a certain event. What we advise clients when we are structuring transactions is that it should not be seen as a definitive sure-shot measure of exit. It is still strategic sales and the capital markets that are ranking on top of priority.

AMIT GUPTA:
Gautam, it will be good to hear how you see buyouts. Is exit a key consideration before going into a buyout?

GAUTAM GODE:
While we all agree that the pace and velocity of exits have picked up and so have the number of options in the last couple of years, I think we still have a long way to go.

As far as delivering of exit goes, while the last two or three years have been good, in the years to come, we as an industry will have to put a little bit of extra effort to make sure that we catch up.

About buyouts, one trend is that more and more control and buyout deals are happening and that is the trend that the industry has seen in the last few years. Obviously, a control situation improves your exit, it gives you multiple options to exit but it also gives you some unique issues and problems related to exits.

AMIT GUPTA:
Any views on what is going to happen in the next 4-5 years in terms of buyout deals?

GAUTAM GODE:
If you are taking a controlling stake in investment, then probably in your mind the preferred exit is going to be a strategic sale. But if an IPO becomes an attractive

option, then that should also be there as a third backup option.

In a control situation, if you trade sales and strategic sales as an exit option, it will also bring unique issues which have to be surmounted. For example, the buyer who is buying from you would expect a warranty. As a financial sponsor in a controlling situation, you want to make a clean exit and sell completely without surviving warranties. These are new situations for Indian investors in control situations.

AMIT GUPTA:
Abhishek, what are the options investors have in these cases?

ABHISHEK GUHA:
The industry is mature and the US model is coming into play a lot more in some of the deals that we are evaluating and we have closed. Obviously, the warranty insurance construct is coming into play in a big way. We are aware a lot of funds are actually contemplating that and people have actually gone ahead and taken in quite a few transactions, especially control deals that we have been involved with. We are also seeing purchase price adjustment playing out where there is due diligence that is conducted. This becomes relevant from the perspective of fund life issues and having live lingering liabilities over your head.

AMIT GUPTA:
Sunil, is insurance available in these cases?

SUNIL THAKUR:
While we have been hearing about insurance for at least a decade in India, when we went out to figure out insurance, the allocation for India is limited, and the price is substantial. At least in my experience, we have not seen that.

AMIT GUPTA:
Vishal, are you optimising your exits or a lot of it is driven by the need to create exits?

VISHAL TULSYAN:
You learn along the way. When we raised our first fund, it was a 7-year fund. And that is how you raise that money --- you went ahead and told LPs that you would get distribution in a particular time frame. That did create a lot of pressure on us in terms of exits, which also meant some of the exits that we did were not optimised.

One negative thing about private equity unlike public markets is that the timing of your entry and exit is somewhat defined. You do not know in which part of the cycle you are in.

The new fund that we have raised is a much longer tenure fund and we have raised it with a very clear thought process. We have communicated to investors that do not expect any return before year 7 or 8.

AMIT GUPTA:
Ashley, what exactly are LPs looking at when you go to them for extensions?

ASHLEY MENEZES:
One needs to start thinking about an extension or no extension probably two or three years before the end of the fund life.

The general rule of thumb we have

ONE NEGATIVE THING ABOUT PRIVATE EQUITY, IS THAT THE TIMING OF YOUR ENTRY AND EXIT IS SOMEWHAT DEFINED

been told by LPs is that they do not like extensions. If there is an extension, clearly, there are no fees and expenses being paid, so, they do not want you to seek an extension.

We actually have a broad thumb rule that if we are in fund 7 now, when we hit the road for fund 8, we want to be close to 90% DPI on fund 6.

So, two funds out should be close to capital returned and that is general feedback that LPs have also given us.

AMIT GUPTA:
Vishal, what are the considerations you look at while making investments in a sector-specific fund?

VISHAL TULSYAN:
We look to invest only in the healthcare sector. So, obviously there is a huge amount of interest in this sector.
From my perspective given the sector that we are in, we will have to see how the medium to long-term regulatory and some of the big new initiatives that the government is coming with, plays out because that is going to have bigger implication on the sector. ■

[Day 2]

INFRASTRUCTURE INVESTMENTS: MAKING A BEELINE FOR INDIA

NARAYANAN GOPALAKRISHNAN - Partner, IDFC Alternatives
KRISHNA KUMAR - CEO, IL & FS Investment Managers
PRASAD GADKARI - Investment Strategy and Policies, NIIF
ROHIT CHANDAK - CFO, Ayana Renewable Power Pvt Ltd
P SURESH - General Manager and Head, Project Finance Group, ICICI Bank
PRATIBHA JAIN - Partner, Nishith Desai Associates (Moderator)

Infrastructure is majorly responsible for propelling the overall development of the Indian economy. It is a matter of pride for any country. From roadways and railways to airports and other smart city initiatives, the investment cost tends to be very high but at the same time, vital to a country's economic development and prosperity. In order to help infrastructure in India meet global standards, it is essential that the sector attracts a lot of investment so that both quality and quantity issues can be addressed.

Use of renewable resources rather than simply focussing on exhaustible resources is essential for sustainable growth. Drawing the attention of private equity investors towards this sector is the need of the hour.

PRATIBHA JAIN:
Prasad, if you can first delve into the strategy at NIIF, that will be great.

PRASAD GADKARI:
The National Investment and Infrastructure Fund is the national fund for infrastructure in the country. It has been anchored by the Government

of India in collaboration with large international and domestic investors. The government has provided us with initial anchor capital of $3 billion and with a clear framework that government will be 49% of all that NIIF will do. We are in the process of raising $3 billion separately to match the government's $3 billion.

We are like a typical private equity fund in the way we work, the way we are organised, the way our governance works. It is an independent, professional team with experience in infrastructure and investing, both in India and in global markets.

NIIF is playing across three distinct strategies. Our first fund, which is called a Master Fund, is a classic infrastructure fund that is extensively focusing on operating assets. It can selectively look at developmental things, but the focus of that fund is operating assets. The second strategy which we are already again deploying is a Fund of Funds strategy, where we will be an anchor LP to other funds. The third pocket is the strategic fund, which is focusing on infrastructure but also other areas of economic importance. It will also look at projects and situations which are a little bit at the higher end of the risk spectrum whether developmental, greenfield, etc.

PRATIBHA JAIN:
Narayanan, tell us about where you think the focus of the fund industry is for infrastructure.

NARAYANAN GOPALAKRISHNAN:
We manage about $1.6 billion dollars of infrastructure-focused capital in this country across two funds. The strategy of the current fund is to buy controlling stakes in operating assets. We do not focus on anything else; our focus is to buy operating assets and controlling stakes. We are almost on the cusp of completely deploying the fund. In this fund, we have created management teams and platforms to manage the assets that we are acquiring. We currently have three platforms up and running and potentially have a fourth one that is coming along.

PRATIBHA JAIN:
Krishna, tell us where do you see the trends in terms of specific areas?

KRISHNA KUMAR:
We are the private equity arm of IL&FS, one of India's leading infrastructure development and financial institutions. My focus is 100% on infrastructure development and also providing financial solutions. We have raised close to $3.5 billion of capital over the last 20 years

WE ARE LIKE A TYPICAL PRIVATE EQUITY FUND IN THE WAY WE WORK, THE WAY WE ARE ORGANISED, THE WAY OUR GOVERNANCE WORKS

of our existence. On the infrastructure side, we had two strategies – one; we played a kind of a venture strategy for infrastructure where we provided a lot of seed funding for infrastructure projects to take off and thereafter, we also raised a very large $700 million Asian infrastructure fund where we invested across Asian markets including India. So, our strategy till date has been largely putting money as growth capital to grow infrastructure as a business and given the current trends today; we are actually contemplating how to basically segregate growth capital and allocate funds for buying into operating assets. That strategy is

currently going on inside the institution and we will come up with a product shortly.

PRATIBHA JAIN:
We have a lender in the mix to ensure that we have a complete view.

P SURESH:
ICICI has been involved in infrastructure financing and project financing for the longest time. And to some extent, it pains us to see that many of these assets are languishing today and we are in fact talking about how to revive and restructure them and put them to productive use. So, definitely, that is one aspect which we will probably need to deal with over the next 2-4 years. But at the same time, as a country, we are still quite under-invested in infrastructure and there is a lot that needs to be done. While some areas have seen some success, the other sectors have probably not come to that level of maturity yet and we definitely need to see lots happen in each of these sectors over the next couple of decades. I continue to be optimistic in terms of the fact that we will need ultimate usage of all of these assets. In the short-term, there will be some pain that the developers, the bank, the other financiers, etc. will probably need to take. I strongly believe that many of these assets can be put to good, productive use and will generate good returns for all the investors. If you want me to talk about new opportunities or greenfield areas that we see are happening today, probably that is happening in roads, renewables, transmission, brownfield expansion in airports, etc.

PRATIBHA JAIN:
Rohit, what is your outlook on renewables?

ROHIT CHANDAK:
Ayana Renewable is a newly setup renewable energy platform by UK's CDC Group, which is one of the oldest DFIs - development finance institutes. The mandate for Ayana is to invest into renewable energy and associated businesses in the South Asia region and as a platform, we will invest and take developmental risks. We will also invest in operational assets, look at new business lines on the energy front, and in terms of coverage also, it will cover India and some of the South Asian countries. Rarely would you see a sector as large as energy

AS A COUNTRY, WE ARE STILL QUITE UNDER-INVESTED IN INFRASTRUCTURE AND THERE IS A LOT THAT NEEDS TO BE DONE

going through a phenomenal change at a very quick pace across the globe. On the energy front, we see a lot of focus on the renewable side and India definitely is one of the leading markets. I am also hopeful and optimistic but I think sometimes when you have an environment like this, you may see a little bit of demand-supply mismatch, which may lead to a little bit of irrational exuberance. As an industry, we need to balance that and see how we can have more sustainable growth for this sector.

PRATIBHA JAIN:
The lending side has felt the pain the most. From a private equity perspective, have we learnt the right lessons?

P SURESH:
Private equity money is chasing operational assets today. Some of these stressed assets will go through the IBC process and that is something which will present opportunities to the investors. Having said that, there is also a lot of need for new equity in the infrastructure sector and the existing developers are out of the game today. They are either not interested, or they are going to get blacklisted and out of the system. That in itself presents a huge opportunity for new investors to take that space. Now I do understand that PE investors may not exactly like developing projects and being in the implementation phase of those projects. But if we were to set up an investment thesis on these lines, there could be tremendous opportunities in terms of acquiring existing operational assets which are today operating at sub-optimal capacity utilisations and which may get resolved either through the IBC project or change of management, outside of the IBC process. At the same time, we need new investments for setting up the greenfield capacities. If there is a way in which private equity people could channel some of their funds into this area, I think there is enough opportunity there as well.

PRATIBHA JAIN:
Have we really learnt a lesson or is it just too much money chasing very few sectors and very few assets?

KRISHNA KUMAR:
Infrastructure, primarily today, requires two types of funding. One; is to buyout operational assets. In which case, there is too much capital raising too little assets and that too in primarily two sectors, which is roads and renewables. It will be a bidding war between the buyer and the seller. As far as TOT is concerned, we feel that that is the right move by the government primarily in unlocking value in assets. TOT is a great move. A TOT initiative in roads can actually be implemented for sectors like ports. It is good for investors who do not want to take construction risk, development risk and come in and buy operational assets for a long-term yield. So, because of that, I am channelizing capital from the private sector to the public sector and that could be utilised to kick-start the whole development funding of infrastructure. Today, why private equity is not funding growth could be a temporary period where this entire growth can be kickstarted by the government and then you will probably have one's risk mitigated once the sector is well-understood.

PRATIBHA JAIN:
So, what is stopping that? What is it that needs to be fixed?

NARAYANAN GOPALAKRISHNAN:
I would put it into three sorts of buckets. One, is about the administration of the contracts and not enforcement, it is more about how if there is a PPA or if there is a road concession agreement, do all the parties honour the ends of their contract? It is not a wheel which can be fixed with just two bolts and two nuts; everyone has a role to play. Difficult to point out but if I had to pick two, I would possibly put as being more realistic about

what you are looking at in infrastructure. It is not a sector where you can make tons of money. You can make these in returns, but you are always under public scrutiny.

I think it is important for everyone who is participating to be clear about what is it that they are in it for and not expect very greedy returns in this sector.

