

There are several undiscovered jewels in India's SME space

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BANGALORE

Set up in 2008, Forum Synergies (India) PE Fund Managers Pvt. Ltd is preparing its initial investments in India's small and medium enterprise (SME) segment. The Bangalore-headquartered fund manager seeks to help investee companies participate in India's growth, Samir Inamdar, co-founder, managing director and chief executive of Forum Synergies, said in an interview. He was formerly chief executive at Tyco Electronics and GE Consumer and Industrial in India. Co-founder and executive director Hemchandra Javeri said in the interview that business leadership and operational expertise would be critical for fund managers in a growth market. Edited excerpts:

What will be the size of funds you will be managing and advising in India? And how will it be structured since it involves multiple funds with different sets of global and local investors?

Inamdar: Forum Synergies

INTERVIEW

will be advising up to \$200 million (Rs934 crore) in funds at the time of final close. Our first close of around \$50 million is happening within July. We are essentially managing and advising two funds—India Knowledge-Manufacturing Fund-I and Axon-Forum Synergies India Opportunities Fund.

The first one will have general international investors through a pooling entity in Mauritius and separately, Indian investors through a domestic trust. We are managing and advising this fund. The second one is a co-branded fund with Madrid-based Axon Capital (which is registered with CNMV, the Spanish market regulator). This will provide a platform for Spanish and European family offices to invest in the India story. We are advisers to this fund managed by Axon that is bringing in capital through a Cyprus entity.

Javeri: Our first close will mostly be through HNIs (high networth individuals) and family offices who are now increasingly

taking interest in PE (private equity) as an asset class. Financial institutions will come in subsequently.

What will be your investment strategy in chasing SME opportunities?

Javeri: India's unlisted SME space is compelling. There are several undiscovered jewels there. It provides investors, especially our European investors, an opportunity to be part of the real growth opportunity in India.

Inamdar: We are looking at investing \$3-15 million into firms that have revenues of \$5-75 million. These are typically family owned or second-generational entrepreneur businesses with a proven business model and are Ebitda (earnings before interest, taxes, depreciation, and amortization) positive. They will be participating in the ongoing growth with our capital, business leadership and operational expertise. Our priority investment opportunities are in ICT (information and communication technology), engineering, clean tech and health-



Creating value: Samir Inamdar (left) and Hemchandra Javeri.

care. We will deploy our fund almost evenly between these three areas.

You say the fund managers at Forum Synergies are a differentiating factor. They come with a track record of operational expertise and business leadership in an array of sectors. How will that work in investing and why is it compelling?

Inamdar: As our Spanish investors say, one must be a dodo to miss out on growth in India. The question is how you can bring about explosive growth. This will be the biggest challenge facing PE fund managers. Value creation here is not just about financial engineering and expanding exit multiples. This is where the role of fund managers (like us) becomes unique. We have

people who have been in active management, who have been CEOs, who have held board positions, who have done M&As (mergers and acquisitions), who are well networked locally and with international affiliations.

How will this work in favour of your investors and investee firms?

Javeri: PE investing broadly has four phases—sourcing of deals, structuring them, growing business and realizing value. Our backgrounds bring in differentiated value in each of these phases.

Your exit strategy seems to be skewed towards strategic sale. Why? Will the investee firm promoter be in sync with you on this?

Inamdar: A strategic sale is the preferred route, but we are

not discounting the other options like IPO (initial public offering) or secondary sale to another fund. Most of our investee firms will be in the B2B space. They are more about market shares and less about brand and ballooning numbers (that are attractive for IPOs).

On promoter willingness to sell, we would like to add that Indian promoters are now savvy on value creation. They want to be part of a large pie rather than controlling a smaller one. Our entry will be their first experience with outside investor participation, which will make them realize value-added business leadership and operational expertise. Bringing in strategic buyer will then unlock bigger potential in terms of technology and global markets.

The funds you are advising are not that big. Will you be constrained when it comes to follow-on investments?

Inamdar: We will invest in about 12-14 firms. Yes, growth requires follow-on investments. A part of the fund will be set aside for this. We will soon determine this as we are going to work closely with the firms on the operational side. We are also ready to look at partnering with other funds for follow-on investments.

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