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Difficult to get PE exits in India? It's a myth, says Renuka Ramnath

BY JOSEPH RAI

Renuka Ramnath, CEO & founder, Multiples Alternate Asset Management

Dismissing the perception among a set of investors that India is a difficult market to secure exits from, Renuka Ramnath, CEO and founder, Multiples Alternate Asset Management Pvt. Ltd, says, it is a myth that needs to be demolished. In a free-wheeling interview with VCCircle, Ramnath asserts that India is a very liquid market. "I have been able to sell big or small, profit or loss making and all sorts of companies all the time," she says.

Having closed its second fund recently, Multiples is constantly exploring investment opportunities in companies with "good consumption story" across sectors as it is looking to exit its profitable portfolio bets such as Sara Sae Pvt, Vikram Hospital, Delhivery and also, PVR Ltd, at some point. Edited excerpts:

Give us a sense of the current global fund raising environment for India-focussed PE/VC firms.

In my life of fundraising from 1999, I have experienced three environments. The first was the extremely euphoric environment in 2005-06 when investors were saying somehow tell us how we can give you money. Then there was an extremely apathetic environment of 2012-13 when investors didn't what to meet and look at India. Then there is the middle of the road situation in which investors view India as interesting and want to know more but have not made up their mind to invest. So I would say we are in the middle bucket now and little bit tilting towards the favourable side.

How bullish are Limited Partners (LPs) on India?

I would say they are not bearish than say that they are bullish. Currency does worry them. If you look at the international world of LPs there are some who want India in their portfolio and then there are LPs who can't ignore Asia and thus, decide to give money to a fund which will then select the economy in the region they should put money in. Canada Pension Plan Investment Board and Ontario Teachers' Pension Plan have made direct bets in India, and there are some like Calpers who are in the Asia bucket but have not said they are coming to India. The good news is that big investors have taken a call on India but there are many more who are refraining to take a call.

What have been the major learnings from investments from the first fund?

companies with very good management on good consumption story have worked out well. The manufacturing story tends to struggle because the Indian economy was slow and poor rainfall didn't help. These companies registered modest kind of growth. So there is a strong domestic consumption bias in our investment. The constant challenge is to make sure that you are banking on the best of best.

What is the status of Multiples' second fund?

The second fund was closed in May. It has two vehicles - the main fund with $550 million and the co-investment fund with $135 million. The co-investment fund invests along with the main fund in larger-sized deals. A bulk of the amount for the second fund came from international investors, majority of whom had invested in the first fund. Only around 10% of the fund was raised from the domestic market.

Any change in investment strategy for the second fund? When do you expect to fully deploy the second fund?

The second fund will invest in the $50-100 million range against a ticket size of $20-25 million for its first fund. We expect it to be fully deployed in the next two-and-a-half years in 10-12 companies. We have already invested in three companies. We did a follow-on investment in multiplex chain operator PVR Ltd to acquire DT Cinemas. Then we are incubating a housing finance firm called Vastu Housing Finance Corp. Recently, we invested in pharmaceutical firm Encube Ethicals Pvt Ltd. We might invest in two to three companies next year.

PVR is one of your earliest portfolio companies. Could you tell us more about the philosophy behind still backing it and when can we expect an exit in the company?

We are not in a big hurry to exit PVR but we also recognise that our business is to invest in exits as that is what our investors want us to do. The penchant for Indian consumer to watch movies with good content is very high. Consumers are also spending more on food & beverage so the overall profit of cinemas is improving because their avenue of income is going beyond ticket sales. Besides, brands are keen on advertising in cinemas where we are delivering increasing footfalls every year. All in all, this makes the economics of our business from the perspective of return on capital employed very compelling. PVR has become free cash flow positive. It can easily sustain growth of about 70-80 screen additions every year without further dilution of equity and increase of debt.

Which sectors will the second fund be focussing on?

Financial services is always a big sector for us. We are also looking at IT - not the traditional services but new age ones that are disrupting businesses - healthcare and pharma, along with consumer and stressed/turnaround themes. In healthcare, we continue to evaluate a number of hospitals, IVF opportunities, super-specialty chains besides exploring opportunities in consumer, building materials, apparel and entertainment sectors. We are actually looking at everything as we are not narrow in our investment thesis.

You have done a couple of early exits from South Indian Bank and Cholamandalam. What does your exit pipeline look like?

Instead of saying an exit pipeline, I am a very big believer that money should constantly be working. If you have finished your current investment thesis of why you got into the company, either you exit or do something new. Don't stand still. From that perspective, **we feel that we should exit from Sara Sae Pvt and Vikram Hospital. But there is no pressure.** Vikram is generating positive EBITDA and there is zero debt in the company. The way we have managed our portfolio is that none of our portfolio companies will ever get into financial trouble. **Over a period of time, we will look at exiting PVR. Delhivery and India Energy Exchange might go for an IPO.** We will have to wait for that. We should not have a problem to exit any of our companies so there is no irrational hurry. I prefer to be agile and take up opportunities as and when they knock on the door.

What have been your returns like from the exits so far?

At this juncture, I feel confident that at a company level we will generate quite comfortably 25-30% returns.

Do you share some investors' view that getting an exit is very difficult in India?

or small, profit or loss making and all sorts of companies all the time. India is a very liquid market. Sometimes investors don't sell because their entry level valuations are very high. They must have done the deal in a euphoric market and thereafter, the market turns down and they never get the price they want. That does not mean they can't exit. The mistake is high entry valuation and not absence of liquidity.

What would be your advice to entrepreneurs looking to raise growth capital?

Always think about building scalable companies. This would mean building good professional team and not letting the company be solely confined to the capability of the entrepreneur. Build good checks and balances and pay a lot of attention to the governance of the company. Do not have big ego because you might be left alone. Finally, be exceptionally careful about leverage because the obligation to pay is yours.

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Tags: Renuka Ramnath , PE exits , Sara Sae Pvt , Vikram Hospital

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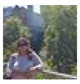

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