PRATIBHA JAIN:
When an IDFC or an IL&FS is telling you that for now, we are going to look at operational assets, is NIIF going to help to bridge that gap?

PRASAD GADKARI:
I think NIIF will play a role for sure and I would put it in a two-dimensional manner. NIIF is providing capital across three strategies. We will also look at operating assets. If you look at the last 25 years of Indian infrastructure history, in some sense this is the third wave, this is Version 3 of infrastructure which is unfolding. While there are developmental projects which will happen and can be looked at, there is a huge amount of operating assets. Some may not be fully complete but can be monetized, which will itself release the capital. Some of that will go to the developers themselves, at least the healthy strong developers who can then pump it back because they are in the country and understand this space. Some, which the government will monetise will come through the government channels back into the system.

From our side, the third fund, which is the strategic fund, is a fund through which we will be looking at developmental projects. But we will operate in two dimensions. One, is the funding dimension and the second is, the implicit role which NIIF can play and which the government expects us to play, is like a friendly policy advisor to the government.

PRATIBHA JAIN:
Rohit, how much issues do you think are funding based versus regulatory and how is the industry dealing with this?

ROHIT CHANDAK:
It has had its own share of issues but if you compare renewables as an asset class in the infrastructure space, in terms of the execution challenges, I would put renewables as the most comfortable on a relative basis. But if you take it one level above that, there are two pools of capital and we see that there is a lot which is coming on the operational asset side. This is your classic infrastructure funds or pension funds where the requirement is of low risk, low returns, stable cash flow requirement. Given the demand-supply mismatch, we seem to be defeating that purpose and I would honestly not even call a new project bidding as a developmental risk. I would say that developmental risk is the classic private equity risk capital that goes into businesses which are new age solutions.

PRATIBHA JAIN:
How much do you think the forex risk acts as a dampener?

KRISHNA KUMAR:
Forex does play an important role because you are raising dollar capital to invest in industries which predominantly have rupee revenues. So that mismatch already exists in the sector because of the funding where it is coming from. The only mechanism, given that there are no long-term hedging solutions in the market; is that at least the government should step into this area. What has happened is that the manager is not getting the incentive for a good investment because the currency has eaten away that risk. I think there should be some solution, which I am requesting NIIF also try and put forth to the government that there should be at least some hedging mechanism available to take away the currency risk from infrastructure investments.

PRATIBHA JAIN:
We are just not hearing about all these power plants that got built which are probably going to come up now in the second round in NCLT. Do you see demand from that and solutions arising, or the traditional problems will continue in terms of PPAs?

P SURESH:
We need power. All the power requirements cannot be met by just renewables. While as exciting as it may sound, we still need thermal power. There is a fair bit of capacity which is complete or near complete or with little investment can become complete in due course of time over the next 3-5 years. If people are willing to take the view that 3-4 years down the line, there is going to be sufficient demand for all these plants and they are then going to generate returns for the next 20-30 years, it is an opportunity. All of us put together (lenders plus the investors), if we finance projects sensibly, there are returns to be made. ■

OUTLOOK FOR PE INVESTING IN INDIA: OPPORTUNITIES & CHALLENGES AHEAD

VISHAL MAHADEVIA, Managing Director, Warburg Pincus
PUNEET BHATIA, Managing Director and Country Head, TPG Growth
RENUKA RAMNATH, Founder, Managing Director & CEO, Multiples Alternate Asset Management and Vice-Chair, IVCA
PROMEET GHOSH, Managing Director – India, Temasek
NUPUR GARG, Regional Lead –South Asia, Private Equity & Venture Funds, IFC
PRASHANT PURKER, Managing Director & CEO, ICICI Venture
RUPEN JHAVERI, Managing Director – Private Equity, KKR
GAUTAM MEHRA, Partner and India Tax Leader, PWC India (Moderator)

The Private Equity industry has witnessed a lot of challenges and opportunities in the past. Statistics show that it has gained tremendous influence in today's financial marketplace. With funds under management already into trillions, private equity firms have become attractive investment vehicles for wealthy individuals and institutions.

With the growth curve increasing, it is essential to ponder and discuss the various challenges and opportunities facing this industry. India has great potential with its relatively strong economic growth, especially when compared to the developed world. But crucial to consider is what is holding back the access of domestic capital? Panellists shared their opinion.

GAUTAM MEHRA:
As we look ahead to the next 12-24 months, what opportunities and challenges are occupying your mind today?

PUNEET BHATIA:
Private equity is somewhat of a paradox and right now we are trying to find that balance again as you have deteriorating macros, more global uncertainty, and some political risk. There is instability that you are starting to sense on the macro economy, even in the Indian market, yet the micro story continues to get stronger and more compelling. So, our business, if you sift through all the noise, is at the end of the day finding these fantastic micro stories. The macros will be a lot less forgiving than they have been over the last 3-4 years

and that certainly raises the bar. To me, the two most compelling opportunities that appear to be fairly tangible where we stand currently is, one, the formalisation of the economy. The structural changes that the government has pushed through will probably mean that for the next decade and a half there are going to be a lot of opportunities coming through this formalisation as the grey or black-market shrinks. The second, as the macros get more challenging, some of the families that have run the businesses traditionally without access to the best calibre management teams or practices, are probably going to struggle. Hence, combined with the increasing interest rates, over levelled balance sheets, you will start to see a lot more of these control opportunities or opportunities where you can actually exert a lot more influence.

PRASHANT PURKER:
Depending on where you are in the cycle, there will probably be much larger set of opportunities or less overvalued or undervalued. We are seeing something tremendous happening on the banking side for the last 6 to 12 months. For another 12-24 months, we will have a whole resetting of who will be the capital provider from the debt side to other modes of capital. Both the government and the RBI is putting too much in store with NCLT. All of that depends upon some capital coming in for all the distressed sides. It represents the single biggest opportunity in the alternative investment space where a huge amount of capital is required because at the end of the day; society wants the assets to go at a reasonable price. They also need that those be revived and employment and economic activity come back in those projects.

If there is one single biggest drag in an economy that we have had for the last few years, we have sometimes called them the stuck projects and we have tried to remove those things. Sometimes, we say the cost of debt is very high capital and hence, projects do not work. But fundamentally, we have both misallocation and misappropriation of capital happening in the economy in a lot of places. We are now coming to a situation where we are putting in a framework in the structure on an ongoing basis. We do have a better allocation of capital at the right pricing. Somewhere the commercial banks were under-pricing capital by taking a huge amount of project risk. All that is getting corrected.

In many of the NCLT or pre-NCLT processes external capital is now more than welcome and in fact, indeed a necessity; that is one big opportunity. Secondly, who will be the provider of capital and at what price is also shifting. With PSU banks withdrawing, it would open up space for other people including funds.

NUPUR GARG:
The distressed asset story is something that people have been thinking about. It is an opportunity for some time. It has not really

PRIVATE EQUITY IS A VERY VERSATILE PRODUCT AND WE HAVE TO BRING IT CENTRE STAGE TO FIND CORPORATE SOLUTIONS

seen as a much concrete activity. Let us see how that pans out but the structural and the demographic shifts that are happening in the market today and all the GST kind of reforms are unlocking a lot of new sectors and sub-sectors that would benefit from the investment. For private equity, it is ideal. For me as an LP, this is a market which is ripe for opportunities for strong fund managers to go out there and just be an early entrance and unlock a lot of value.

RENUKA RAMNATH:
I have always argued that private equity is a very versatile product and we have to bring it centre stage to find corporate solutions. The way we have looked at private equity is it is a product that gives solutions to many different problems. One of the less understood investment spaces by esteemed LPs is an investment in listed securities. Very stable support given by private equity investors, even in listed companies, can produce dramatic results. To give an example of one of our favourite investments, PVR. We have backed this entrepreneur with a substantive equity and percentage shareholding, thereby, warding off a takeover threat in this company. We completely liberated the entrepreneur to go out and exploit the full potential of the market, which is where two acquisitions have happened in the past, to clearly establish leadership in that business. I am enjoying using the private equity product, bringing it centre stage to find solutions to many corporate challenges that we have on the shareholding side.

PROMEET GHOSH:
The potential of the IBC process to be able to make structural change in the Indian economy is sometimes ignored especially in the context of other changes like GST. Yes, it is interesting to us that that process is going to unleash a bunch of distressed assets, which are opportunities for private equity players such as ourselves - that this can potentially unleash productive capital for banks which again is an opportunity for us.

We have seen in the past, people were quite cavalier about the fact that their companies are over-leveraged because what could be the worst that could happen? They will have to pause to think what they have to do now and private equity can clearly provide solutions for situations like that. Banks have been less than objective about the value of investments that they have made or loans that they have lent and again that is an area that can be great potential for us. Not dissimilar to the GST, where over the long term you see a formalisation of the economy, we see the IBC process fundamentally driving a lot more rationality in the allocation of capital.

VISHAL MAHADEVIA:
One of the big challenges that we are going to face, and I think IVCA has a central role to play for us, is with the government and regulatory bodies, with folks who look at private equity and do not always necessarily understand what the asset class brings with it, which is capital, FDI, job creation, all the good things that go with it. I think our industry and IVCA have

to over the next few years only accelerate that process of education, outreach, talking about the good examples of great entrepreneurs who have been supported by private equity funds, the companies that have been built. That is one of the challenges we will face and we should be focused on.

RUPEN JHAVERI:
If we just look at the nature of transactions now versus the first wave, the bulk of it was primary capital. Most of what we see today, at least in the space we play in, is secondary. There is a lot of supply but more importantly, is the number of buyouts. I have been doing this for 14-15 years, we have never seen at least the pipeline full of so many buyouts. Actual consummation has its own challenges whether it is strategic competition or something else and there are a number of reasons for that. One, leadership changes at some of the groups, where they are finally getting focussed on return on capital; that elusive term that people just never focussed on. Second, we see lately that people do not care about societal changes. Ten years ago, everyone wanted to have that nice Chairman Emeritus card forever but I think people are okay selling their businesses and moving on for the right value. The IBC is a huge opportunity depending on how you play it. At least for us, we are trying to partner with some of the corporates to buy these assets. Now the first 12 that are getting resolved are probably the biggest. There is a huge slew of assets that are coming in the pipeline and if you can probably tackle them in SMA 1 or SMA 2 category before they actually go to NCLT, the folks here can have a huge role.

In terms of challenges, while it is nice to talk about buyouts but what our industry needs to do better is also start developing operating capabilities. It is one thing to say we will go and buy a 100 million or a billion-dollar company but what are you going to do next? This is extremely well done in the western world, but the applicability of that is so-so in our country. We all have to develop, whether it is in-house, external resources, roster off, operating advisors, CEO/CFO candidates, that we all have at the time of doing our diligence but more importantly running these companies post buying them. That will make the difference.

GAUTAM MEHRA:
How strong do you think India ranks versus the rest of the world in terms of specific opportunities that you are seeing?

PROMEET GHOSH:
As of today, I get a lot of pressure to be putting more capital to work and have to keep reminding everyone that we are not in the investing business; we are in the money-making business. For various reasons, we have managed to make some pretty good money here in India. So, there is a lot of appetite for investing in India, but we have to be deliberate at every stage of the way to make sure that whatever we are doing now or what we may have invested earlier, has made money for the last 4-5 years. The problem is not one of an absence of appetite; it is much more about finding opportunities where the upside is there.

VISHAL MAHADEVIA:
There is obviously a lot of excitement in India. But getting an allocation in India is not an issue, it is really finding good opportunities. India, China, Southeast Asia --- global capital is desperately under-allocated to this region. If you actually look at the next 5 or 10 years, half of the global GDP growth will come from this part of the world and if you talk to most money managers, you will be shocked that they might have 2% of that portfolio

TEN YEARS AGO, EVERYONE WANTED TO HAVE THAT NICE CHAIRMAN EMERITUS CARD FOREVER, BUT I THINK PEOPLE ARE OKAY SELLING THEIR BUSINESSES AND MOVING ON FOR THE RIGHT VALUE

allocated to Asia, out of which 0.1% is in India and the rest is in China. The MSCI World Index is 90% developed markets and out of that remaining 10%, a really small per cent is in India. Part of the issue that we face is that the other parts of the world have been doing really well as well. If you were in the US for the last 4 or 5 years, you made a lot of money investing in the US. Over time and over the next 5 or 10 years, those attitudes are going to change. They are going to see more money finding its way here, which will make it even more challenging for folks like us to find those right micro opportunities and things to do.

