

Fund Manager Interview

Interview with

Sanjiv Singhal
Managing Director
BanyanTree Finance



Venture Intelligence recently spoke to Sanjiv Singhal, Managing Director of BanyanTree Finance, the advisor to the BanyanTree Growth Capital fund. BanyanTree is a \$125 million Private Equity fund that provides capital to middle-market companies in India with promising growth prospects. It was among the most active investors in 2009.

Venture Intelligence: What is BanyanTree's investment strategy?

Sanjiv Singhal: We like to focus on the underserved spaces. The manufacturing sector gets a disproportionately small share of PE investments in India – especially when you consider that we are the seventh largest industrial economy in the world. For most people, doing a deal in manufacturing is time consuming and maybe not as glamorous as doing a telecom tower deal, etc. But this sector is our happy hunting ground.

At a company level, we try to provide capital to those who have difficulty raising it from other sources. This could be for a reason as basic as the inability of the management to effectively communicate with prospective financiers as why they should invest in the company. And that's why we use "fallen angels" or "hidden gems" to describe our strategy. Basically our strategy is not to follow the crowd. We would like to look at a deal on an exclusive basis and not be in competition with anybody else.

VI: Can you take us through your recent investments – especially the logic behind those deals?

SS: What we liked about **GEI Power** is that it has a proprietary technology for heat exchangers which dramatically cuts down the water usage and that their key user segment, the power sector, is expanding fast. So demand is not a problem. In China, they have already legislated that the new power plants must have the new air-cooled heat exchangers (like the ones which GEI manufactures) as opposed to the older water-cooled technology. In India, there states like Rajasthan which are already legislating that new power plants must have air-cooled heat exchangers. After the agricultural sector and human consumption, the power sector is the largest user of fresh water in this country.

Axiom Impex is a shipping rope manufacturer. The shipping rope industry has some interesting drivers when it comes to value creation. First, shipping ropes have to be certified for strength by an independent inspection agency – which creates a barrier to entry. The second is that even when a ship is standing at port, the shipping rope needs to be replaced after a certain number of times. Otherwise, the insurance on the vessel becomes void. So there is an inbuilt replacement demand. We like businesses with these features.

Trimax, which is in the areas of e-governance and data centres, is growing very fast. We saw that here was a company which was addressing the IT wallet of the government enterprises and the IT wallet of small and medium enterprises. The demand side for those sorts of services is no problem at all.

Finally, **Kalpena** was in the power cable industry which is again growing rapidly. However, we exited the investment because we had a difference of opinion with the promoters.

VI: Which sectors appeal the most to you now?

SS: The water space is very appealing. The main reason we have not been able to do a deal is due to valuation mismatches.

VI: How much capital do you look to investing in a single company?

SS: That basically depends on how much the company needs. We have done a deal for \$5 million and we are currently doing a deal for \$50 million. What we like to do is to arrange a financial package as opposed to looking at ourselves as pure equity investors. We like to be the first port of call when a company that we have invested in wants to raise further capital. And, we want to make sure that they raise capital at the best possible cost.

VI: So far, you seem to have been the sole investor in all your investments. Is this a conscious choice or will you also be part of syndicated deals going forward?

SS: At times we have got other co-investors - especially our LPs - to come in alongside us. If somebody comes to me and says there is a syndicated deal happening and will you participate, that is not something we would like to do.

VI: You have worked for a long time as a banker (with Citi and Standard Chartered Bank). How are you finding your current role different?

SS: The PE fund job is really very exciting especially since you get to be an investment banker, management consultant and a fund manager all at the same time. You are a fund manager when you are making the investment and post that, a management consultant and investment banker.

We find that promoters/sponsors in India have what we call the "post natal" depression. Just after the equity investment is made, they start feeling that they have sold the company too cheap. We find that by actively engaging with the companies post investment not only helps us improve value but also helps us improve the relationship with the sponsors. So a lot of our time goes in being an investment banker and consultant to our investee companies and that I find far more interesting than being a pure banker.

VI: What do you think are some of the key issues before PE investors in India today?

SS: A lot of it is about being differentiated and avoiding the herd mentality. Funds which are just \$250-300 million in size should not be trying to compete for deals which larger competitors like KKR and Blackstone can also do. I think they have a risk of being eliminated as they have nothing differentiated about them.

The second big thing for the PE industry is that we need to be more creative in the way we look at deals and where we look for deals. There is too much of a "this never worked in the past and so this can't work in the future either" kind of view. It might indeed be that it is difficult to make investments in small- and mid-cap companies due to lack of liquidity, some promoters not being straightforward, etc., but all of these issues are addressable. The point is to be able to successfully challenge the status quo.