India Value Fund sees rise in buyout deals

Raised $682 million in July; plans to invest 75% of this in deals where it has control of management

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In July this year, India Value Fund Advisors (IVFA) managing partner Vishal Nevatia (pictured) closed his firm's fifth fund with a corpus of $682 million in about eight months, making it one of the quickest he had raised.

For Nevatia, who has spent 16 years with the firm since its inception in 1999, the ordeal of raising maiden fund is still unforgettable. In early 2000, the firm had targeted to raise $50 million from domestic institutions as it did not have a relationship, with international ones. It managed to raise $38 million quickly from institutions such as HDFC, IDBI, Life Insurance Corporation and UTI. After that, it kept marketing the fund for two years but could not raise a single rupee more.

In 15 years, the world has changed for IVFA, which has delivered a 25 per cent internal rate of return in fund after fund, in various economic cycles. With such a record, IVFA's fund-raising strategy has changed as around 100 global investors have tracked it for five to eight years. IVFA now meets these limited partners twice a year and by the time it launches a fund, it already knows who is in and who is out.

While the fund-raising strategy has changed, what has not changed is its strategy for deployment in controlled deals. About 75 per cent of its money deployed has been invested in such deals, which it calls a 'buy and build' model. The rest has been in minority investments, which it calls an 'invest and build' model.

"When we look back at our strategy of doing controlled deals in the past 15 years, we feel we could have also delivered similar results by following other strategies such as minority investments," says Nevatia. "Going forward, our controlled strategy will be far more relevant, because we expect significant increase in buy-outs and controlled deals in the next 10 years.

"The 'buy and build' model for investment is best illustrated in its deal for Trinethra Super Retail, in which it bought control in a small retail chain and then built the business before selling it to Aditya Birla Group. IVFA is focused on mid-size deals, which can give it control of a firm with an investment of $30-75 million. The company, known for strong operational capability, takes it to the next level before selling it to another strategic buyer. In this space, it competes with peers Everstone Capital and Kedara Capital.

"There are entrepreneurs who with little or almost no help can take the company from medium to large size but there are many who have built a good medium-size company, but do not have the desire or capability to take it to the next level," says Nevatia. "They know for a fact that given all the competition, staying still is no longer a choice. So, they will need to partner with a strategic or a private equity investor who can take the business to the next level."

The firm, which has raised $1.9 billion so far, is now investing from its fifth fund and has already made three investments from this. This includes deGustibus Hospitality, which owns and operates food & beverage brands such as Indigo and Indigo Deli, among others. The other investments include non-banking financial company Magma Fincorp and a roll-over of its previous investment in Atria Convergence.