RUPEN JHAVERI:
A wise woman once told me, India is a land that disappoints both the optimists and the pessimists. We live in a land of chaos, it is not changing. In our 9 years' experience we have also learnt a lot, made our own share of mistakes and had our own successes. I think it really boils down to micro at the end of the day. We have always had macro challenges whether it is forex, fiscal deficits, rates hardening at the spurt of growth, etc. It is not going away. We have structural issues in the economy. If we can just be focused on micro, if you find the right opportunity in financial services that can compound, that is fine.

From our perspective, we do not have an allocation. There is more desire to put capital in this part of the world. We have raised a fund that shows that. Now the challenge will be actually deploy it. We are off to a good start across the region. In Japan also, we have seen a tremendous number of buyouts. In Southeast Asia, we have seen a tremendous amount of opportunity. China is roaring back like anything and India has been India. We do not see any issue; I think it is just finding that right micro in the macro that is not going to change too much.

THERE IS OBVIOUSLY A LOT OF EXCITEMENT IN INDIA. BUT GETTING AN ALLOCATION IN INDIA IS NOT AN ISSUE, IT IS REALLY FINDING GOOD OPPORTUNITIES

PUNEET BHATIA:
If you sift through this $26 billion that came in last year and you take out approximately 40% of that, it actually went to digital assets. And then you look at the secondary buyouts; there is very little primary capital that actually came into this country. You benchmark that to the opportunity that exists in India.

It has been a labour of love trying to get to this construct and it is not easy. The government and the regulators are trying very hard. They are trying to change the wheels of a moving car, so it is not easy because there is a legacy, there is a regulation that you inherit when you try to change that. But in contrast, if you look at some of the more stable markets, the US for instance, the private equity is maybe a $200 billion annual investment market. When they had that crisis in 2008 or 2009, the regulations changed so dramatically that within a couple of years they were able to work their way out of that mess. A lot of the turnarounds were actually led by private equity-oriented institutional investors. I do find that the opportunity is immense in this country. But a lot of the investors that you speak to you are still happier investing in their backyard because if you overlay all the issues that you have to contend with here --- the moving regulatory framework, the taxation policy, the currency, the macro stability --- you have to be punching at about a 30% IRR to take home 18 or 20% net IRR in India. The growth opportunity in India is massive and should be generating alpha but I know a lot of the investors who would actually still prefer to invest in their backyard rather than take the risk of coming to India. That is certainly something all of us need to work on and fix because we could be absorbing two or three times the size of capital that we do currently and it would be a better quality of capital.

GAUTAM MEHRA:
Nupur, in terms of allocations in India, you are also getting the same thing that is coming through the panel?

NUPUR GARG:
As an LP, when we look at fundraising numbers, in 2017 we raised about $4.3 billion for India focused funds and that is still not much compared to the

peak of $7.7 billion back in 2007-2008. The year depends on which data source you look at. The underlined GDP has actually doubled in that period, so it is great to see India moving up, but I think the actual conversations with the ICs are relatively subdued. When we talk about the macro and the micro on an overall aggregate basis, historically India has underperformed on both counts. The macros being really challenging, the ability to actually create the 18% net IRR has been very difficult with all of that macro. We definitely have examples of great successes but again at the aggregate level, at a portfolio level even the micro has undelivered. The alpha continues to be elusive. It is still very difficult for fund managers to come and tell LPs, 'I have figured out how to get that alpha' because the market is constantly evolving and those are the kind of challenges we as LPs end up facing when we are talking about investing in India. The allocations are again not difficult at all because everybody is excited about the opportunity here but how to translate that into an attractive investment decision continuous to be a challenge.

GAUTAM MEHRA:
That is a good challenge for the GPs over here to take back. One big thing that has always been talked about for the last few years is, access in the domestic capital. There have been a few tweaks in regulations permitting it but we do not really see the flow. What do you think is holding it back and more importantly do you think anything will happen in the next 12 to 24 months which will really change the scene?

RENUKA RAMNATH:
It is very important strategically to integrate the domestic market with what we are doing. While it is exciting and somewhat easy to raise money from institutional investors, I am not saying fundraising is easy at all but relative to taking money from 100 HNI investors, if you have a track record, you get $50 million/100 million from an institutional investor, it is obviously much more enticing to do that, but I would consider that very risky for the industry. There have to be domestic investors who are committed to this industry and to this product. Even if I take a ratio between private investment and public market investment, it should be one-fifth. Is the investment in private assets by HNIs even a billion dollars today? The answer is no. The scope is immense. In terms of the distribution of this product, we have had very few people. When we look at the international banks who have access to this HNI, by the time they get to the end of the diligence and get their global offices to approve the distribution of a domestic product, you are long done with your fundraising. No domestic GP who has even a half-decent track record has the patience to do that. When it comes to local distributors, they are very few in number, and institutions like ICICI who have an extraordinary track record are also limited because they raise money for their own funds and they could do only that many funds. We have severe constraints in terms of distributors and also in terms of how as an industry we have presented this product to the HNIs. The level of awareness, confidence, and eagerness to invest behind this high alpha product, also seriously looking at it as a significant financial diversification that I want to do in my portfolio, we are nowhere in that education curve with respect to HNIs. So, as an industry and as GPs and especially for people like us and Prashant who are committed only to this market, it is a very important category of LPs that we should target with the help of IVCA in getting a fair share of the allocations.

ONE BIG THING THAT HAS ALWAYS BEEN TALKED ABOUT FOR THE LAST FEW YEARS IS, ACCESS IN DOMESTIC CAPITAL

PRASHANT PURKER:
On domestic investor base where we are seeing the largest growth, I think that is going to sustain very well in the insurance companies. If you look at our latest offerings on AIFs, we have anywhere around 6 to 10 insurance companies participating in our every fund. The cheque sizes can vary anywhere from Rs 5 crores to Rs 250 crores. They are still small but these balance sheets are growing very strongly. We, as an industry, give them good track record and get good process, monitoring, reporting back, and this will become a very large class of investors and source of capital, because they are the ones who need the long-term IRR products. We have traditionally got from banks, which I think are not the right source of capital from ALM perspective. While that has happened in the long run, you cannot rely on banks to be providing capital here. But banks were the only source of capital for anyone in our country for a long period of time, so, that is where it came from.

The third is the pension. In the pension system, while the regulator has allowed, there are so many restrictions that not a single investment has yet happened. We have to start the process of education much before the first dollar or first rupee is invested. One of the big problems in some of our products is as an HNI _you tend to only focus on the return part. The pension --- this thing is probably as a significant class of investors for us locally --- is probably where in maybe 5 years, it starts making a big difference.

We do accept HNI, but it is always with caution. One must be cautious around that as a class. Let people understand the product. The institutional ones have a long memory and are both international and local. ■

FIRESIDE CHAT

SUBHASH CHANDRA GARG
SECRETARY, DEPARTMENT OF ECONOMIC AFFAIRS, GOVERNMENT OF INDIA

SUBHASH CHANDRA GARG - Secretary, Department of Economic Affairs, Government of India
GOPAL SRINIVASAN - outgoing Chairman, IVCA and CMD, TVS Capital Funds Ltd (Moderator)

MACRO VIEW
OF INDIAN ECONOMY

Whether it is Venture Capital or Alternative Investment Funds, we are in a space that is dealing with new economy, new technology and industrial revolution from, where the government sees the future of economy. Therefore, this is an evolving space that continuously needs to be dealt with in a proactive and supportive manner.

From listing funds with credit strategies to creating vehicles for encouraging small investors to actively participating in the investment game and many other pertinent issues were discussed and deciphered in the Fireside Chat.

GOPAL SRINIVASAN:
Firstly, A big congratulations to the government on launching NIIF, which

is yet another landmark move. Its first investment has been consummated at the Dubai port.

SUBHASH CHANDRA GARG:
Thank you very much Gopal. We indeed made the first cash release to the NIIF investment at the Dubai port. With that, the cash has travelled now and that is a big deal. We are making through NIIF investment for about a billion dollars to get a share of only about 30%. So, a $3 billion equity investment leading to somewhere around $8-9 billion investment in the port sector, which is an extremely important infrastructure sector. I think we got going and we are looking forward to the next one to happen very soon.

GOPAL SRINIVASAN:
I would like to explore with you point no. 76 in the Finance Minister (Arun Jaitley's) speech where he said that startups, venture capitals, and the AIF framework would be synced by the government.

SUBHASH CHANDRA GARG:
I think what you mention in the form of continuous incremental regularities was forming a pattern, which was forming the foundation of the entire regulatory and policy regime. We have been able to create very sound policy and regulatory regime in this country. We are also conscious and that is what is reflected in the Finance Minister's speech in the Budget (76 paragraph), where in the last line he had said, 'We have done well, we have created the environment, we have taken a lot of measures but we know, and we are prepared, that to make this industry grow and create a better environment, we will take additional measures. "

GOPAL SRINIVASAN:
Maybe just take three pillars that we believe at IVCA and in SEBI's AIF policy advisory committee --- domestic capital availability, increased foreign capital availability, and to an extent, making ease of managing funds in India a bit easier on the taxation front. So, if you could please start with domestic capital institutions such as NIIF, which have begun to pay attention to the need for domestic capital. Last year, nearly Rs 60,000 crores was pooled into the AIF structure to make the total close to Rs 1.2 lakh crore. 12% of investments made last year was rupee capital and about 60% is in China. So, in your mind what are the steps to change the discourse for private capital?

SUBHASH CHANDRA GARG:
We have also identified the area where a lot of work needs to be done. The domestic capital space is lower than global standards and is heavily government-promoted. The big absence is of Indian investors or people with savings and investible funds. The challenge before us is how do we get Indian capital to come into this space.

THE DOMESTIC CAPITAL SPACE IS LOWER THAN GLOBAL STANDARDS AND IS HEAVILY GOVERNMENT-PROMOTED

We will need to work with you people, the industry, the financial companies. Possibly, we will have to do far greater kind of analytical work to make sure that this investor class gets excited about this investment class, and that is where the funds start flowing.

GOPAL SRINIVASAN:
We did an analysis and what we realised is that out of the Rs 20,000 crores of commitments which were received recently, the majority came from ultra-high net worth individuals and family offices. Banks participate but they have their challenges right now; insurance companies are beginning to participate. The area, when we compare with global benchmarks, where we find gaps is in terms of pension money because today pension money flowing in India is zero, whereas globally it is maybe 40% of the total pool. Any thoughts on how EPFO, for example, can start looking at AIF as an asset class?

SUBHASH CHANDRA GARG:
I had some conversations with LIC. That also is not very heavily into it at this moment. LIC is a big insurance fund. Indian pension funds and provident funds, etc. are very promising. A lot of work needs to be done with this institutional class, which has a lot of funds. We will have to sit together with the investment class to build comfort that they see. This is also a part of our agenda.

Another segment where we need to work is the high net worth individual, the technology people who have made money. This is also a wide class in India. They possibly need to scale it up. And finally, the challenge is for small investors. Minimum ticket size in AIF is Rs 1 crore so it excludes small investors. What kind of vehicles can be created for them to participate is also something which we need to think about.

GOPAL SRINIVASAN:
I want to take up an issue which has been boggling our minds in the industry. We know it is important, but we do not know how to solve it, and we actively seek the guidance of the government. Venture Capital funds in technology, growth equity funds, debt funds, etc. what has been the secular performance of the asset classes in the last 10 years? SEBI does not publish it, so how do we

get that data?

SUBHASH CHANDRA GARG:
We have a developmental role, not only a regulatory role. So, in the developmental role we will sit with you to decipher the problem, segregate it and find solutions. That is the approach which is needed for resolving.

It is a good issue and is also very important from the institutional investors' point of view --- what do they see when investment issues must be made.

I can only say that if there is no diffidence from the part of the startups or AIFs, the government should promote publishing or documenting. To me, a very clear analogy is that if every company is required to publish quarterly results for everybody's information and if this information is sunlight which makes everyone else take a better view and feel more confident, unless there are apprehensions.

GOPAL SRINIVASAN:
There is a suggestion we are making to SEBI and that is the idea of a permanent capital vehicle. Certain types of funds such as funds with credit strategies can get listed and the smaller investor can also be encouraged to participate with adequate safeguards. How do we go about thinking on this issue?

