

TECHNOLOGY & INVESTING

GP Interview: Gaja Capital Partners, Gopal Jain

Gopal Jain spent 15 years in private equity in India before last year when Jain and two colleagues, Ranjit Shah and Sanjay Patel, founded Gaja Capital as a mid-market private equity firm for India. As part of our in-depth report on Indian private equity to be published late this fall, we decided to update our coverage of Gaja since our brief coverage of the firm as an emerging manager last year. Prior to co-founding Gaja, Jain was with the Boston-based View Group for five years where he worked on cross-border investments into firms in India seeking to serve export markets. Gaja, by contrast invests principally in companies in India's domestic markets. Jain and Gaja are focused on the smaller end of the mid-market in India, in which they will invest from \$5 to \$15 million in existing mid-market companies where private equity investors such as Kotak, Blue River, ILFS, Aeuros, Evolve and others – most of which are sponsored by investment banks – are investing. Gaja believes there are as many as 1,200 potential companies in this market. Jain and his colleagues have been investing on a deal by deal basis as a fund-less investor while raising their first fund.



T&I: The name of your firm, Gaja, means what?

GJ: Gaja is Sanskrit for Elephant which is often used as a metaphor for India. It denotes characteristics that we want in the firm that we're creating: strength, a long life, intelligence, local nature, a long-memory, loyalty and sincerity.

T&I: You're investing at present but you haven't completed your fund raising?

GJ: At present, we operate as a fund-less sponsor, investing in companies we identify on a deal by deal basis while we are raising a first fund. It allows us to demonstrate the value of our investment strategy. We want to raise \$150 million for our fund from LPs to invest in the strategy that we are demonstrating, that is, to invest in high growth mid market companies that are leveraging domestic demand in India.

T&I: And the LPs you're seeking are?

GJ: We have a placement agent in London who is focused on US and Europe. We will raise some capital in India although most of our LPs will be from outside of India. Our PPM is on the street and I estimate a first close before the end of 2006.

T&I: Tell us about your planned investment strategy.

GJ: We want to create exceptional long term returns by providing flexible growth capital and value-add to select mid-market companies in India. Our target deal size is \$5 to \$15 million.

T&I: We're hearing about domestic Indian investment a lot. Why?

GJ: India's economy is dominated by its domestic sector unlike most countries in East Asia and ASEAN. India's growth is domestically driven today whereas a few years ago both the economy and Indian investors focused on exports. In 2003 our view was that the domestic economy had reached the size, consistency and stability to attract investments in domestic companies.

T&I: Does that include technology?

GJ: Technology in general is not a large enough sector in India's domestic markets. We are focused on those sectors illustrated by our first two investments in education and retailing where India is emerging as one of the world's largest markets. Growth stage companies in the mid-market are the heart of the Indian economy.

T&I: What other sectors interest you?

GJ: Our approach to investing in India is research intensive, partly because of my background in equity research. We work using Gaja's Economy-Industry-Business-Capital (EIBC) model. We are currently doing research in about ten sectors in India. We invest in those sectors where there is sufficient domestic demand to create large valuable companies.

T&I: Those are?

GJ: We [only] share our deal flow and deal pipeline in detail with potential investors but [the two past investments are indicative]: Education, we like this sector a lot, our first investment Educomp Solutions has become India's most valuable educational content and services provider. Over the last 12 years, Educomp has created India's largest library of curriculum compliant digital educational content which is currently delivered to public and private schools in India. Education is a rapidly growing sector on the back of huge domestic demand. [We invested] when it was a private company and helped take it public earlier this year. Our investment is now worth 6X our invested capital in little over a year.

T&I: And the second example?

GJ: Retail. We invested in Vishal Retail, a chain focused on second tier cities of India. It's a value for money [aka discounter] retail chain that builds and manages mid sized hypermarkets. It typically sells all of the goods that a middle income family needs on a monthly basis except for perishable goods like fresh produce.

T&I: Walmart, Tesco/Lotus for smaller cities?

GJ: Yes. A domestic chain and home grown with 36 outlets across the country. Four months ago when we invested the firm had 22 outlets. It is one of the fastest growing retailers in India.

T&I: India doesn't in fact have Tesco/Carrefour?

GJ: Correct. Retail is one of the sectors the economy that is protected from multinationals.

T&I: Talk about another sector of interest.

GJ: We are generally protective of our future investment ideas [so I'll] keep [my comments] broad and say we are also interested in the financial services sector, that is to say, businesses that provide financial services.

T&I: There was a report in the Economic Times last week that the Reserve Bank of India may seek to limit foreign investment in financial services by foreign firms.

GJ: Financial services on a relative basis is a protected sector already, so any additional government regulation is only likely to impact strategic investors not foreign PE firms.

T&I: Talk about the firm a bit.

GJ: We a Mauritius domiciled fund, headquartered in Mumbai, with five investment professionals supported by a fairly large group of operating partners and advisors. One of the co-founders, Sanjay Patel, is a strategic advisor to Gaja and is presently co-head of private equity for Goldman Sachs, Europe.

