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PEs can partner banks in mitigating stressed assets: Renuka Ramnath

Interview with Founder, Multiples Alternate Asset Management

Abhineet Kumar | Mumbai August 06, 2015 Last Updated at 00:26 IST

Renuka Ramnath, 54, is known as the mother of private equity (PE) in India for heading ICICI Venture to become a $2-billion fund house in decade, starting from less than $100 million. She started again from scratch after she parted ways with ICICI Group and founded Multiples Alternate Asset Management in 2009. Mutliples is set to become $1 billion under management fund house by closing its second fund of $650 million this year. Fund raising for the Mumbai-based PE firm has not been difficult, as it has already returned half of $405 million raised as maiden fund in 2010. Ramnath spoke to *Abhineet Kumar* on her investment plans and emerging opportunities for the PE players in India. Edited excerpts:

What is the status of your $650-million second fund? What is your investment strategy for that?

We've already raised three-fourth of our $650-million target and we should be closing it by the end of this year. My strategy for our second fund is around products and not around industries. I want to invest 50-60 per cent of our fund into solving shareholders' problems and facilitating corporate action plans for companies. I also want to invest 20 per cent of our new fund into emerging companies such as Delhivery, Livpure and Mogae. And the rest of the fund will be utilised to back growth stories such as Cholamandalam Finance.

You're talking about more than half your fund to be deployed in solving problems instead of chasing growth stories. Why?

Growth is embedded in every company we invest in. The question is: beyond appropriating growth, what else can private equity do? PE was earlier looked at as the growth capital, which promoters raised as a precursor to going for an IPO (initial public offering). PEs sitting on a company's board gave public market investors some comfort on governance and best practices. Today, private equity has evolved as an asset class, being seen as risk capital of a long-term nature that is available for the corporate. The idea of this capital is really to step in and solve a problem. Today, it can be pure equity with unlimited down-side and up-side, or can come as structured financing in either the balance sheet of companies or in a promoter's investment company to solve a problem that he may have. It can also come into a distressed company to relieve it from financial distress.

The product is now playing out in its full spectrum as a solution provider for many types of corporate problems that occur in a life cycle of a company.

Apart from regular shareholders' issues, is there any specific emerging opportunity that you see in the corporate actions?

A big application that I see on the horizon is to effect de-mergers. Most of corporate India are conglomerates. For instance, I am amazed at the number of companies I come across that have an embedded technology business. These were originally set up as homegrown units to solve the corporates technology needs in the absence of external solution providers. Today, these businesses have attained size and require to be separated from the parent to create a future of their own. PE players are ideally positioned to help the conglomerates spin out these businesses and set the ideal valuation benchmark.

Your peers and you met the Reserve Bank of India (RBI) governor on the issue of banks' non-performing assets. What role can PE firms play?

PEs can partner banks in mitigating the problem of stressed assets and more importantly, imminent stress in borrowers. Banks are lenders and they operate with the belief that the enterprise that they are lending to has the potential to repay.

Projects change, macros change, competition changes, currencies move and these cause stress in some of the borrowers. For many of these companies, the solution is additional equity infusion and taking decisive measures such as changing scope of project, selling certain businesses to protect others and bolstering management. These changes are ideally brought about by the equity investors. If we create an environment where PE can participate in these assets, turnarounds are more likely which mitigate the stress in the banks' asset portfolio. The recent efforts by RBI to facilitate the flow of fresh capital into stressed and imminent stress assets can make a significant positive impact.

There is a rush to invest in emerging e-commerce companies in India. What is your strategy for that?

E-commerce is a huge sector and it reminds me of what the IT (information technology) sector was 20 to 25 years ago. Having said that, it is still an evolving sector. This is why the investors in front-end e-commerce companies have made multiple bets in that space.

But for somebody like us, our thesis is much more classical private equity. We do not play the probability game. Each of our deals has to win. We believe e-commerce is a huge opportunity for India and we will make investments in this sector. The way we want to play the sector is to focus on the service providers to e-commerce. For instance, in Fund-I, we have invested in Delhivery, which is a dedicated e-commerce logistics provider.