SUBHASH CHANDRA GARG:
That is what I was trying to refer to when I said that we should think of small investors and how we get them. We would be very happy to look at this kind of vehicle. I must mention that there is very great interest now in the government to monetise a lot of mature assets.

GOPAL SRINIVASAN:
We see foreign capital has built this asset class in India and today many fund managers are leaving larger platforms and starting their own funds. We even have a category by the name of 'fund- start-up'. The question we have in our minds for foreign capital is two-fold.

One is, we always felt the IFSC as a model has tremendous promise, whether India can become a destination for pooling, just like Singapore, and develop both talent, capital and adequate regulatory infrastructure to become the most-preferred pooling centre. Is that directly on the government's agenda?

SUBHASH CHANDRA GARG:

THERE IS A CLEAR RECOGNITION THAT IF THERE IS A SINGLE REGULATOR FOR IFSC, WE CAN HOPEFULLY DO QUICKER, FASTER, BETTER REGULATION FOR INVESTMENT ACROSS ALL ASSET CLASSES

IFSC is a major policy priority. There is an announcement where we have said that there should be a unified regulator for the IFSC. There is a clear recognition that if there is a single regulator for IFSC, we can hopefully do quicker, faster, better regulation for investment across all asset classes. So, let us make this happen and this potential should also be realised.

GOPAL SRINIVASAN:
Today, all the fund managers you refer to are all Indian fund managers, but their pools are often located in offshore locations. We see our business as a diamond business.

SUBHASH CHANDRA GARG:
I am aware that there are certain aspects, not only in terms of GST or exits. I think we recognised that we need to get more into understanding the differential treatment between the investment made from outside, directly or the investments made through the Indian alternative investments vehicles. There are certain issues which we need to understand.

I think we will sit with that and try to find a solution which is not violative of the broader GST structure but at the same time which can possibly make the level playing field here.

GOPAL SRINIVASAN:
We keep on asking for things, you keep responding. Please ask us, what it is you would like to see us do more of or stop doing for that matter.

SUBHASH CHANDRA GARG:
I do not think I would say anything on what you should stop doing. You are doing well and that is what is helping the wheels of policy development grow well. Personally speaking, I think the format of our interaction needs to change slightly. I am not very happy about the representations or memorandums coming up and then we are sitting and taking a view. This is not the best way to understand. This is an industry which is new and quite apart from other investment classes. So, I think the way we can work together, to achieve this mutual goal of making this industry expand, is when we sit across the table and interact to find the issues and their possible potential solutions. ■

[Day 2]

OUTLOOK FOR STRUCTURE CREDIT & DISTRESSED ASSET INVESTING IN INDIA

S SRINIWASAN,
Managing Director, Kotak PE

ADITYA KHANNA,
Managing Director and CEO, Art Special Situation Finance

SHYAM MAHESHWARI,
Partner and Co-founder, SGG Capital

VENKAT RAMASWAMY,
Executive Director, Edelweiss

KALPESH KIKANI,
Managing Director and Senior Partner, AION CP

SIDDHARTH BHARGAVA,
Managing Director and CIO – Credit, Samena Capital

NIKHIL SRIVASTAVA,
India Head, KKR Special Situations

TARUN BHATIA,
Managing Director - Investigations and Disputes, APAC, Kroll (Moderator)

Private debt or private credit started off in India by being called NBFCs. Today, however, the segment has grown manifold and there is an array of funds on offer. The private credit market has been around for a while but has truly erupted only in the last 4-5 years. The market is now slowly but steadily gaining in size with high momentum.

The distressed market today is working within a regulated set-up, due to the introduction of Insolvency and Bankruptcy Code. The panel discussion at the IVCA Conclave 2018 threw light on areas such as the genesis of the private credit market and its evolution, the size and scale of the market and much more. The discussion touched upon how the local market differs from the global ones since the market is at a nascent stage in India. While the opportunity seems immense, much needs to happen for the domestic market to reflect that growth. Eminent panellists discussed the road ahead for structure credit and distressed asset investing.

TARUN BHATIA:
If I were to open any newspaper in India today or in the last 6 months, we would get the impression that we are the most distressed economy right now. We only talk about NPAs and frauds, and it works for my part of the business. But it is not a reflection of what is happening in the real economy. As the banks are struggling today with high NPAs and low capitalisation, the private credit market has erupted in the last 4-5 years and is slowly and steadily gaining in size. There is enough and more momentum behind them.

The whole distressed market is right now working in a very regulated set-up thanks to the introduction of the Insolvency and Bankruptcy Code. But we also believe, it started a culture of resolving a difficult credits-finding a solution and already the top cases are attracting enough local and

global demand.

Over the last fortnight, the whole distressed aspect has got more glitter thanks to the $2 billion fraud but what do events like these mean for the private credit market and the distressed market is something we would like to focus on.

Venkat, tell us about the genesis of the private credit market and how it has evolved?

VENKAT RAMASWAMY:
Private debt or private credit or 'shadow banking' as they are called in other parts of the world, in the Asset Management world are called private debt.

In India, it started off by being called NBFCs and now there are lots of funds which have got started. All these entities have played primarily in areas where traditional corporate banks are restricted from playing or have some restriction on their balance sheet on trying to scale those assets. In India, the first things that came about were the non-banking finance companies or NBFCs. If you categorise them, there are three broad areas where these non-banks play on the corporate side --- performing credit to corporates, performing credit to real estate developers for construction, finance, etc., and finally, distress debt. Over the last 10 years, NBFCs are now about 20% of the total credit market in India and growing. They end up playing because of their liability structure, predominantly playing at the higher returns-higher yield part of the curve. Over the last 5 years, there has been a bunch of international as well as local firms, which have started either permanent capital vehicles that are NBFCs or credit funds from third-party capital to invest in these three assets class.

OVER THE LAST 10 YEARS, NBFCs ARE NOW ABOUT 20% OF THE TOTAL CREDIT MARKET IN INDIA AND GROWING

TARUN BHATIA:
From AION, you play across the value chain of the credit market. How different is this market globally than what you see in India?

KALPESH KIKANI:
In India, we are still 5 years into a period where NBFCs have grown rapidly, picked a large amount of share, and have started off as areas that banks cannot do, in most cases regulatorily and in some cases due to their own internal risk profiles, concentration limits, etc.

AION is part of Apollo Global Management, which is a $265 billion asset manager, and $165 billion of it is in credit markets. In more developed markets, you will see that these private credit providers will not just supplement or fill in areas that banks cannot play in but will actually move into more mainline banking areas.

For our own firm, we have businesses which do high-grade lending, which is lending to regular corporates all the way going into convertibles. So, that is the extent of the credit business and most global credit firms play across that full spectrum of credit opportunities. Out of the $1.5 trillion market, NBFCs are already 25% and are growing at a much faster pace than compared to the more traditional bank players.

TARUN BHATIA:
Shyam, you run a fairly successful special situation set-up and you have recently raised a sizeable fund as well. Is the expectation that the private credit market in India is looking to that growth and is it driven now because the banking sector is almost on a non-lending mode?

SHYAM MAHESHWARI:
Globally and in Asia, most of the banks have also retreated from their private lending based on their regulatory needs. In India, it started with that and it is a very small portion of the total credit market. This current situation that the banks are facing, where literally 60% of the banking system is unable to act has given a very important thrust and a very clean runway to private credit to grow. The expectation is that along with this, the whole credit culture is also improving and if you are able to lend in that culture, the runway for growth as well as the quality is better.

TARUN BHATIA:
Nikhil, KKR has been in this segment before banks vacated the space. How has the journey been for KKR?

NIKHIL SRIVASTAVA:
Few years prior to this banking crisis, the type of opportunities that NBFC was looking for was primarily driven by a set that cannot be addressed by the banking industry. For example, acquisition financing. That created an opportunity and then there were dislocations.

The mindsets of the banks in most of these situations were asset-based lending versus cash flow lending, and that created opportunities. There was always enough that existed there.

When you think of private credit, it is bespoke credit and you are tailor-making products which solve a problem for a client.

Today where we sit, obviously with the banking sector is having such a large NPA issue and their pull-back on credit has created an opportunity for NBFCs and other funds to step in. On the one hand you will see that there is a lot of demand but then from a supply perspective with IBC coming in, hopefully, we become a more developed credit market.

TARUN BHATIA:
Siddharth, most of the people whom we have spoken to, come with very large sizes to support their operations. You come from a space where it is a young fund, relatively small in size compared to the others. How do you see this whole opportunity?

SIDDHARTH BHARGAVA:
If you see global trends, the credit that was generated by the banks or taken by the banks has moved to asset managers. Globally, a lot of funds like KKR moved into credit businesses because post-2008 crisis, all the ill-liquid assets moved to asset managers. Similarly, in India, the smaller guys want to play in the mid-market segment of growth-lending, which has not performed well in India in terms of investor returns.

So, can a mid-market private equity investing asset class be replaced by growth-lending, which is in high yield format? Because these are growing companies, they may not be able to procure credit at a cost that is good for them, but also not as high as an equity cost. Therefore, you are getting into credit there.

The second situation is we are playing in the Rs 50 crores-200 crores spectrum of deals. For larger players, it is not remunerative to play in that segment. You are also seeing a trend of family office and wealth management creations. That for me becomes a huge investor base to tap into.

TARUN BHATIA:
Aditya, how do you see the whole opportunity for yourself?

ADITYA KHANNA:
I think the credit market is getting disrupted and there are two underline drivers for that. One is the twin balance sheet problem. Banks cannot lend to corporates and the latter are over-leveraged in India. This has been playing out over the last 3-4 years and as a result, we have the regulatory landscape which that been driven by IBC and the regulatory developments that have happened since December 2016.

As a result of this, credits are getting segmented and we have performing stressed and distressed credits. We are also moving towards the western style of pricing credit, both in terms of risk and reward, and that is going to throw up opportunities. When we looked at it, we said what we should develop is a platform to look

IF YOU SEE GLOBAL TRENDS, THE CREDIT THAT WAS GENERATED BY THE BANKS OR TAKEN BY THE BANKS HAS MOVED TO ASSET MANAGERS

at investing in stressed and distressed corporates, with an emphasis on equity ownership because equity is the best asset class in India and also distressed.

TARUN BHATIA:
It is established that there is enough and more demand for this kind of capital. Do you see enough appetite or investor interest to support or enable you to meet this demand?

VENKAT RAMASWAMY:
The reality is that yield in India for high net worth individuals has also become a problem. Most people speak about challenges that institutional investors face while finding yield in their respective countries. But if you are a high net worth investor in India trying to find 4-5 years of reasonably secured tenure with 12-14% returns, it is tough to find. The specialist managers, who either focus on real estate or performing credit with corporates, are increasingly coming about, and these funds have existed. So, firms like HDFC has had funds of this kind for many years. They were not called AIFs then but they were domestic funds that existed. However, for the next 3 to 5 years in the absolute amount of money, it will be significantly more foreign than domestic capital that will come in.

SHYAM MAHESHWARI:
I completely agree. Currently and generally speaking, this asset class is more developed in the US, and there are established pools of capital who understand this. They understand the multiple that is expected out of this. It is a risk-reward; you are lending, so, you cannot expect 20% IRR or 3x multiple. It will take time for that understanding to percolate down to the individual or high net worth family office level. The same is true for all emerging markets but what Venkat has said has happened in China. There is more domestic capital today than foreign capital for the lending product in China. India will get there.

TARUN BHATIA:
Kalpesh, as the private market focuses on high yield segment, what kind of risks are in store?

KALPESH KIKANI:
One of the biggest positives I see coming out of the recent developments is that our own models of risk pricing were broken and those models will get fixed, which means we will start pricing risk properly. There is something wrong in the way we are pricing the risk and this is not because the cost of funds of our banks is too high, but because they have enormous deposit franchises. It was not a liability side problem; we were pricing risk wrong. As these loans get reprised and come to more private market asset managers, these assets will get repriced at appropriate levels. There are real assets on the ground in India that can be appropriately financed through a mix of debt and equity, and the debt needs to be priced right.

TARUN BHATIA:
Is there a genuine opportunity in distressed assets across the credit spectrum or top 40-50 assets?

NIKHIL SRIVASTAVA:
The IBC is a structural chain, which will have a significant impact in terms of how rising works and how a lot of these distressed assets resolve. We are in the early stages and any new law will have issues. It will take time for the ecosystem to develop, which will happen over time. But at the end of the day, the step is in the right direction and as long as we maintain the fixed timeline and adhere to the laws, this will have a long-lasting impact on credit markets going forward.