T&I: Mumbai based because?

GJ: Most of India's mid-cap companies, 90% plus of them, are headquartered in India's top 8 cities of which Mumbai, New Delhi and Bangalore are the prominent ones. We could have been in any of these 3 cities. But Mumbai is India's financial capital and we still think [more important than the other cities] in terms of infrastructure for the financial industry and networking. Bombay is India's center for deals and private equity.

T&I: Talk about your investment profile.

GJ: We're minority investors. We are not focused on buyouts. And we think that the best risk/reward profile is in India's emerging sectors. We might make control investments on an opportunistic basis if we can create pricing power and teams. The price for buyouts at present dictates that buyouts are not viable in India. We're looking for managers who want to continue to grow their companies. And Gaja only invests in opportunities where the price is reasonable and where we're not subject to auction bidding. We constantly look to create pricing power for ourselves through our proprietary deal flow and ability to add value in India.

T&I: What does your investment profile look like?

GJ: We have 12-odd deals in evaluation. There are two buyouts in our pipeline mix.

T&I: What is the range of investment sizes?

GJ: From \$5 to \$15 million. The lower part of the mid-market where there is little third party research available.

T&I: What LPs do you hope to attract?

GJ: Those LPs who want exposure to deals that the larger global firms won't make in India. LPs in the global funds, with \$300 to \$400 million to spend can't invest in the kind of deals that we're looking at. The mid market is the nursery for future winners in India and that is where we operate.

T&I: The sectors that we're seeing most are automotive, pharmaceuticals textiles.

GJ: Interesting but not necessarily relevant to us; we'll stick to the emerging sectors that we've identified through research. We have looked at Pharmaceuticals. We have expertise there. We have evaluated companies in the sector. It's a great sector, with some large and valuable companies and many global institutional investors interested in the sector. But it has few mid-cap opportunities. We've done one investment in textiles already. It has an interesting set of dynamics in India Automobile manufacturing has few opportunities, but automotive ancillaries [is interesting].

T&I: Actis investment into Phoenix Lamps?

GJ: I don't want to talk about our specific sectors of interest, but I'll comment on our approach to investments and strategy. Gaja uses a "Buffet style" approach, we're a value-school investor, looking for high growth where high-value can be had for a reasonable price. We avoid fad investing. We're a long term investor. We believe in buying with a margin of safety and monetizing our value add. We believe we can significantly help enhance the value of our portfolio companies.

T&I: Do you have a role model for the firm that you're building?

GJ: We would be very proud of ourselves if we could one day look back at Gaja's track record of having delivered best of class returns on a consistent basis and in an ethical manner. In this sense we admire Berkshire Hathaway. In India there are few independent private equity firms in our mid-market arena for us to make direct comparisons with. But in general, we admire the work of firms such as Warburg Pincus and Chrys Capital.

T&I: You don't see competition for your deals?

Bio for Gopal Jain



Professional: Co-Founder & Partner, Gaja Capital Partners, 2004. The View Group, Boston, MA, Managing Director, India 1999 to 2004. VLS Finance, Delhi, India, President and Head of Research, 1993 to 1999.

Education:

B.Tech in Electrical Engineering from IIT Delhi, 1992

Recent Deals:

Educomp Solutions Ltd, BSE/Ticker: EDUCOMP (www.educomp.com)
Vishal Retail Ltd.
(www.vishalmegamart.net)

Personal:

Favorite Recent Film: Shooting Dogs, Omkara (Hindi)
Favorite Book: My most recent is Poor Charlie's Almanac.
Marital Status: Unmarried
Residence: Mumbai.

GJ: Because we are focused on proprietary deals, most of the deals that we see are looked at by domestic investment banks, not private equity firms. Banks have proprietary deal flow in India, they're out talking to companies that they want to do business with. There aren't many mid-market PE firms knocking on the doors of the companies that we are interested in.

T&I: So typically you bump into HDFC, ICICI, Indian banks, US Banks?

GJ: We see few US banks here. We see few of the global firms; most are domestic players, PE firms sponsored by local investment banks.

T&I: What is your investment exit strategy? IPOs or M&A?

GJ: Private equity in India is different in many respects from the US. One of which is you can't assume an exit, even if the company that you're investing in is healthy. So one has to systematically plan for exits at the stage of making an investment. As in every market one cannot depend solely on IPOs. Investors have to create options for M&A. [However] companies are growing so well in India that they present such opportunities. And we could sell in cross-border transactions. What makes Gaja different is that we also have the ability to sell to domestic buyers as well because we are well connected locally.

T&I: No exits from buyouts to foreign buyers?

GJ: The global buyout firms? Carlyle, Blackstone? They've arrived early and ahead of a market for the kind of deals they do but over time there will be opportunities to sell the kind of companies Gaja invests in to the global buyout firms. ■