THERE IS MORE DOMESTIC CAPITAL TODAY THAN FOREIGN CAPITAL FOR THE LENDING PRODUCT IN CHINA. INDIA WILL GET THERE

As far as opportunities are concerned, this is for real and there are a whole bunch of opportunities. For the first 12, there was more strategic interest given the size and scale. But as we go into the next 28 or so, to get to the 40 and beyond, we do believe that there are a lot of opportunities. It is going to be important to stay disciplined, to price risk appropriately, and look for the opportunity which matches your skill-set and take advantage of the same.

TARUN BHATIA:
Aditya, what is the niche that smaller players need to bring in to bring value for this asset?

ADITYA KHANNA:
Distress exists as a business globally, because of flawed underwriting assumptions. We are sitting about 10 years away from the crisis that happened on March 14, 2008. But what we lacked in India was a mechanism to be able to affect the restructuring, which was time-bound. I do agree that this is a structural shift. Distress does become an asset class in India and does end up performing as any other hedge fund strategy. If you talk about IBC, there is interest in all the Top 12. You have decent visibility on who the final bidder would be. There are two who are in flux right now. Then you go to the 28 and then the mid-sized. So, the Top 12 and 28 accounts for about 50% of the NPA, the remainder account for the next 50%. The question is what happens to this next 50%? That is what we are focusing on --- mid-sized corporates. The competition is obviously less but I think the opportunity is still there. You will still find interest there because India is a great country to buy versus build. People underestimate the replacement value of an asset and what it has taken to make this company over 20-30 years. There is enough supply and it is more a question of which company should exist versus not.

TARUN BHATIA:
You mentioned your focus is private high yield but not distressed but does the opportunity out there excite you to change your motivations and invest in this asset class?

SIDDHARTH BHARGAVA:
As a new fund, you want to be in performing credit because if you see credit asset management, the margin of error is very low. Therefore, asset management becomes key.

If you talk about opportunity, there are two areas within the stressed or distressed space where we see opportunities on the performing side. If you see larger groups, which have good and bad assets- now whenever there are good assets, there are common lenders in both situations. I see opportunities in refinancing some of the PSU banks. Because today it is a part of a distressed group, no new lender or a banking system is going to finance them.

The second opportunity is coming in larger groups because the banking channel has got shut and they cannot access credit. There is a lot of last-mile financial opportunities that are coming in. ■

[Day 2]

REAL ESTATE INVESTING: NAVIGATING THE DEAL AND REGULATORY ENVIRONMENT

VINOD ROHIRA, MD & CEO - Commercial Real Estate & REITs, K Raheja Corp
RUBI ARYA, Executive Vice Chairperson, Milestone Capital
VISHAL KUMAR, Managing Director, Xander Advisors India
DEV SANTANI, Head - Residential and Structured Financing, Brookfield
AMIT BHAGAT, CEO and Managing Director, ASK PIA
JAY GANDHI, Partner - Investment Funds, Private Equity and M&A, Shardul Amarchand Mangaldas & Co (Moderator)

Investing in real estate happens with the goal of puting money to work today and make it grow in future. You have to make enough profit or returns to cover the risk you take, taxes you pay, and the cost of owning the real estate investment such as utilities and insurance. The panel discussion discussed the basics of real estate investing, the improvements made in this sector, and future outlook. The speakers also spoke about the opportunities in this vibrant sector.

JAY GANDHI:
In the last 15 odd years, the aggregate real estate Investments have been at an all-time high. We have been talking about aggregate FDI of more than $24 billion only in the construction development real estate space. It is the fourth largest contributor to the FDI in the country. In the last year alone, we saw more than $6.5 billion invested in real estate.

Clearly, there is a lot of momentum and the sector is on a high. There have been a series of regulatory changes that have come in over the last 2 years and I would like the panel to also talk to us about how they see the impact of those changes.

VISHAL KUMAR:
We continue to see this space as very attractive. Obviously, over a period of time, asset classes strategies, structures, and regulations have changed.

The space has improved a lot in terms of quality of counterparties and quality of the ecosystem around. More data is available now than what was there when we started way back in 2005. So overall, I think the industry and investors as well as developers have improved a lot over the last 10 years, and they continue to do so. As we go ahead, it still holds a lot of promise as an asset class.

JAY GANDHI:
Amit, would you like to give us the big

picture of how you see the real estate market?

AMIT BHAGAT:
We are predominantly a residential real estate player. In the last 9 years, we have only invested as equity in the residential real estate segment. I will share some data, which shows the size of the opportunity. On March 31, 2008, there was debt given by banks and housing finance companies to this sector, which was of $20 billion. That figure today is $80 billion. Debt has increased manifold but equity is missing and nobody has raised equity other than one or two equity players.

The industry is very under-capitalised today and that is why most of the problems in the segment, which you see are of over-leverage and over-commitment. The size of the opportunity is very large but the challenge is that equity is not available for this particular segment; that is why the problems exist.

The number of players doing equity in this particular segment is handful but the size of the opportunity is very large. It is just that you need to get money from the LPs and put it to work with a good risk management framework.

JAY GANDHI:
Ruby, what do you see as the LPs' view of the market and what are their must-haves?

RUBY ARYA:
LPs are looking forward to an opportunity, which is scalable and where you can actually make returns in today's real estate scenario. The opportunity which existed in the last cycle is probably not there in this cycle. If you ask me what LPs are willing to bet their money on, I feel pre-leased commercial office which Brookfield, Blackstone, GIC and everyone else, have sort of captured and built portfolios of 30 million square feet upwards. Now the tide is changing because, on the commercial office side, the capital appreciation has already started kicking in while it has not played fully.

In the last year 2 years, if we have seen the prices of commercial offices go up, there is still a lot of scope from where the traditional prices were in 2008 or 2009 or so on. There is a lot of catch up to be done. In terms of opportunity, free lease commercial will continue to be attractive to LPs, they will put the money behind it.

The other area where a lot of LPs are focusing on and trying to do platform deals with players in that segment is the industrial and warehousing segment.

JAY GANDHI:
Dev, is that generally the trend you are seeing?

DEV SANTANI:
On the fund trending side, I would say there are two different perspectives on the international LP and the domestic. On the international LP perspective, there is very strong interest in India now; especially in the last 6-9 months, people are keen to put out capital in India. One of the biggest challenges as a fund manager for us, is how to put out anything to scale. There is no shortage of capital. For example, the first question I get is why we cannot put out a million dollars to work in residential? I think the scale is a little bit of a challenge but there is no shortage of capital because all LPs are quite keen to enter India.

ON MARCH 31, 2008, THERE WAS DEBT GIVEN BY BANKS AND HOUSING FINANCE COMPANIES TO THIS SECTOR, WHICH WAS OF $20 BILLION. THAT FIGURE TODAY IS $80 BILLION

On the domestic LP side, there is a little bit of negative bias towards real estate. Right now, equities are strong, so everybody is going towards that road. The residential real estate is not No. 1 priority for them and again that market does not have enough debt.

Generally, on the investment side, I will not rehash the whole thing, but industrial is a big opportunity. From our perspective, we think residential is a bit of a contrarian call right now. So, we are keen to put in the capital in that space. Supplies are at 60% lower than last year, absorption is at a 10-year low in the sector. So overall, in 3 to 5 years, once the structural connection sets in, which is already underway, this sector should do significantly better.

JAY GANDHI:
Vinod, from a developer's perspective, what is the general trend for inviting any kind of private money into projects?

VINOD ROHIRA:
Currently, if any tangible commercial building is up or is close to ready, there are almost 10 buyers wanting to buy it, from high net worth individuals to private equity investors. And this trend is getting stronger by the day. There is not much Grade A

commercial supply left in the market for you to buy. So, you have to start going deeper into the upgradation of assets, the opportunity to change the assets, and bring it out into the commercial space. That is where we see an opportunity. Otherwise, if we are on the other side of the table trying to bid to buy completed assets, we will probably be the lowest bidder.

The only opportunity we see as a developer is to pick up those brownfield assets and then create value out of them, but interest from investors is huge. There will be a serious amount of consolidation in the next couple of years for the residential space. You might have 60-70% of the current traditional offering vanish out of the market place.

Three things will happen --- supply will diminish dramatically, no new speculative supply will come because you will have to be 100% certain about your deliverables including approvals. The contribution of capital commitment, which will diminish supply dramatically in the short term, which is going to push up prices for stocks, which are going to continue to build and pour concrete.

If you have opportunities, where you are reasonably confident of compliances, can deploy capital and complete those assets,

THERE IS A REAL CASE FOR DEVELOPERS TO BUILD HOUSES THAT ARE AFFORDABLE AND TICKET SIZES, WHICH ARE AFFORDABLE; THIS MEANS RESIZING

you will get the upside. We see that as a huge opportunity.

JAY GANDHI:
Amit, from investors' perspective, what kind of safeguards would you look at to prevent or to safeguard against some of these aspects?

AMIT BHAGAT:
In the fund business, you decide the partner or the fund manager based on his performance track record, strategy philosophy, and risk management framework. Similarly, when we select a partner, if we are selecting a partner based on an objective analysis on parameters on which LPs select a fund; then only should you be in this business.

2018 will see the maximum supply of completed projects because of RERA and also because launches have been significant in the past. We will see the lowest launches this year and all this will continue into the next year. 2019 will also see a good supply but not as high as 2018, and 2020 will see the lowest supply that you can visualise.

With launches reducing at a rate of 70% plus, you have an opportunity, and the consolidation taking place because of the transformation changes. But because of the consolidation taking place, reputed and prudent partners will be the beneficiary of the consolidation.

JAY GANDHI:
Let us look at the regulatory conundrum but from a different perspective. There has been some amount of changes over the last two years in the FDI. So, what is your the reaction to the current regulatory environment?

VISHAL KUMAR:
The changes have been very good over the last 10 years, starting from the fact that we were only allowed to do a large project with minimum capitalisation, had to finish it off in 5 years, and various other conditions; a lot of those have been done away with.

The FDI regime has really loosened up. Of course, there is always room for improvement, but it has been a sea-change of positive on the regulatory side. We feel better, safer and less restricted than we use to earlier. It has also given us a lot of flexibility in strategy on what kind of asset classes to target, what kind of partners we work with, and what kind of structures we put in place. More so, it is like a global situation, and hopefully, there will be more changes as well. Kudos to all the governments in the past and a lot to this government as well as they have made a lot of positive changes.

JAY GANDHI:
There is a lot of buzz around the low-cost housing. Do you see that as a large opportunity?

VINOD ROHIRA:
By definition, nobody understands what low-cost housing really means but from a demand perspective, it is infinite. Yes, there is an opportunity in that micro market. It was always there, it is now being looked at as one large lumped category. But affordability as a factor in any micro market is always seen in demand. So, now the infrastructure is really the driver to be able to reach out to places where you can build housing that can become affordable because of land prices and all the other costs that you put in. For that, you need to be well-connected. So, if you do not build infrastructure, you will not get affordable housing.

If you embed infra, it is a game-changer.

You will see that infra is making a lot of the difference to large cities, because in the next 10-15 years, you will see 60% of India's population moving towards the 4 or 5 large cities, and which ever city moves forward in its push for infra, will gain the most.

JAY GANDHI:
Ruby, one of the things that one sees about real estate investments generally is that it tends to be concentrated in certain pockets, usually in tier 1 cities. Do you think this may be the basis of some of these investments now moving into tier 2 or to areas which have not seen too many investments in the past on the basis of low-cost housing?

RUBY ARYA:
While most of the fund houses have restricted themselves to tier 1 opportunities, if a large developer gets into tier 2 cities, then why not (enter it)? When it comes to low-cost housing, that is another opportunity, which needs to play out in a very big fashion. If you look at the statistics: the affordable housing that we are providing today is just 5% of the demand; given the infrastructural push and the fact that despite residential prices correcting in most of the cities, they are still not affordable.
There is a real case for developers to build houses that are affordable and ticket sizes, which are affordable; this means resizing. One of the things which is the key to affordable housing will be the approval

timelines. For low-cost housing, approvals coming on time will be very important. We will see more people follow suit and build low-cost housing even in tier 2 cities.

JAY GANDHI:
There is a lot of talk around the regulations. We hear that SEBI has gone out of its way to make the product work for both participants as well as developers. How do you see that play out?

VINOD ROHIRA:
Everyone is waiting for the first one to happen. But the markets are getting there to accept that as a product. International investors like that product. However, there is a lot of education to take place for high net worth individuals invested in India to understand the product a little more deeply. That actually has begun and we are a year away, and then you will see a significant push happening in that direction. ■

[Day 2]

SHOWCASING THE INDIAN VC PROWESS

VINEET RAI - Founder, Aavishkaar
RANJITH MENON - Executive Director, IDG Ventures
RAHUL KHANNA - Co-founder and Managing Partner, Trifecta Capital
PARAG DHOL - Managing Director, Inventus Capital
JAGANNATH SAMAVEDAM - Partner, Ventureast
VIKRAM GUPTA - Founder and Managing Partner, IvyCap Ventures
VIDHYA SHANKAR - Executive Director, Grant Thornton (Moderator)

The Indian Venture Capital space has seen magnificent progress in the last decade. In India, new startups are born every day; making the country the third largest startup ecosystem in the world. Venture capitalists, therefore, are now highly selective in their choices and stick to funding the truly attractive startups. All-in-all, there has been an interesting improvement in the entrepreneurial activities in the ecosystem.

The discussions in this panel revolved around the quantum of funds that have increased, the change in mindsets of the entrepreneurs, the evolution of the regulators, and many more crucial sectors of venture capital. Opportunities and challenges coming in the way of the Indian VC space in 2018 were also discussed.

VIDHYA SHANKAR:
How has the playbook really changed for the Indian VC?

RAHUL KHANNA:
The industry has evolved a lot. For many of us, who got into venture capital back in the mid-2000s, the annual flow of capital into India was few hundred million dollars. Fast forward to 2015, excluding the big strategic round, there was about $5 billion of venture capital that came in. There were about 10 to 15 times lift in the amount of dollar appetite. There has been a maturing of investors by each stage. So, on the equity side, there is actually a nice stack of capital available and for good companies there is a lot of money available.

VIDHYA SHANKAR:
Jagan, what in your mind has really changed?

JAGANNATH SAMAVEDAM:
From the entrepreneur perspective, we see a significant explosion on the number of deals over the last 2-3 years. I have been in the investing space for the last 10 years, and in the last 3 years, there are so many new deals that come on a day-to-day basis. One of the reasons that this has

happened is that there are a large number of incubators and accelerators that have been started in every micro geography, whether it is Bengaluru, Hyderabad, Gurugram or Mumbai. These are started by governments, the private sector, and educational institutions. And when I go there and meet very early stage startup entrepreneurs, I see a lot of passion and enthusiasm in them. But the outcome of this for us as VC investors is that we have to be more selective and we have to see many more deals to find the really attractive one. But it is very encouraging to see these kinds of activities.

The second area where I hope there would be some improvement is the quality of deals that we see. In my experience, about 70-75% of the deals that I see are where people are just trying to replicate a business model that has worked earlier. Again, as a VC early-stage investor, we would like to see more innovation. The percentage of deals which would qualify into a second or third round of discussion itself goes down to less than 10% of the deals that we see.

VIDHYA SHANKAR:
Vikram, you have run both an equity as well as a debt fund. How would you gauge what has happened in the Indian ecosystem and what is your relationship with your LPs?

THERE HAS CLEARLY BEEN A TREMENDOUS SHIFT IN THE ECOSYSTEM OF INDIA; THE ENTREPRENEURS HAVE GOT SIGNIFICANTLY BRAVER

VIKRAM GUPTA:
I have raised three funds so far, and I have seen this industry since 2007. It is quite interesting if you actually see on both absolute and relative scales.

On an absolute scale, there is a lot to do if you start comparing India with China or US. But on a relative scale, India has come a long way. I remember in 2011, when I started IvyCap, 'startup' was actually a bad word. I still remember standing in front of LPs and being scared to use this word. We have come a long way from there. In 2013, we actually changed the regulations and moved from the VC regime to AIF regime. In such a short span of time, India has already become the third largest startup nation in the world and has the third largest unicorns in the world.

We also see on the ground level how the entrepreneurs have actually evolved. We are evolving as an ecosystem, regulators are evolving, VCs are evolving, LPs are evolving. Overall, I am quite positive about the pace of this growth.

VIDHYA SHANKAR:
Ranjith, IDG is a global franchise and you also are fast-rising your new third fund. Is there a contrarian investor in India?

RANJITH MENON:
We have been investing in India for 10 years now and there has clearly been a tremendous shift in the ecosystem of India. The two or three big shifts that we have seen is that the entrepreneurs have got significantly braver. The fear of failure has reduced in the minds of people. Their ability to deploy technology to solve problems has tremendously increased. Today, the kind of company we are seeing and find more interesting, is based on how they are solving problems related to India. As a fund, we are looking at India-specific companies, which are solving integral problems in areas such as packaging, health or domestic. But at the same time, we are also looking at software companies which are global in nature; SaaS is the new framework.

VIDHYA SHANKAR:
Vineet, what is your take on the evolution of the Indian LP itself?

VINEET RAI:
I started in 2001 as a forester who was trying to do finance, and that gave me a completely different perspective from an entrepreneur's. We were looking at entrepreneurs who were looking at very large local problems. Instead of using technology to solve the problem, I was focusing on very large problems like poor people who do not have access to finance and waste as a productive area for Indians. When you have such large and limitless problems and can actually find the entrepreneur who can convert it into value, you may be able to create a unicorn and create significant values. For a long period of time, it was difficult to convince LPs that there is any value in what we were saying until microfinance actually became the talking point.

NABARD was the first brave LP that worked and invested in Aavishkaar at that point in time. Now when we raise the money from NABARD, the discussion has evolved but I think the term sheets that come from the Indian LPs are reasonably unharmonized to what is happening on the international side.

On the individuals' LP side, the taxation norms are quite Greek and Latin to high net worth individuals. The Indian high net worth individuals understand the meaning of taxation much better than GPs.
While the AIF guidelines have evolved significantly, a significant amount of challenge remains and becomes an the issue especially with the Indian LPs. But interestingly in the last two years, there has been a significant change in the way most of the LPs in India are looking at it. This is partly because of the Prime Minister's clarion call for Startup India and also the way a number of entrepreneurs have come forward.

VIDHYA SHANKAR:
Parag, what is your prognosis for the Indian VC industry and your take on exits and domestic LPs?

PARAG DHOL:
We have made 22 investments and have three exits to shut down. If you look at 2014-'15, the spikes that some of our peers saw versus our steady pace, it would look totally different .

We have 12 investments out of Fund 2 which includes 2014-'15 investments, and not one has died.

The question of exits is a big question for the ecosystem and we are looking at the wrong end of the lens when you say there are no exits. We are investing too much, too soon in too many companies that probably do not deserve it.

VIDHYA SHANKAR:
What is your take on CVC and what do you foresee for their future in India?

RAHUL KHANNA:
I do not believe that corporates should be doing a lot of direct venture capital. They are better served to become LPs in funds because when you do it with the intention of driving financial returns versus having the strategic intention, the goals and milestones are different. One has to be clear about what the objectives are and when you mix those two agendas, that is when you become sub-optimal. From an entrepreneur's perspective, they do not necessarily want to take the biased capital. So, when you talk to most entrepreneurs, they would rather go to a pure play VC than go to a corporate fund.

However, for the venture industry to grow and succeed, corporates need to play a much more active role on the M&A side. In the US, M&A feeds the bulk of venture capital returns that the mid and large corporates are doing, readily picking out of investments that we have all made. I would

like to see Indian corporates getting out of the 'we need to build everything' to 'I need to buy more things for you' because unless we see that the idea of everything going to IPO is not likely.

Now the challenge is that we are now seeing that approach being adopted by the Chinese corporates, by American corporates and slowly the Indian corporates are waking up.

RANJITH MENON:
As a fund, we have got a few corporate investors and when you talk to them, one of the lens that they kind of put when they invest into funds is that they get a broader view of what is happening in the ecosystem especially in the startups and technology space. These guys have been in India for some time and have been trying to make direct investment for some time. The deal flow is fairly limited because of the bias that they have in terms of business buying before an investment is made, and most of these corporates are very interested to know what is happening outside their domain, which is driving them to be an LP in the fund as against to making direct Investments.

VIKRAM GUPTA:
I ran a fund for a corporate and there is a clear distinction between a corporate-backed fund versus a corporate which is an LP in a fund versus a corporate who sponsors a fund but still has money coming from other LPs. In case of the healthcare fund that I ran, there was this strategic alignment in terms of being able to source deals coming into space. But if it is a typical CVC fund, which has its own personal capital into the fund, there is a strategic intent to make sure that you are investing in those companies with the kind of exit alignment to their own objectives.

THE QUESTION OF EXITS IS A BIG QUESTION FOR THE ECOSYSTEM AND WE ARE LOOKING AT THE WRONG END OF THE LENS WHEN YOU SAY THERE ARE NO EXITS

VIDHYA SHANKAR:
Vineet, given the sector that you are operating in, what is going on in India and why the sudden attraction towards Impact Funds?

VINEET RAI:
Financial returns impact is an outcome and not an input. If you are trying to make an investment anywhere in the world, you are looking at a management team that is strong and has the capability to manage scale. You are looking at that management team solving a fairly large problem.
If you look at all opportunities and challenges that exist in India, we have a fairly large population that is in the under-served territory, and these are people who are earning a very small amount of money, generally not part of the economic thought process of where private equity and venture capital is trying to invest. Which means, you have an opportunity to build a very large company, largely in a non-competitive manner, and reach a reasonable scale.

At the same time the government, both India and worldwide, is focusing on trying to make a difference towards this set of people. I do not know how many of you here are aware of sustainable development goals, but these are goals where 193 governments of the world have come together to say that there will be no hunger, no poverty by 2030.

There is a significant push coming from the governments and these pushes finally go down to development finance institutions, as well as IFC. But not only that, they will finally go down to pension funds, which are essentially sitting on a large amount of capital and they are probably one of the largest pools of capital. All these come together along with a significant amount of conscious capitalism. Globally, there is a significant demand on the leaders to play a role in making this happen and impact investing is probably the only tool people can see at this point of time that can play that role.

VIDHYA SHANKAR:
One opportunity and one challenge you see going forward in 2018?

RAHUL KHANNA:
In India, there is no shortage of opportunities. The one thing many of us do not build into our models is the duration risk. So, the challenge that we see is not just if we can build a big business.

JAGANNATH SAMAVEDAM:
From a healthcare point of view, we see opportunity in using technology to get better outcomes (in) specific areas such as diagnostics, remote monitoring of patients, and in using local language content. That is a big opportunity where we

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have not seen enough deals or enough attraction yet. But that will be a big opportunity.

In the VC space, as an asset class, doing any good business and taking it to a successful outcome in less than 10 years, is very challenging. That is going to be difficult. So, we need to find a new pool of LP capital that is going to support us to hold onto businesses beyond 10 years at least. That is the key challenge that we are all struggling with.

VIKRAM GUPTA:
From the opportunity perspective, we all are moving towards personalization, whether it is health care or fin-tech or retail. You take any sector and it is moving towards building solutions for an individual, and individuals are actually creating data points in every transaction they are doing. Every transaction's data point is being captured and history is being built on that. Any technology or solution, which actually is able to capture that and build solutions for personal needs of humans, is going to create huge value going forward.

In terms of challenge, we as a country still have a lot to achieve. In terms of venture capital perspective, we need to build an LP ecosystem. Also, exits' ecosystem still has not fully developed.

RANJITH MENON:
From an opportunity perspective, India has a massive population, which is very young and getting more and more connected. Anything that leverages these people, providing them with services on the Internet or on mobile, is a huge opportunity across categories. On the challenges front, exit still remains a challenge. Also, India is still evolving from a domestic capital perspective. So, encouraging people and making them aware of this is one thing we need to work on.

VINEET RAI:
Every challenge that India faces today is an opportunity. It is a multi-billion-dollar opportunity. So, whether you say, we do not have access to finance, a farmer commits suicide, everything is a multi-billion-dollar opportunity if we can find entrepreneurs who can focus on them beyond ML, IoT, and artificial intelligence. You have to look beyond and you have to talk at your problems, which are staring in your face.

In terms of challenges from the regulatory perspective, we have made a significant change. But the whole idea of being an Indian venture capital fund or an Indian fund, continues to remain a reasonably challenging idea given the clashes between the desire of the Prime Minister to make us a vibrant early-stage economy and the desire of Income Tax to tax everything that is done including the angel investment. That continues to be a fairly significant intentional difference between two arms of the government and till the time we cannot send out a message which is fairly aligned, we will continue to see this as a challenge.

PARAG DHOL:
As a Series A early-stage guy, the current VC market is fairly dull. So, for contrarians like us, that is a good place to be. The flip side to that is that our companies need a Series B and a Series C, (and) we get impacted. I do not celebrate the markets going up or down because they impact two sides of the coin. Consistency is what we need to focus on. ■

FROM HEALTHCARE POINT OF VIEW, WE SEE OPPORTUNITY IN USING TECHNOLOGY TO GET BETTER OUTCOMES

WHAT WILL HELP GPs GET IN FRONT OF LPs & THEIR CONSULTANT GATEKEEPERS?

GOPAL SRINIVASAN, CMD, TVS Capital and former Chairman, IVCA
SHALIL GUPTA, Chief Business Officer, VCCEdge, News Corp VCCircle
NAGARAJAN NARASIMHAN, CRISIL
VAIBHAV PARIKH, Partner, Nishith Desai Associates
HANSI MEHROTRA, CFA Society India (Moderator)

Proper intelligence mapping of data and availability of information from GPs is the need of the hour for LPs. Similarly, standardization of processes and greater transparency are sorely needed to reduce the GPs' risk. There are different ways of achieving this goal with a view to reducing legal risk while also creating a more attractive option for LPs. Eminent panellists discussed the important subject of getting GPs in front of LPs at the IVCA Conclave.

HANSI MEHROTRA:
In my past life, I spent 10 years as a consultant at Mercer Investment Consulting, both in Sydney and Singapore, and I also led the India desk. In fact, I brought Mercer to India in 2008. We ran the office for a good four years until the end of 2011 and then we shut it down. Partly, the global financial crisis was to blame and partly, it was due to India-specific issues, which is basically no interest from either our global clients or Indian clients in the Indian ratings on funds, both alternative and traditional.

EARLIER, TRADITIONALLY THAT INTELLIGENCE WAS MOSTLY QUARTERLY, MONTHLY OR WEEKLY RUN. TODAY, IT IS ON DEMAND

What I want to share with you is consultants cannot possibly make a decision on one fund alone. For us to decide to invest in a fund, we have to decide whether we should invest in India and you cannot invest in India without deciding which asset class. Once you decide --- assuming we buy PM Modi's pitch about India as a fantastic place to invest --- we need to decide whether we believe his story and also in which asset classes we should invest (through equity, bonds, real estate, infrastructure, private equity).

If I decide to invest in private equity, I need to know what the issues are in that asset class and what the potential returns are going to be. I need to understand why exits have not happened in the past. All of these things require me to actually not only see the fund but also to look at the fund's competitors. For us to make that decision, we need to see 5-10 funds, talk to everyone and then make that call. Now the problem is sitting somewhere in the Asia Pacific or in Sydney or US, we cannot talk to as many funds. Just because you happen to come through our office does not mean that I have access to other managers. So that was the background because of which we basically said India was just too hard. It is fantastic to see in the last five years, things have progressed quite a bit.

You speak to LPs, investors around the world. Do you agree with what I have said?

SHALIL GUPTA:
I will answer in two forms. One, look at LPs first; GPs want to differentiate in front of LPs and how would they differentiate? To do that, we need to understand the LPs first. It is not that GPs are under pressure,

LPs are in much bigger pressure than GPs. Their investors are asking which asset class? Where to invest? How to invest? What returns? I think that intelligence has to be there. Earlier, traditionally that intelligence was mostly quarterly, monthly or weekly run. Today, it is on demand. LPs are under bigger pressure and they are asking GPs' data intelligence on-demand. It should be intelligently driven and accurate enough. For a GP to create this differentiation, it needs to have all of this. But they cannot do it today. The second part, if you remember, data used to be called new oil or capital. Today, data is also called 'sense' and I really believe in this, because until and unless the sense is coming real-time to both the parties mutually, with some technology intervention, it is not going to fulfil any of our desires. We need this intelligence to come so we can make an informed decision and that is what is not happening today. That is lacking. We do not see the transparency of information, SEBI has some information, somebody has some information. We are not doing proper intelligence mapping of the data. That is where the industry is standing today. There is no shortcut way other than talking to the GPs and finding the information.

HANSI MEHROTRA:
Vaibhav, your firm has just released a report on fund formation which talks about you speaking to quite a few investors around the world. What is your firm's experience in what the investors are asking for?

VAIBHAV PARIKH:
The investors' key interest is if they are

getting correct data or not. If they want to do diligence, they can only do diligence based on what data they are receiving. They need to be very fair and sure that this is the right data. Only then can they do analysis and intelligence on top of it. Because there is no transparency or standardization, often what we see is that they need to do much deeper diligence to get this data. Just giving an example, one of the topmost things from the LP perspective is the net rate of return. IRR may be indicative of one thing but the net return can differ because there may be transaction expenses. How transaction expenses are calculated, how management expenses are calculated, if they are rightly loaded or not, is there a clarity or transparency on that? If there is a standardised process, then it is easier for LPs to make a decision. Similarly, when you look at data even from the GP perspective, if there is transparency or if there is standardised data available, it just becomes easier. It is better to get a lot of things standardized and transparent so that your GPs' risk also reduces.

HANSI MEHROTRA:
Gopal, you have been heading IVCA and you are a manager yourself. What in your view is preventing more money to be raised from investors globally?

GOPAL SRINIVASAN:
Let me just focus on the domestic capital. Last year Rs 10,000-15000 crores of commitments was raised domestically. Most of this is estimated came from either the government or HNIs. Maybe Rs 3,000-4,000 crores came from the government and the balance came primarily from HNIs, a little bit from banks and insurance. The primary issue when you go into the HNI market is that there is a huge asymmetry of information between what the HNI is able to know and what the GP knows.

Today, if you read a quarterly SEBI report, what are the columns (that you see) --- commitments raised, calls made, investments made. If we could get the fourth column - distributions made from

SEBI. So, at least pool level data on the industry is available. The first inhibition of an HNI is, 'I do not think this asset class is good, I am told the companies do not do well.' At least, it puts it into perspective. If this goes further and says, by the way here is a decile, quartile and median, then you say where is this fund manager in that spectrum of that vintage year. The third thing is we need people like CRISIL and VCCircle to start services where they would go and offer to LPs to do detailed fund level reports. It is a willing LP-willing GP model, where then the subscribing LP could get access to the availability of information is the greatest protection against the fear of performance and also a misrepresentation. I am more worried about fear. Today, the main HNI market believes that a very small pocket only should be given to VC-PE, real estate fund, credit fund; that is the need of the hour for the domestic capital. We have fundamentally huge availability of domestic capital but information perhaps is the No. 1 barrier.

HANSI MEHROTRA:
Are you suggesting that SEBI should make that information publicly available or are you suggesting private players could collect that information?

WE HAVE A GOVERNMENT RIGHT NOW WHICH IS SHOWING THE REST OF THE WORLD THAT INDIA CAN DO THINGS DIFFERENTLY. NOT THAT IT IS THE BEST IN THE WORLD; IT IS GOOD FOR INDIA

GOPAL SRINIVASAN:
Fundamentally, India is one of the few countries in the world where private limited company information is freely available and disclosed. If we think in the same way as Indians do, which is that sharing data that has a public impact is perfectly fine, then SEBI should do that (make information public). No other regulator publishes funds, commitments made, contributions received, investments made. So, when people say it is not there in America, sure, each country is different. There is no need for us just blindly to mimic. Thankfully, we have a government right now which is showing the rest of the world that India can do things differently. Not that it is the best in the world; it is good for India and that is all that matters.

HANSI MEHROTRA:
CRISIL is very big in the space of bond ratings and generally performance data and all sorts of other asset classes. Is this sort of needed and what are the issues with you or VCCircle building a database like that?

NAGARAJAN NARASIMHAN:
I think Mr. Srinivasan raises a very important point. If you look at comparables in the mutual fund industry, look at how the industry has grown at a tremendous pace. Even the ordinary guy is having the confidence of investing even Rs 5000. Among various other things, it is also the fact that he knows what sort of returns he will be getting, not what the asset manager is promising but he can track it regularly. Now if you were to implant the same thought onto the private equity or AIF segment, if you were to move onto HNIs as a set of investors or even institutional investors, the entire money

is with the EPFO or PFRDA, insurance. Look at this investment class and there is a huge opportunity. Today, we are talking about these institutional investors who put together would be about Rs 50 lakh crores. If you look at the ultra-HNI, there is this Kotak 'Top of the Pyramid' report which talks about more than Rs 25 crores as a base and as investible surplus. That population is almost 1.5 lakh individuals with a cumulative wealth of around about $150 trillion. So, we are talking about huge pools of potential investor classes. For them to invest in this today, what do they get? Each fund or the GP goes and says, this is my performance, but for them to compare, the only thing they hear is x% IRR. But what is x% IRR? How does it compare with others or in comparison to the risk that they are taking? I think that is very crucial and once people are able to address in that context, they will be far more confident from a demand perspective.

If you look at the supply side and look at the AIFs. If I am one of the participants there, how do I differentiate myself from the whole host of others out there and you look at the mutual fund industry. For example, CRISIL does ranking and we have been doing it for the last two decades. It is a simple way of measuring, not just performance but also the risks involved. When I am looking as an investor, I am not just looking at the returns but also the risk-adjusted return that I am getting. Also, how true to label has that the fund manager been, in terms of what has he promised, he will invest in, what is his investment philosophy and what is he finally doing because the returns have to factor in those risks that creep in as well.

The second part is, if it is so obvious then why is it not happening? There is no regulator; SEBI does not prescribe it the way it does for the mutual fund industry. In the last year, they came up with specific recommendations in terms of mutual fund scheme categorisation. They have come to the level as to how can you define an income fund, equity or a hybrid. They are sort of prescriptive in that sense as compared to the alternates. Except for those three or four columns that Mr Srinivasan talked about, SEBI does not get in. Before the regulator comes in, it is in the industry's own interest to be more transparent and put in best practices. And then the regulator will say, 'This is great why don't you continue with that'.

Second is, this whole thing about confidentiality. I am doing deals, I do not want anybody else to get a whiff of it. So, how do I protect that? There are various models globally and also in this industry, which have people pool that and data can be kept confidential. You are only comparing aggregates at the industry level. The third is, is it comparable? How can you compare two different funds because they are chalk and cheese? While at a broader level, it might be but there are ways to segment. SEBI in its own wisdom has done three-level categorisation. You can go far beyond that, you can find out what are the attributes that can be common and within

SEBI IN ITS OWN WISDOM HAS DONE THREE-LEVEL CATEGORISATION. YOU CAN GO FAR BEYOND THAT, YOU CAN FIND OUT WHAT ARE THE ATTRIBUTES THAT CAN BE COMMON

that you can sort of categorise funds and based on that if you are able to collate data, it can be through the association to the regulator or to the independent agencies. Once you do that, we can then set up standard formats that people can contribute to. You then not only get information that is comparable, but you can also create benchmarks based on that. Once you do that, it is far better for the industry and it will become a virtual cycle.

HANSI MEHROTRA:
There are a bunch of issues you raised there. One, is the confidentiality issue in terms of how to handle the managers' concerns. We do not want to submit our return data in a publicly available database. I spoke to Preqin at length and they were saying that they only get very high-level information from SEBI but then they also take data from the LPs and then call the GPs, the managers and supplement that. They use between 12 and 14 points of data to calculate the fund return.

You spoke about standardization. Today, I represent the CFA Society India. There are global investment performance standards (GIPS) that globally most regulators have adopted. The alternative policy committee recommendation to SEBI has some recommendations already in terms of how a performance should be reported. I got someone to compare it and apparently it is quite similar to GIPS. Even though they have not made a reference to GIPS, they are already sort of talking on those lines. If those recommendations are adopted, then hopefully the performance reporting will become standardized.

You said you have ways of handling confidentiality through databases where the information is bilateral but can be aggregated up so that you can produce industry-level data. So that becomes publicly available for domestic investors, HNIs, and family offices. I have been advising private banks for many years and I asked them how do you conduct due diligence on these funds? The answer is not very well. I have some HNI clients and you ask them what is the research report that your private bank has given to you? The private banker gives the fund offer document, no research is given to the ultra-HNI or HNI to say this is what we endorse. There are no third-party ratings.

Performance data needs to be available. Unless that is available, no global investor, no consultant, no domestic investor can evaluate the asset class and make a decision on investing in you specifically if they have not made a decision on investing in the asset class generally.

The second thing is the ratings bit. There are sovereign wealth funds, who have already decided to come to India and there they do not need consultants. There are family offices who also do not need consultants. They will happily make a decision based on anybody's pitch. But there is a huge middle market which unfortunately needs consultants to blame when things go wrong. What I am suggesting is while CRISIL will be welcome

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to do ratings, Cambridge or Mercer will not buy those ratings from CRISIL; they will want to do their own. Instead of pitching for a fund rating from a specific private firm, should we not work towards the component parts of what goes into a rating that should be available publicly?

SHALIL GUPTA:
It is a fantastic question but let me tell you, every chef has a secret sauce. Nobody wants to reveal the secret sauce. Every fund manager has their own strategy, they are managing it, and look at how the investments are happening. The LPs are working with consultants who need to have trust in somebody and in some shape and form, the conflict of interest will arise. So, the best way is to go to the regulatory authority. They seem to be independent, neutral, etc. But is that the regulatory authority's role? A regulatory authority always works on a welfare stake. How do I bring more welfare, how do I make more equity, equal opportunity? There are four pillars to it --- independent, neutral, accurate, and trust. If LPs and family offices start using that as a benchmark in the industry, as the intelligence, every GP will provide the data. Trust has to be there in the industry, which is missing. I am not saying VCCircle will do it. We have already started thinking on those lines as to how to build this neutrality, independent accuracy and at the same time, build the trust. So that even a consultant is afraid that we might be having some biases here and there. The data is pure, data is very neutral and independent, now you do your analysis on it. What is your secret sauce? You decide. We do not get into that.

A REGULATORY AUTHORITY ALWAYS WORKS ON A WELFARE STAKE. HOW DO I BRING MORE WELFARE, HOW DO I MAKE MORE EQUITY, EQUAL OPPORTUNITY?

HANSI MEHROTRA:
Does the industry have the data? Gopal, I believe the IVCA is setting up an initiative to encourage more templates and standardization.

GOPAL SRINIVASAN:
We have been basically using the standard ILPA as a reference point. So, we have not thought about reinventing it. Our more basic approach has been to create a data ecosystem, get CRISIL, VCCircle, etc., and get some base data out of SEBI in a more digital format. So, create an ecosystem. Ultimately, like there are so many excellent lawyers, bankers and various kinds of specialist advisors, there needs to be an advisor on data. I think the standard answer from government sometimes is, 'Okay, why do not you as an association become an SRO and do this data'. I do not think that that is the right answer because data is not just number, it is the feeling, it is the sense of the firm, and we need to get more qualitative as well as quantitative data to come together. ■

IVCA CONCLAVE 2018
AFTER HOURS

IVCA Conclave 2018 was a time for enlightening sessions and insightful thoughts. For the first time, IVCA handed out PE/VC Awards. J M Trivedi (Lifetime Achievement), ChrysCapital (Private Equity (Large-Size Fund) Exit Performance of the Year), and Motilal Oswal India Business Innovation Fund II (Private Equity (Mid-Size Fund) Exit Performance of the Year) were recognised for their achievements.

Grant Thornton's Fourth Wheel Report and Nishith Desai Associate's Report on Fund Formation - Attracting Global Investors were also launched while Bain & Co made a presentation on 'The India PE Landscape'.

But it was not only work at the Conclave. IVCA members, delegates, and special invitees let their hair down during the enjoyable networking sessions. Neeraj Arya's Kabir Cafe and some soothing saxophone performance delighted audiences along with Hotel Taj Lands End, Mumbai's, delicious food and refreshing drinks.


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WELCOMES

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Notable Private Equity and Venture Capital transactions

Blackstone in its acquisition of a majority stake in Mphasis for **US$ 1.1 billion**

Kohlberg Kravis Roberts and **Canada Pension Plan Investment Board** in its acquisition of 10.3% stake in Bharti Infratel for **US$ 953.8 million**

Brookfield in its 100% acquisition of nine project companies of the Gammon group for **US$ 825 million**

GIC in its acquisition of 13.45% stake in Canfin for **US$ 113 million**

Swiggy in its Series E and F rounds of investment from Naspers for approx. **US$ 80 million** and **US$ 100 million** respectively

IDFC Private Equity in the sale of 28% stake in Sembcorp Green Infra, to Sembcorp Utilities for **US$ 219.9 million**

Lendingkart and Sistema Asia Fund in an investment round of approx. **US$ 76 million**

NeoGrowth Credit in Series C round of funding for approx. **US$ 47 million**

Temasek on its investment in Zomato for **US$ 60 million**

Axis Bank in its sale of 5.5% stake to Bain Capital for **US$ 1.4 billion**

DLF Cyber City Developers in its sale of 33.34% stake to GIC for **US$ 1.38 billion**

Acko Technologies in Series A Investment for approx. **US$ 25 million**

IVCA FOCUS

IVCA Conclave 2018 witnessed a confluence of government policymakers, foreign delegates and industry leaders from the PE-VC world. Journalist and media entrepreneur, Shutapa Paul, caught up with some of the speakers on the sidelines of the Conclave for IVCA's YouTube channel, Events IVCA.

'Growth is moving upward steadily; hope to do 6.6%-6.7% growth this year'

Subhash Chandra Garg
Secretary, Economic Affairs, GoI

'India will to remain No. 1 market for Truecaller as it adds 300K-350K new users every day'

Stefan Lennhammer
Chairman, Truecaller

'SEBI removing lock-in period for funds was significant'

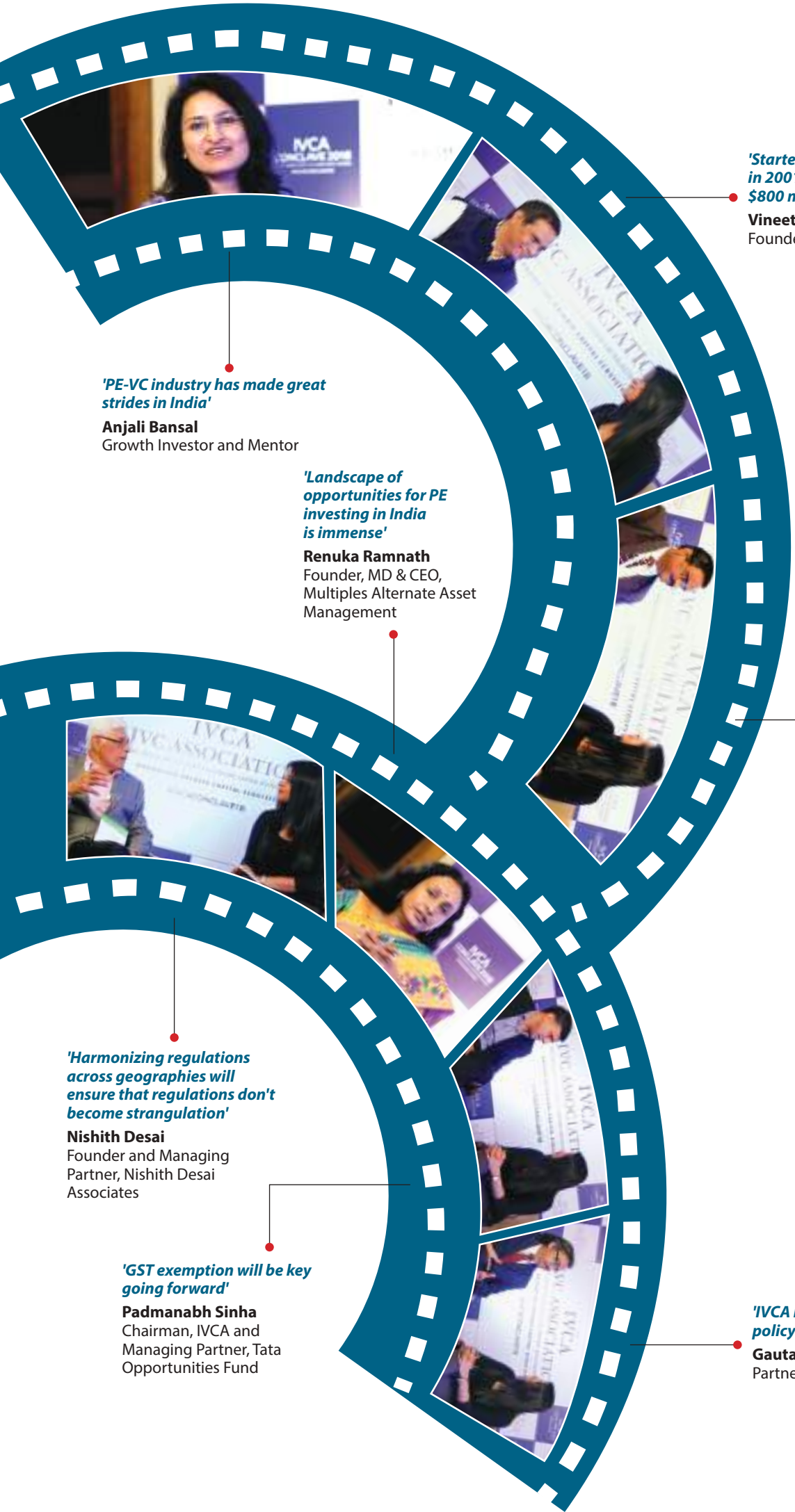
Gopal Srinivasan
Former Chairman, IVCA and CMD, TVS Capital Funds

'Chrys Capital exited out $700 mn last year'

Ashley Menezes
Partner, ChrysCapital Advisors

'Focus on Gender Lens Investing at IVCA Conclave brought movement and vibrancy'

Bala Deshpande
Senior Managing Director, NEA



'PE-VC industry has made great strides in India'

Anjali Bansal
Growth Investor and Mentor

'Landscape of opportunities for PE investing in India is immense'

Renuka Ramnath
Founder, MD & CEO, Multiples Alternate Asset Management

'Started Aavishkaar VC with Rs 5000 in 2001; currently managing assets of $800 mn'

Vineet Rai
Founder, Aavishkaar

'NABARD's Nabkisan Finance clocking growth rate of 30% in the last 3 years'

R Amalorpavanathan
Deputy Managing Director, NABARD

'Harmonizing regulations across geographies will ensure that regulations don't become strangulation'

Nishith Desai
Founder and Managing Partner, Nishith Desai Associates

'GST exemption will be key going forward'

Padmanabh Sinha
Chairman, IVCA and Managing Partner, Tata Opportunities Fund

'IVCA has done well to educate policymakers about PE-VC industry'

Gautam Mehra
Partner and India Tax Leader, PwC India

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Punj Lloyd	Craftsman
Sutherland	Ocean Sparkle
Powerica	PI Industries

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IVCA's Representations to the Government

Month	Department	Representation on
May	SEBI	Circular issued by the Securities and Exchange Board of India on 'Know Your Client' requirements for Foreign Portfolio Investors
May	SEBI	Proposed changes in the Alternative Investment Funds regime with respect to the development of 'FinTech' space in India
May	Department of Economic Affairs	Recommendations on behalf of PE/VC sector under the Goods and Service Tax Law
June	SEBI	To seek clarification on whether Manager and Sponsor to Alternative Investment Fund ('AIF') - Regulated by Securities and Exchange Board of India ('SEBI')
June	SEBI	Clarification on impending changes in AIF CAT I & II rules SEBI AIF Regulations 2012

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- **Speaking opportunity at events**
- **Access to Ministers attending IVCA Meetings and Government Roundtables**

- **Government agencies regularly approach IVCA seeking suggestions on reforms.**

- **Masterclass / Knowledge sessions arranged on request in partnership with Knowledge partners**

- **Invite to Sector/ Council events and Circle/ Networking events**
- **Special members discount to IVCA Conclave and Masterclass**

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- **Preferential access to IVCA PE/VC Industry Directory**
- **Access to Sectoral reports and Industry Data Monitor**
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- **Arrange articles and interviews in leading business newspapers and magazines, TV channels & Youtube**
- **Nomination and voting for IVCA Executive Committee Elections**
- **Receive copy of RIPE Magazine**
- **Promote your Fund and Deals Info/ Articles via Daily Newswire**
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